



Arco Vara AS
Interim report
9 months 2007



Arco Vara AS

Registration number: 10261718

Address: Jõe 2b, 10151 Tallinn, Republic of Estonia

Telephone: +372 6 144 630

Fax: +372 6 144 631

E-mail: info@arcovara.ee

Corporate website: www.arcorealestate.com

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

Real estate related services (EMTAK 702, 703)

Construction (EMTAK 45)

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

Aare Tark, Kalev Tanner

Management board: Viljar Arakas, Aare Tammemäe, Avo Rõõmussaar

Veiko Pedosk, Ahto Altjõe

Auditor: Ernst & Young Baltic AS

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Management report for the first nine months of 2007

SELECTED FINANCIALS

- Revenue and other income totalled 686.7 million kroons (43.9 million euros), a solid 76.8% increase year-on-year
- Operating profit reached 112.3 million kroons (7.1 million euros), 55.0% up year-on-year
- Net profit reached 264.1 million kroons (16.9 million euros), 4.8-fold increase
- Equity to assets ratio rose to 55.3% (9 months 2006: 31.1%) and return on equity improved to 31.2% (9 months 2006: 15.8%)
- Return on invested capital was 19.4 % (9 months 2006: 7.7%)
- Order backlog at period-end stood at 361 million kroons (23.1 million euros)
- In 9 months were sold or booked apartments or land plots 98 pieces.

	EEK				EUR			
	9 months 2007	9 months 2006	Q3 2007	Q3 2006	9 months 2007	9 months 2006	Q3 2007	Q3 2006
Millions								
Revenue and other income	686.7	388.3	199.1	155.7	43.9	24.8	12.7	9.9
EBIT	112.3	72.5	24.2	21.1	7.2	4.6	1.5	1.3
<i>Including net gains on revaluation of real estate investments</i>	66.1	21.0	10.7	0	4.1	1.3	0.7	0
EBT	279.2	58.6	42.1	15.4	17.8	3.7	2.7	1.0
<i>Including net gains on divestment of financial assets</i>	131.3	0.2	8.2	0.2	8.4	0	0.5	0
Net profit	264.1	54.9	36.9	15.1	16.9	3.5	2.4	1.0
EPS 1 (in kroons/auros)	3.27	0.80	0.36	0.22	0.21	0.05	0.02	0.01
EPS 2 (in kroons/euros)	3.68	0.80	0.48	0.22	0.24	0.05	0.03	0.01
EPS 3 (in kroons/euros)	2.69	0.80	0.36	0.22	0.17	0.05	0.02	0.01
Total Assets	3,535.6	1,812.7			225.9	115.9		
Invested Capital	3,230.7	1,557.8			206.5	99.6		
Net Debt	372.4	1,052.2			27.6	67.2		
Equity	1,957.9	564.9			125.1	36.1		
ROIC	19.4%	7.7%			19.4%	7.7%		
ROE	31.2%	15.8%			31.2%	15.8%		
Number of Staff	649				649			

Further information: Heigo Metsoja, Investor Relations Manager, phone +372 6144 654, Heigo.metsoja@arcovara.ee

Comments from Arco's CEO Viljar Arakas:

- In Estonia and Latvia the sales of residential properties became more complicated in the third quarter. In Lithuania the situation is more favourable compared to the rest of the Baltic region. Deal volumes have dropped, small players can't get refinancing on favourable terms and customers have postponed their purchasing decisions for a while. This has also affected Arco's residential projects that are right now under construction in the Baltic's and continue to effect in short-term. In case of Arco, most of the residential pipeline in the Baltic's is planned to come to market after two to three years. The value of these assets depends more on the purchasing power and market situation in the capital cities after two years.
- Demand for commercial spaces in the city centre hasn't decreased. Downtown A-category office- and retail vacancies are close to zero. The situation increases the value of Arco's existing cash flow generating projects and creates favourable conditions for the start of construction of Ahtri 3 and Laeva 2 commercial projects in Tallinn in the next 12 months.
- Although the value of Arco's assets haven't increased in Q3 and the situation favours big and well capitalised developers, the focus of the group is in the Balkan region, where we already started the construction of 112 apartment project called "Madrid".
- We are pleased on the results of our construction division that represents the success of restructuring that already started in 2006. 9 month EBIT has improved almost 23.0 million kroons (1.5 million euros) and reached a level of 9.9 million kroons (0.6 million euros). Loss-generating contracts have expired and in the new ones the construction price risk is more diversified among the client and constructor
- In Q3 the funds of Explorer Property Fund – Baltic States AB, managed by Arco's joint-venture with East Capital, were fully invested. It took two years of hard work to close the portfolio. The asset volume in total is 3,129 million kroons (200 million euros) and the average entrance yield is 8.35%.

REVENUES AND PROFIT

	EEK				EUR			
	9 months 2007	9 months 2006	Q3 2007	Q3 2006	9 months 2007	9 months 2006	Q3 2007	Q3 2006
Millions								
Revenues and other income								
Services	96.4	84.9	25.5	30.5	6.1	5.4	1.6	1.9
Development	493.5	189.4	111.0	91.2	31.5	12.1	7.1	5.8
Construction	293.7	241.4	136.2	101.9	18.8	15.4	8.7	6.5
Eliminations	-196.9	-127.5	-73.6	-67.9	-12.6	-8.1	-4.7	-4.3
Total revenues and other income	686.7	388.3	199.1	155.8	43.9	24.8	12.7	9.9

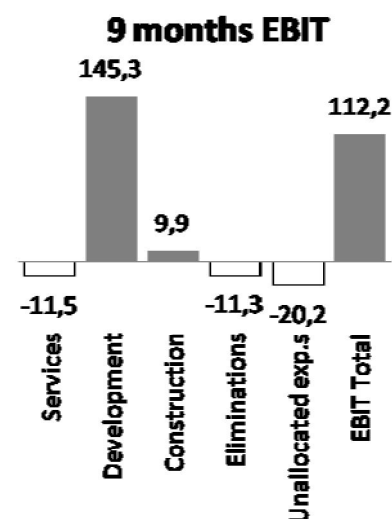
	EEK				EUR			
	9 months 2007	9 months 2006	Q3 2007	Q3 2006	9 months 2007	9 months 2006	Q3 2007	Q3 2006
EBIT								
Services	-11.5	9.6	-4.8	3.9	-0.7	0.6	-0.3	0.2
Developments	145.3	96.3	30.9	25.5	9.3	6.1	1.9	1.6
Construction	9.9	-12.9	13.2	2.0	0.6	-0.8	0.8	0.1
Eliminations	-11.3	-6.4	-12.2	-6.1	-0.7	-0.4	-0.8	-0.4
Unallocated expenses	-20.2	-14.0	-2.9	-4.2	-1.3	-0.6	-0.2	-0.3
EBIT Total	112.3	72.5	24.1	21.1	7.2	4.9	1.5	1.3
Net interests	-10.3	-13.9	4.8	-5.8	-0.7	-0.9	0.3	-0.4
Other financial income and expenses	177.1	0	13.1	0	11.3	0	0.8	0
Income tax expense	-15.1	-3.7	-5.2	-0.3	-0.9	-0.2	-0.3	0
Net Profit	264.1	54.9	36.9	15.1	16.9	3.8	2.4	1.0

The Group's revenue and profit growth may be attributed to the good results of the development division. Revenue from the sale of apartments and property totalled 336 million kroons (21.5 million euros). Significant part of Group's profit was contributed by gains from asset revaluations in amount of 89 million kroons (5.7 million euros), financial income of 118.4 million kroons (7.6 million euros) from the sale of the Group's interest in Sportings Riga SIA, finance income of 42.6 million kroons (2.7 million euros) generated by AVEC Asset Management AS and income of 8.4 million kroons (0.5 million euros) from the divestment of a stake in Varamaad Kinnisvara OÜ.

The Group's result of operations was adversely affected by the consolidated loss of the Service division of 7.1 million kroons (0.45 million euros) and the write-down of investment properties by 22.9 million kroons (1.5 million euros). The adverse result was also effected by the fast expansion strategy on the new markets, that is considered an important goal for our service division.

The loss in service division was triggered by the drop in the number of real estate deals on Latvian and Estonian markets in third quarter. If in the first half of the year the decline in the number of transactions was countered by a rise in the average value of a transaction, then in the third quarter transaction values began dropping and the impact of the deteriorating market situation on brokerage activities doubled. In order to cope with the situation the management has started to cut fixed costs in Latvia and Estonia.

The Construction division's third quarter results surpassed expectations, compensating the difficulties of the first half-year. 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.



CASH FLOW

	EEK		EUR	
	9 months 2007	9 months 2006	9 months 2007	9 months 2006
million				
Operating cash flow	-439.7	-54.6	-28.1	-3.5
Cash flow from investment activities	158.8	-328.9	10.1	-21.0
Cash flow from financing activities	1,070.9	279.6	68.4	17.9
Total cash flow for the period	790.1	-103.9	50.5	-6.6
Cash at the beginning of the period	58.3	143.9	3.7	9.2
Exchange rate effect	-695	0	0	0
Cash at the end of the period	847.7	39.9	54.1	2.6

Acquisitions in Bulgaria and Lithuania decreased operating cash flows in amount of 332.3 million kroons (21.2 million euros), investments to existing projects in amount of 214.2 mln kroons (13.7 million euros) and increase in deferred VAT receivables in amount of 78 million kroons (5.0 million euros).

Divestment a part of a shareholding in BM-2 project in Riga increased cash flows from investment activities in amount of 127 million kroons (8.1 million euros) and investments in short-term bonds decreased the cash flow by 59.7 million kroons (3.81 million euros).

Proceeds from IPO contributed 987 million kroons (63.1 million euros) to financing cash flows.

SERVICE DIVISION

Developments on Lithuanian, Bulgarian and Romanian markets have been according to our expectations. Adverse developments have taken place in Latvia and Estonia in terms of lower amount of transactions. In order to cope with the new market situation management is cutting back on back-office expenses and decreases the number of employees. The positive result of downsizing program will effect first quarter next year. In Romania, Bulgaria and Ukraine we continue with our aggressive growth strategy. According to our estimates during next quarter the improvement of the situation on Estonian and Latvian agency and property valuation markets will not occur.

In the third quarter, the Service division's revenue growth decelerated from 30% for the first half-year to 13.5% for nine months. Nine months' revenues totalled 96.4 million kroons (6.2 million euros) against 85.0 million kroons (5.4 million euros) a year ago. If at the end of the first six months we were able to report strong revenue growth, the third quarter brought a 15.6% decline compared with the second quarter. This was not due to a decrease in the number of valuation reports issued but because in the third quarter the average value of a brokerage transaction fell substantially both in Estonia and Latvia.

Compared with the first nine months of 2006 the number of valuation reports declined by 187, i.e. 2.6%. Although the figures posted by the Lithuanian office have been improving steadily, the overall result was weakened by the nosedive in the Latvian market. During the nine-month period, our appraisers issued 6,957 valuation reports in six countries (9 months 2006: 7,144), 53.5% of them in Estonia. The division continued introducing valuation services in the new markets and launched real estate advisory services in the Baltics.

Project sales contracts totalled 188, 4.4% up on the second quarter. At period end, the number of properties being brokered was 12,187, a 16.6% increase on the second quarter. In the third quarter, the number of properties being brokered in Bulgaria dropped by 10% year-on-year whereas in the Baltic market grew by 47.5%.

	9 months 2007	9 months 2006	change, %	Q3 2007	Q3 2006	change, %
Number of properties brokered	1,468	1,750	-16%	484	641	-24%
Number of projects on sale	188	n/a	n/a	188	n/a	n/a
Number of valuation reports	6,957	7,144	-3%	2,027	2 691	-25%
Number of appraisers	45	35	29%	47	40	18%
Number of real estate brokers	207	116	78%	233	145	61%
Estonia	52	43	21%	52	47	11%
Latvia	56	49	14%	52	54	-4%
Lithuania	30	9	230%	40	13	208%
Ukraine	45	14	219%	49	24	104%
Bulgaria	16	1	1533%	18	6	200%
Romania	9	1	800%	22	1	2100%
Average number of staff	346	207	67%	379	248	53%

In the first nine months of 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 is 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).

Compared with the first nine months of 2006 the number of staff has grown by 67.1% to 346 people, primarily on account of the recruitment of additional brokers in Lithuania, Ukraine and Bulgaria.

DEVELOPMENT DIVISION

The success in Bulgaria is not able to eliminate the challenging times right now in the Baltic. Speculations on the devaluation of Latvian currency have created fair of economical stagnation in all the Baltic states and this in turn makes people to wait for a while before purchasing a new apartment.

The priority in the Baltic is to finish current phases in on-going projects and through zoning process decrease the risk level of major assets. In the Balkan we have already started the construction of "Madrid" project (112 apartments) in Sofia and soon will also start to construct "Manastirski" project. Expansion strategy from now on in the region foresees bearing more zoning risks.

The nine-month sales and operating profit of the Development division grew 2.6-fold and 1.5-fold on the same period in 2006 respectively. Strong sales results were supported by the sale of Kerese Keskus for 106 million kroons (6.8 million euros) and the Ulmana Gatves property for 74 million kroons (4.7 million euros). The sale of apartments and conclusion of real right contracts in Kolde residential project contributed 110 million kroons (7.0 million euros) and the sale of terraced houses in Kase street generated a further 46 million kroons (2.9 million euros).

Operating profit for the third quarter was enhanced by sales gains of 13.3 million kroons (0.8 million euros) yielded by Kolde project, the divestment of a stake in Varamaad Kinnisvara OÜ for 8.4 million kroons (0.5 million euros) and net revaluation gains of 10.7 million kroons (0.7 million kroons), and weakened by a loss of 8.1 million kroons (0.5 million euros) incurred by the division's parent company.

During the first nine months of 2007, 98 apartments were sold or reserved. In the current stages of the projects, 136 units remain to be sold. For a while company holds back the investments in three residential land plot projects (Tooma, Vahi, Pärtli) near Tallinn consisting of the development of 212 land plots.

At the end of the third quarter, the Development division employed 59 people including 42 in Estonia.

CONSTRUCTION DIVISION

The market situation in third quarter is comparable to second quarter. Although, the increase of labour and raw material costs are not so absolute any more. The prices of residential property should stabilise in the near future owing to shrinking demand and stiff competition. Demand for business and production premises has not yet subsided. In connection with allocations made from the EU structural funds, the state is going to arrange several public procurement tenders for environmental engineering projects. Development of environmental engineering competencies and capacities is the main focus of the management. The number of public procurement tenders for the construction and rehabilitation of buildings belonging to local government remains large as well.

Compared to the same period last year 9 month revenues of the division increased 21.6% and EBIT 176.6%. Revenues were 293.6 million kroons (18.8 million euros) and EBIT 9.9 mln kroons (0,63 million euros), which is 22.9 million kroons (1.5 million euros) better result than last year in the same period. Significant profit growth was achieved in the third quarter when a number of unfavourable fixed-price environmental engineering contracts in Saaremaa and commercial construction contracts in Tallinn had expired (the contracts were concluded two years ago). The current market situation provides better opportunities for sharing the price risk.

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

In the third quarter, no significant construction contracts were acquired. The contracts acquired in Estonia totalled 34.6 million kroons (2.2 million euros) and the ones acquired in Latvia amounted to 20.2 million kroons (1.3 million euros).

At the end of September, the division's order backlog was 361 million kroons (23.1 million euros). The largest contracts comprised the rehabilitation of Matsalu water and wastewater systems of 93.8 million kroons (6.0 million euros) and the construction of the Bishumuizhas apartment houses of 83.6 million kroons (5.3 million euros). Intra-group sales for nine months and the third quarter accounted for 51.4% and 50.8% of the division's sales respectively. At the end of September, the Construction division employed 172 people, including 50.6% in Latvia.

MAJOR PROJECTS¹

Project type	Project name	State	Legal ownership	Construction right according to business plan	Current status	Classification in the balance sheet
Commercial	Ahtri tn 3	Estonia, Tallinn	50%	46,025 m2	Existing construction right in force. Started new zoning process for extra construction right.	Investment property
Commercial	Ilmarine	Estonia, Tallinn	50%	Ca 80,000 m2	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 m2	No construction right in place, zoning process in the middle	Long-term financial assets
Commercial	Laeva 2	Estonia, Tallinn	100%	7,697 m2	Construction right in place, rezoning process under way	Assets under construction
Commercial	Marsili, Vizni	Latvia, Riga	80%	n/a	No construction right, project in stand-still state	Investment property
Commercial	Paldiski mnt 80	Estonia, Tallinn	100%	23,600 m2	No construction right, zoning process in early stage	Investment property

Project type	Project name	State	Legal ownership	Construction right according to business plan	Current status	Classification in the balance sheet
Apartments	Bišumiža 1	Latvia, Riga	80%	Remaining construction right 7,768 m2	Construction right in place, construction under and apartment sales under way	Inventories
Apartments	Bišumiža 2	Latvia, Riga	40%	95,970 m2	The purpose and density of land established in general plan. Right now we are preparing architectural designs.	Inventories
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m2	Construction right in place	Inventories
Apartments	Kolde	Estonia, Tallinn	89%	Remaining construction right 21,539 m2	Leasehold right, construction right in place. Construction and sales under way	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	24,700 m2	Construction right in place, construction under way	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	26,239 m2	Construction right in place, changing the designs	Inventories
Apartments	Plavnieku centrs	Latvia, Riga	40%	13,243 m2	Construction right in place, preparation of business plan with the municipality	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58,470 m2	No construction right, zoning process at the late stage	Inventories
Apartments	TOP Residential	Estonia, Tallinn	50%	33,770 m2	No construction right, zoning process in early stage	Investment property

¹ The progress and success of the property development projects of the group are largely dependent on factors outside the Group's control, and in particular on obtaining the requisite detail planning approvals and building permits from the regional and/or municipal planning authorities. The details of the projects described in the tables, including estimated construction right, current situation, project type and classification in the balance sheet have considered Management's estimation and may change according to zoning process.

The realisation of the projects described in the tables is also subject to changes in the market conditions and competition. The Management continuously evaluates its project portfolio and is ready to sell a part or a whole project, depending on the feasibility studies.

Project type	Project name	State	Legal ownership	Construction right according to business plan	Current status	Classification in the balance sheet
Land plots	Baltezers-3	Latvia, Riga	80%	n/a, land size 860,000 m2	Leasehold right, waits for privatisation, no construction right, we expect that regional master plan will be in force soon.	Inventories
Land plots	Baltezers-5	Latvia, Riga	80%	53 land plots	Construction right in place, construction and sales under way	Inventories
Land plots	Merivälja 2	Estonia, Merivälja	100%	n/a	Negotiations with Tallinn municipality to change the land plots. We have legal right for the transactions.	Inventories
Land plots	Pärtli	Estonia, Saue	50%	84 land plots, average land plot size 1,500 m2	No construction right, sketches have been approved by municipality, projects waits for more favourable market conditions	Inventories
Land plots	Tooma	Estonia, Saue	50%	107 land plots, average land plot size 1,802 m2	No construction right, sketches have been approved by municipality, projects waits for more favourable market conditions	Inventories
Land plots	Vahi	Estonia, Vääna	100%	21 land plots, average land plot size 3,363 m2	Construction right in place, projects waits for more favourable market conditions	Inventories

Project type	Project name	State	Legal ownership	Construction right according to business plan	Current status	Classification in the balance sheet
Cash flow	Enerpoint	Estonia, Kuressaare	100%	3,201 m2	Construction right in place, generates cash flows	Investment property
Cash flow	Kerberon	Estonia, Tallinn	83%	2,391 m2	Construction right in place, leasehold right, generates cash flows, expanding the premises for certain client	Investment property
Cash flow	Melon	Estonia, Tallinn	50%	7,461 m2	Construction right in place, we are applying for extra construction right around 12,000m2	Investment property
Cash flow	Pärnu turg	Estonia, Pärnu	100%	9,745 m2	Construction right in place, generates cash flows	Investment property
Cash flow	Rüütli tn. 16 / 18	Estonia, Tallinn	50%	980 m2	Construction right in place, generates cash flows	Investment property
Cash flow	Tallinna tn 77/79	Estonia, Kuressaare	100%	2,500 m2	Construction right in place, generates cash flows	Investment property
Cash flow	TOP Commercial	Estonia, Tallinn	50%	According to designs we apply for at least 74,675 m2 of construction right	Construction right in place in amount of net leased space of around 17,000 m2. We are applying for extra construction right 57,600 m2, the zoning process in early stage.	Investment property

In book values the projects recorded in the table account for:

- 2,091.6 million kroons (133.7 million euros) of total assets (59.1%);
- 1,009.1 million kroons (64.5 million euros) of total inventory (95.0%);
- 58.6 million kroons (3.7 million euros) of total long-term financial assets (53.8%);
- 973.2 million kroons (62.2 million euros) of total investment properties (96.3%); and
- 50.6 million kroons (3.2 million euros) of assets under construction (76.5%).

Significant changes in zoning processes during the nine months

Tivoli: City government approved the plan and sent it for public display. Two challenges were submitted (by an apartment owner in an adjacent residential area and by Eesti Energia) which are being resolved. According to the assessment of the management board, the challenges will not put the construction right at risk but may postpone the adoption of the plan by a couple of quarters. Five Estonian architectural offices were invited to participate in a closed competition. The works were made public on 23 November.

Ahtri 3: A detailed plan with construction right is already established. However, we have submitted the City government a draft of a detailed plan so that a new detailed plan would be adopted. Until the new plan is adopted, the building rights provided in the previous plan are in effect.

Laeva 2: A detailed plan has been adopted. 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 on the plot.

PM80: City government has been submitted a draft of a detailed plan for initiation of a detailed plan.

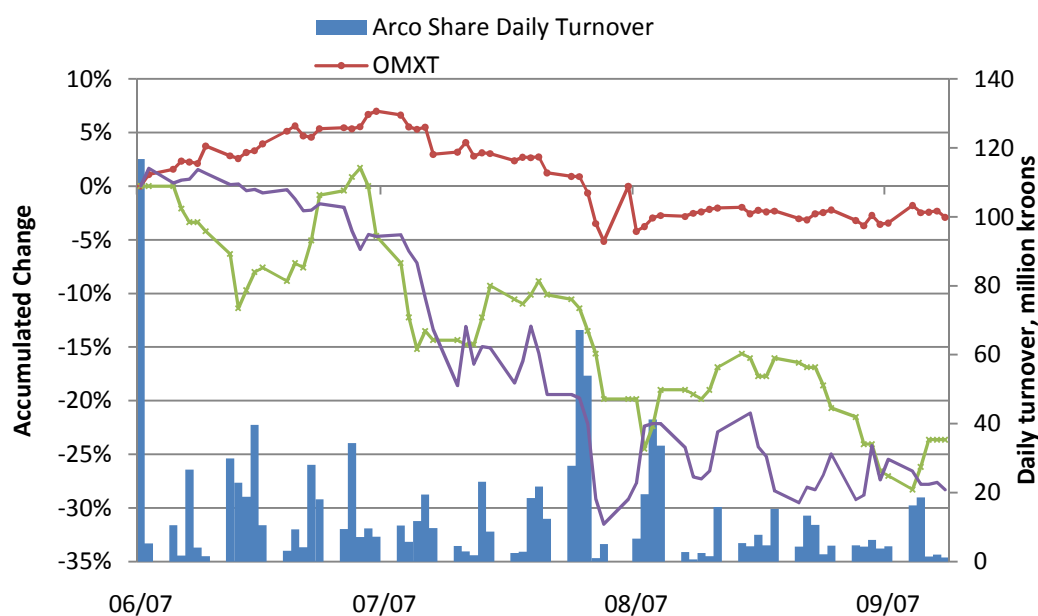
CHANGES IN GROUP'S LEGAL STRUCTURE

During the first nine months of 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 internal legal restructuring many acquisitions and divestments were concluded. The related internal parties were: 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 Riia Valdused OÜ, Arco Vara Puukool OÜ and Arco Real Estate UAB. The effect of the transactions are described more detailed in note 3 and 4.

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

ARCO SHARE PERFORMANCE



The three founders of the company hold 63.8% of the shares. Members of the management board and other key personnel own 1.6% of the shares. At 30 September 2007, the company had 1,732 shareholders, 79% of them holding less than 1000 shares.

Major shareholders as of 30.09.2007	Number of shares	Interest,%
OÜ Toletum	35 798 206	37,57%
HM Investeeringud OÜ	17 899 102	18,79%
Central Securities Depository of Lithuania	6 287 062	6,60%
JPMORGAN Chase Bank (UK residents)	4 541 398	4,77%
Nordea Bank Finland PLC/resident legal entities	4 400 000	4,62%
Deutsche Bank AG London Prime Brokerage	4 112 865	4,32%
J.P Morgan Bank Luxemburg S.A.	2 750 000	2,89%
JPMORGAN Chase Bank (non-treaty clients)	2 421 550	2,54%
Investors Bank & Trust Company (treaty)	1 994 329	2,09%

FORMULAS

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 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. The weighted average number of ordinary shares outstanding has been calculated without taking into account the number of shares registered on 3 July 2007.

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

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

Condensed consolidated interim financial statements

Condensed consolidated interim income statement (EEK)

	Note	9 months 2007	9 months 2006	Q3 2007	Q3 2006
In thousands of kroons					
Rendering of services		232,434	234,895	96,813	93,811
Sale of goods		361,309	116,421	84,172	57,079
Total revenue	5	593,743	351,316	180,985	150,890
Cost of sales		-434,941	-253,997	-133,704	-107,305
Gross profit		158,802	97,319	47,281	43,585
Other income		92,925	36,986	18,106	4,873
Selling and distribution costs		-18,763	-14,214	-5,888	-1,869
Administrative expenses		-93,886	-45,762	-29,754	-23,921
Other expenses		-26,760	-1,863	-5,565	-1,572
Operating profit		112,318	72,466	24,180	21,096
Finance income	6	198,131	2,935	25,087	976
Finance expenses	6	-31,229	-16,829	-7,114	-6,690
Profit before tax		279,220	58,572	42,153	15,382
Income tax expense		-15,112	-3,711	-5,208	-299
Profit for the period		264,108	54,861	36,945	15,083
<i>Attributable to minority interests</i>		<i>8,167</i>	<i>343</i>	<i>2,985</i>	<i>222</i>
<i>Attributable to equity holders of the parent</i>		<i>255,941</i>	<i>54,518</i>	<i>33,960</i>	<i>14,861</i>
Earnings per share (in kroons)	7				
- Basic		3.27	0.80	0.36	0.22
- Diluted		3.27	0.80	0.36	0.22

Condensed consolidated interim income statement (EUR)

	Note	9 months 2007	9 months 2006	Q3 2007	Q3 2006
In thousand of euros					
Rendering of services		14,855	15,013	6,187	5,996
Sale of goods		23,092	7,440	5,380	3,648
Total revenue	5	37,947	22,453	11,567	9,644
Cost of sales		-27,798	-16,234	-8,545	-6,858
Gross profit		10,149	6,219	3,022	2,786
Other income		5,939	2,364	1,157	311
Selling and distribution costs		-1,199	-908	-376	-119
Administrative expenses		-6,000	-2,925	-1,902	-1,529
Other expenses		-1,709	-119	-356	-101
Operating profit		7,178	4,631	1,545	1,348
Finance income	6	12,663	188	1,603	62
Finance expenses	6	-1,996	-1,076	-455	-427
Profit before tax		17,844	3,743	2,694	983
Income tax expense		-965	-237	-333	-19
Profit for the period		16,880	3,506	2,361	964
<i>Attributable to minority interests</i>		522	22	190	14
<i>Attributable to equity holders of the parent</i>		16,358	3,484	2,170	950
Earnings per share (in kroons)	7				
- Basic		0.24	0.05	0.02	0.01
- Diluted		0.24	0.05	0.02	0.01

Condensed consolidated interim balance sheet (EEK, EUR)

	Note	EEK		EUR	
		30 September 2007	31 December 2007	30 September 2007	31 December 2006
In thousands					
Cash and cash equivalents		847,754	58,345	54,181	3,729
Financial assets held for trading		58,557	0	3,742	0
Trade and other receivables	8	255,803	102,498	16,349	6,551
Prepayments		15,748	4,429	1,006	283
Inventories	9	1,062,231	431,817	67,890	27,598
Biological assets		6,285	6,141	402	392
Total current assets		2,246,378	603,230	143,570	38,553
Long-term receivables		42,386	10,673	2,709	682
Long-term investments in financial assets	10	108,805	65,769	6,954	4,203
Investment property	11	1,010,332	1,479,281	64,572	94,543
Property, plant and equipment	12	104,497	81,713	6,679	5,222
Intangible assets	13	23,210	16,705	1,483	1,069
Total non-current assets		1,289,230	1,654,141	82,397	105,719
TOTAL ASSETS		3,535,608	2,257,371	225,967	144,272
Interest-bearing loans and borrowings		481,964	699,568	30,803	44,710
Payables		243,880	249,275	15,587	15,932
Advances received		53,625	63,427	3,427	4,054
Provisions		1,384	1,953	88	125
Total current liabilities		780,853	1,014,223	49,906	64,821
Interest-bearing loans and borrowings		790,790	457,258	50,541	29,224
Long-term payables		4,380	41,561	280	2,657
Deferred income tax liabilities		1,368	1,353	87	86
Provisions		261	1,095	17	70
Total non-current liabilities		796,799	501,267	50,925	32,037
TOTAL LIABILITIES		1,577,652	1,515,490	100,831	96,857
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		-176	-184	-12	-12
Retained earnings		247,184	292,002	15,798	18,663
Total equity attributable to equity holders of the parent		1 932 448	724,917	123,506	46,331
Minority interests		25,508	16,964	1,630	1,084
Total equity	14	1,957,956	741,881	125,136	47,415
TOTAL LIABILITIES AND EQUITY		3,535,608	2,257,371	225,967	144,272

Condensed consolidated interim cash flow statement (EEK, EUR)

	EEK		EUR	
	9 months 2007	9 months 2006	9 months 2007	9 months 2006
In thousands				
Operating profit	112,318	72,466	7,178	4,631
Adjustments for:				
<i>Depreciation, amortisation and impairment losses</i>	3,378	-11,394	216	-728
<i>Gains and losses on sale of property, plant and equipment</i>	-36	-6,574	-3	-420
<i>Gains and losses on sale of investment property</i>	-213	-8,946	-14	-572
<i>Gains and losses on revaluation of investment property</i>	-66,078	-21,000	-4,223	-1,342
Change in trade and other receivables and prepayments ²	-127,035	-11,845	-8,119	-757
Change in inventories ³	-335,635	-114,282	-21,450	-7,304
Change in biological assets	-144	820	-9	52
Change in payables and advances received	-26,228	46,149	-1,676	2,949
NET CASH USED IN OPERATING ACTIVITIES	-439,673	-54,606	-28,100	-3,491
Acquisition of property, plant and equipment and intangible assets	-32,798	-283,564	-2,096	-18,123
Proceeds from sale of property, plant and equipment	8,330	11,815	532	755
Acquisition of investment property	-9,607	-33,973	-614	-2,171
Proceeds from sale of investment property	44,492	13,854	2,844	885
Acquisition of subsidiaries and joint ventures	-19,654	-29,112	-1,256	-1,861
Proceeds from disposal of subsidiaries and joint ventures	221,528	1,343	14,158	86
Acquisition of other financial assets	-59,731	-52	-3,818	-3
Loans granted	-48,470	-18,618	-3,098	-1,190
Repayment of loans granted	40,916	8,182	2,615	523
Interest received	10,672	1,265	682	81
Dividends received	3,147	0	201	0
NET CASH FROM / USED IN INVESTING ACTIVITIES	158,825	-328,860	10,150	-21,018
Proceeds from loans received	695,381	513,241	44,443	32,802
Repayment of loans and payment of finance lease liabilities	-543,922	-195,304	-34,763	-12,482
Change in overdraft	-18,309	3,312	-1,170	212
Change in group account liability	406	215	26	14
Interest paid	-34,119	-27,620	-2,181	-1,765
Proceeds from issue of share capital	987,514	-1,408	63,114	-90
Dividends paid	-10,893	-9,366	-696	-599
Income tax paid on dividends	-5106	-3,516	-326	-225
NET CASH FROM FINANCING ACTIVITIES	1,070,952	279,554	68,447	17,867
NET CASH FLOW	790,104	-103,912	50,497	-6,642
Cash and cash equivalents at beginning of period	58,345	143,985	3,729	9,202
Net increase / decrease in cash and cash equivalents	790,104	-103,912	50,497	-6,641
Effects of exchange rate fluctuations	-695	-86	-45	-5
Cash and cash equivalents at end of period	847,754	39,987	54,181	2,555

² Includes the increase in deferred VAT receivables in amount of 78 million kroons (5 million euros). Please see note 8 for details.

³ Includes land acquisitions and investments to existing residential projects. Please see note 9 for details.

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								
At 31 December 2005	304,530	123,083	420	474	100,811	529,318	51,427	580,745
Change in unrealised exchange differences	0	0	0	29	0	29	0	29
Change in minority interests from change in the Group's interests in subsidiaries	0	0	0	0	0	0	-43,676	-43,676
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	54,518	54,518	343	54,861
At 30 September 2006	304,530	123,083	5,486	503	138,575	572,177	7,894	580,071
At 31 December 2006	304,530	123,083	5,486	-184	292,002	724,917	16,964	741,881
Change in unrealised exchange differences	0	0	0	8	0	8	0	8
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
Dividends declared	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	255,941	255,941	8,167	264,108
At 30 September 2007	952,842	712,514	20,084	-176	247,184	1,932,448	25,508	1,957,956

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								
At 31 December 2005	19,463	7,866	27	30	6,444	33,830	3,286	37,116
Change in unrealised exchange differences	0	0	0	2	0	2	0	2
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	3,483	3,483	22	3,505
At 30 September 2006	19,463	7,866	351	32	8,857	36,569	504	37,073
At 31 December 2006	19,463	7,866	351	-12	18,662	46,330	1,084	47,414
Change in unrealised exchange differences	0	0	0	2	0	2	0	2
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
Dividends declared	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	37	37
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	16,358	16,358	522	16,880
At 30 September 2007	60,898	45,538	1,284	-12	15,798	123,506	1,630	125,136

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 third quarter and the first nine 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 third quarter and nine 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 the third quarter, three put options (the ones whose exercise price was a proportionate share of equity) were cancelled. As a result, at 30 September 2007 there was one effective put option.

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

2. Scope of consolidation

	Estonia	Latvia	Lithuania	Ukraine	Bulgaria	Romania	Total
Subsidiaries							
At 31 December 2006	20	7	2	2	1	-	32
Acquisitions	1	2	1	1	1	1	7
Disposals	-6	-2	0	-1	0	0	-9
At 30 June 2007	15	7	3	2	2	1	30
Acquisitions	-	-	-	-	-	-	0
Disposals	-1	-	-	-	-	-	-1
At 30 September 2007	14	7	3	2	2	1	29
Interests in joint ventures							
At 31 December 2006	22	2	-	-	-	1	25
Acquisitions	1	2	-	-	1	-	4
Disposals	-4	-1	-	-	-	-	-5
At 30 June 2007	19	3	0	0	1	1	24
Acquisitions	-	1	-	-	-	-	1
Disposals	-1	-1	-	-	-	-	-2
At 30 September 2007	18	3	0	0	1	1	23
Associates (not consolidated)							
At 31 December 2006	1	0	0	0	0	0	1
Acquisitions	1	-	-	-	-	-	1
Disposals	-	-	-	-	-	-	0
At 30 September 2007	2	0	0	0	0	0	2

In the third quarter of 2007, the number of consolidated entities decreased by two: a joint venture was established, a subsidiary was combined with another Group company, an interest in a joint venture was sold, and an interest in a joint venture was reclassified to an investment in an associate in connection with the sale of part of the investment.

During the first nine months of 2007, the number of consolidated entities decreased by five: six subsidiaries were combined with other Group companies, six subsidiaries and two joint ventures were founded, one subsidiary was acquired through a business combination (note 4), one subsidiary and interests in six joint ventures were sold (note 3), and an interest in a joint venture was reclassified to an investment in an associate (note 3).

3. Disposals of interests in subsidiaries and joint ventures

At the beginning of 2007, Arco Vara AS disposed of a 50% stake in the subsidiary Arco HCE OÜ. The 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 ¹	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

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

After the disposal of the 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 2,000 thousand kroons (128 thousand euros).

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

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

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

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

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

On 18 May 2007, the Group concluded 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-Ulbroko-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% and the investment is accounted for as an investment in an associate. The effect of the transaction on the Group's assets and liabilities was the following:

	EEK	EUR
In thousands		
Other current assets	-337	-22
Other payables	-1	0

4. Business combinations and acquisition of minority interests

On 11 January 2007, the Group acquired a 55% stake in the Latvian construction company Arco Construction SIA for 4,303 thousand kroons (275 thousand euros); 2,472 thousand kroons (158 thousand euros) of the purchase price was settled in the first nine months of 2007 in cash and the rest will be settled within three years. The liability does not bear any interest. Therefore the liability and the cost of the acquisition have been discounted to 4,070 thousand kroons (260 thousand euros). The purchase price has been allocated to net assets and goodwill as follows:

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

At the date of acquisition, the effect of the transaction on the Group's assets and liabilities was the following:

	EEK	EUR
In thousands		
Cash and cash equivalents	179	11
Other current assets	3,239	207
Inventories (note 9)	559	36
Property, plant and equipment (note 12)	382	24
Goodwill (note 13)	3,360	215
Payables	-3,649	-233
Cost of acquisition	4,070	260

The Group's consolidated financial statements for nine months of 2007 comprise Arco Construction SIA's revenue and expenses for the first nine months of 2007 and its assets and liabilities as at 30 September 2007. Arco Construction SIA's external sales for the first nine months of 2007 amounted to 24,144 thousand kroons (1,543 thousand euros).

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

5. Segment reporting by business segments

Revenue and other income by segments	EEK		EUR		Proportion of consolidated revenue for 9 months 2007 (%)
	9 months 2007	9 months 2006	9 months 2007	9 months 2006	
In thousands					
Service	96,418	84,962	6,162	5,430	14
External revenue	86,531	77,465	5,531	4,951	13
Other external income	1,064	248	68	16	0
Inter-segment revenue and other income	8,823	7,249	563	463	1
Development	493,527	189,369	31,542	12,103	72
External revenue	387,819	149,875	24,786	9,579	56
Other external income	91,844	36,378	5,870	2,325	13
Inter-segment revenue and other income	13,864	3,116	886	199	2
Construction	293,662	241,427	18,768	15,430	43
External revenue	119,393	123,976	7,631	7,924	17
Other external income	17	360	1	23	0
Inter-segment revenue and other income	174,252	117,091	11,136	7,483	25
Eliminations	-196,939	-127,456	-12,586	-8,145	-29
Total revenue and other income	686,668	388,302	43,886	24,817	100

Operating profit by segments	EEK		EUR	
	9 months 2007	9 months 2006	9 months 2007	9 months 2006
In thousands				
Service	-11,483	9,602	-734	614
Including depreciation and amortisation	-1,077	-737	-69	-44
Including recognition of negative goodwill as income and impairment of goodwill	0		0	0
Development	145,316	96,293	9,287	6,154
Including depreciation and amortisation	-629	-345	-40	-21
Including recognition of negative goodwill as income and impairment of goodwill	283	13,363	18	854
Including fair value gains on investment properties	66,078	21,000	4,223	1,342
Construction	9,957	-12,992	636	-830
Including depreciation and amortisation	-1,284	-795	-82	-48
Including recognition of negative goodwill as income and impairment of goodwill	0	281	0	18
Eliminations	-11,269	-6,420	-720	-410
Unallocated expenses	-20,203	-14,017	-1,291	-897
Including depreciation and amortisation	-671	-246	-43	-15
Including recognition of negative goodwill as income and impairment of goodwill	0	0	0	0
Total operating profit	112,318	72,466	7,178	4,631
Including depreciation and amortisation	-3,661	-2,123	-234	-128
Including recognition of negative goodwill as income and impairment of goodwill	283	13,363	18	872
Including fair value gains on investment properties	66,078	21,000	4,223	1,342

Capital expenditures	EEK		EUR	
	9 months 2007	9 months 2006	9 months 2007	9 months 2006
In thousands				
Service	9,480	22,213	606	1,420
Development	38,708	240,557	2,474	15,374
Construction	6,668	4,217	426	270
Unallocated expenditures	458	3,004	28	192
Total capital expenditures	55,314	269,991	3,535	17,256

Assets	EEK		EUR	
	30 September 2007	31 December 2006	30 September 2007	31 December 2006
In thousands				
Service	50,246	31,900	3,211	2,039
Development	2,276,408	2,054,015	145,489	131,275
Construction	127,972	92,240	8,179	5,895
Eliminations	-83,885	-20,665	-5,361	-1,321
Unallocated assets	1,164,867	99,881	74,449	6,384
Total assets	3,535,608	2,257,371	225,967	144,272

The carrying amount of the assets of the Development segment has changed largely on account of the disposal of a 50% interest in Arco HCE OÜ, the latter's transformation from a subsidiary into a joint venture (note 3) and the acquisition and sale 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	
	9 months 2007	9 months 2006	9 months 2007	9 months 2006
In thousands				
Gains on disposal of shares in subsidiaries ¹	123,269	0	7,878	0
Gains on disposal of shares in joint ventures	10,650	256	681	16
Interest income	13,880	2,218	887	142
Foreign exchange gains	5	0	0	0
Income on other long-term financial investments ²	50,327	461	3,216	29
Total finance income	198,131	2,935	12,663	188

¹ Gains on disposal of shares in subsidiaries comprises gains on the disposal of shares in Sportings Riga SIA (an entity holding the Bishumizhas 2 project) of 118,383 thousand kroons (7,566 thousand euros) and gains on the sale of the Ukrainian subsidiary Arco Capital TOV of 4,886 thousand kroons (312 thousand euros).

² Income on other long-term financial investment includes, among other things, revaluation gains of 42,609 thousand kroons (2,723 thousand euros) arisen on the restatement of Explorer Property Fund AB (an entity belonging to a Group's joint venture) to fair value.

Finance expenses

	EEK		EUR	
	9 months 2007	9 months 2006	9 months 2007	9 months 2006
In thousands				
Losses on disposal of shares in subsidiaries	-2,638	0	-169	0
Interest expense	-24,155	-16,155	-1,544	-1,032
Expenses on other long-term financial investments	0	0	0	0
Foreign exchange losses	-1,570	-404	-100	-26
Other finance expenses	-2,866	-270	-183	-17
Total finance expenses	-31,229	-16,829	-1,996	-1,076

7. Earnings per share

	EEK		EUR	
	9 months 2007	9 months 2006	9 months 2007	9 months 2006
Weighted average number of ordinary shares	78,197,753	67,784,150	78,197,753	67,784,150
Net profit attributable to ordinary equity holders of the parent (in thousands)	255,941	54,518	16,358	3,484
Earnings per share (in EEK and EUR)	3.27	0.80	0.21	0.05

8. Trade and other receivables

	EEK		EUR	
	30 September 2007	31 December 2006	30 September 2007	31 December 2006
In thousands				
Trade receivables	64,702	45,147	4,135	2,885
Receivables from joint ventures (note 15)	49,250	9,042	3,149	578
Other receivables	28,768	25,015	1,839	1,599
Accrued income	113,083	23,294	7,227	1,489
Total receivables	255,803	102,498	16,349	6,551

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 30 September 2007, the Group's receivables from Arco HCE OÜ totalled 42,620 thousand kroons (2,724 thousand euros).

Accrued income as of 30 September 2007 includes VAT receivables of 93,689 thousand kroons (5,988 thousand euros).

9. Inventories

	EEK		EUR	
	30 September 2007	31 December 2006	30 September 2007	31 December 2006
In thousands				
Properties acquired and developed for resale	1,035,919	415,567	66,208	26,560
Goods purchased for resale	7,232	6,580	462	420
Materials and finished goods	799	0	51	0
Prepayments to suppliers	18,281	9,670	1,168	618
Total inventories	1,062,231	431,817	67,890	27,598

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

Properties acquired in Bulgaria and Lithuania in 2007 increased inventories by 332,349 thousand kroons (21,241 thousand euros) and investments made in projects in progress in Estonia and Latvia increased the carrying amount of inventories as at 30 September 2007 by 214,305 thousand kroons (13,697 thousand euros).

In addition, in the first nine months of 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 232,551 thousand kroons (14,863 thousand euros).

The sale of an interest in a joint venture in March 2007 reduced properties under construction by 22,707 thousand kroons (1,451 thousand euros) (note 3).

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

10. Long-term investments in financial assets

	EEK		EUR	
	30 September 2007	31 December 2006	30 September 2007	31 December 2006
In thousands				
Long-term investments in equities - measured at cost	432	131	28	8
Long-term investments in equities - measured at fair value	49,776	8,215	3,181	525
Prepayments for equities	58,597	57,423	3,745	3,670
Total long-term investments in financial assets	108,805	65,769	6,954	4,203

Long-term investments in equities measured at fair value include 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 42,609 thousand kroons (2,723 thousand kroons) for nine months of 2007.

11. Investment property

	EEK	EUR
In thousands		
At 31 December 2005	851,104	54,395
Acquisitions	47,395	3,030
Capitalised borrowing costs	517	33
Gains and losses from changes in fair value	21,000	1,342
Transferred from inventories	0	0
Transferred from property, plant and equipment	23,369	1,494
Disposals	-4,469	-286
At 30 September 2007	938,916	60,008
At 31 December 2006	1,479,281	94,543
Acquisitions	1,914	122
Disposals	-49,969	-3,194
Disposals through sale of a stake in a subsidiary and the transformation of a subsidiary into a joint venture (note 3)	-192,500	-12,303
Transferred to inventories (note 9)	-300,000	-19,173
Transferred from property, plant and equipment (note 12)	5,528	353
Gains and losses from changes in fair value	66,078	4,223
At 30 September 2007	1,010,332	64,572

12. Property, plant and equipment

	Land and buildings	Plant and equipment	Other items of PP&E	Assets under construction and prepayments	Total property, plant and equipment
In thousands of kroons					
Carrying amount at 31 December 2005	16,956	1,464	2,938	153,043	174,401
Acquisitions and improvements	2,648	1,539	2,621	233,430	240,238
Capitalised borrowing costs	0	0	0	12,362	12,362
Disposals	-29	-9	-12	-5,377	-5,427
Disposals through divestment of interests in joint ventures	0	0	-5	0	-5
Transfer to investment property	0	0	0	-23,368	-23,368
Depreciation for the period	-558	-407	-1,060	0	-2,025
Carrying amount at 30 September 2006	19,017	2,587	4,482	370,090	396,176
<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>
Carrying amount at 31 December 2006	21,329	2,261	4,324	53,799	81,713
Acquisitions and improvements	7,212	1,656	4,706	22,936	36,510
Capitalised borrowing costs	0	0	0	9,654	9,654
Acquisitions through business combinations (note 4)	0	0	695	0	695
Disposals	0	-436	-32	-7,839	-8,307
Disposals through divestment of subsidiaries (note 3)	-96	0	0	-6,802	-6,898
Transfers	0	118	-118	0	0
Transfers to investment property (note 11)	0	0	0	-5,528	-5,528
Depreciation for the period	-1,099	-639	-1,604	0	-3,342
Carrying amount at 30 September 2007	27,346	2,960	7,971	66,220	104,497
<i>Cost at 30 September 2007</i>	<i>37,156</i>	<i>6,149</i>	<i>12,007</i>	<i>66,220</i>	<i>121,532</i>
<i>Accumulated depreciation at 30 September 2007</i>	<i>-9,810</i>	<i>-3,189</i>	<i>-4,036</i>	<i>0</i>	<i>-17,035</i>
In thousands of euros					
Carrying amount at 31 December 2005	1,084	94	188	9,781	11,147
Acquisitions and improvements	169	98	168	14,919	15,353
Capitalised borrowing costs	0	0	0	790	790
Disposals	-2	-1	-1	-344	-348
Disposals through divestment of interests in joint ventures	0	0	0	0	0
Transfer to investment property	0	0	0	-1,493	-1,493
Depreciation for the period	-36	-26	-68	0	-128
Carrying amount at 30 September 2006	1,215	165	287	23,653	25,321

Continued

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Other items of PP&E</i>	<i>Assets under construction and prepayments</i>	<i>Total property, plant and equipment</i>
<i>Cost at 31 December 2006</i>	1,921	355	528	3,438	6,242
<i>Accumulated depreciation at 31 December 2006</i>	-558	-210	-251	0	-1,019
Carrying amount at 31 December 2006	1,363	145	276	3,438	5,222
Acquisitions and improvements	461	106	301	1,466	2,333
Capitalised borrowing costs	0	0	0	617	617
Acquisitions through business combinations (note 4)	0	0	44	0	44
Disposals	0	-28	-2	-501	-531
Disposals through divestment of subsidiaries (note 3)	-6	0	0	-435	-441
Transfers	0	8	-8	0	0
Transfers to investment property (note 11)	0	0	0	-353	-353
Depreciation for the period	-70	-41	-103	0	-214
Carrying amount at 30 September 2007	1,748	190	509	4,232	6,679
<i>Cost at 30 September 2007</i>	2,375	393	767	4,232	7,767
<i>Accumulated depreciation at 30 September 2007</i>	-627	-204	-258	0	-1,089

13. Intangible assets

	Goodwill	Negative goodwill	Software	Total intangible assets
In thousands of kroons				
Carrying amount at 31 December 2005	13,071	0	513	13,584
Acquisitions and improvements	0	0	162	162
Acquisitions through business combinations	3,809	13,843	0	17,652
Disposals	-199	-13,843	0	-14,042
Amortisation for the period	0	0	-225	-225
Carrying amount at 30 September 2006	16,681	0	450	17,131
<i>Cost at 31 December 2006</i>	15,558	0	1,840	17,398
<i>Accumulated depreciation at 31 December 2006</i>	0	0	-693	-693
Carrying amount at 31 December 2006	15,558	0	1,147	16,705
Acquisitions and improvements	0	0	872	872
Acquisitions through business combinations and acquisitions of minority interests (note 4)	5,941	-283	11	5,669
Transfer of negative goodwill to income	0	283	0	283
Amortisation for the period	0	0	-319	-319
Carrying amount at 30 September 2007	21,499	0	1,711	23,210
<i>Cost at 30 September 2007</i>	21,499	0	2,723	24,222
<i>Accumulated depreciation at 30 September 2007</i>	0	0	-1,012	-1,012

	Goodwill	Negative goodwill	Software	Total intangible assets
In thousands of euros				
Carrying amount at 31 December 2005	835	0	33	868
Acquisitions and improvements	0	0	10	10
Acquisitions through business combinations	243	885	0	1,128
Disposals	-13	-885	0	-897
Amortisation for the period	0	0	-14	-14
Carrying amount at 30 September 2006	1,065	0	29	1,094
<i>Cost at 31 December 2006</i>	<i>994</i>	<i>0</i>	<i>118</i>	<i>1,112</i>
<i>Accumulated depreciation at 31 December 2006</i>	<i>0</i>	<i>0</i>	<i>-44</i>	<i>-44</i>
Carrying amount at 31 December 2006	994	0	73	1,068
Acquisitions and improvements	0	0	56	56
Acquisitions through business combinations and acquisitions of minority interests (note 4)	380	-18	1	362
Transfer of negative goodwill to income	0	18	0	18
Amortisation for the period	0	0	-20	-20
Carrying amount at 30 September 2007	1,374	0	109	1,483
<i>Cost at 30 September 2007</i>	<i>1,374</i>	<i>0</i>	<i>174</i>	<i>1,548</i>
<i>Accumulated depreciation at 30 September 2007</i>	<i>0</i>	<i>0</i>	<i>-65</i>	<i>-65</i>

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

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

14. Equity

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

In 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.

15. Transactions with related parties

	EEK		EUR	
	For 9 months of 2007 or as at 30 September 2007	For 9 months of 2006 or as at 31 December 2006	For 9 months of 2007 or as at 30 September 2007	For 9 months of 2006 or as at 31 December 2006
In thousands				
Transactions with joint ventures				
Revenue	5,657	808	362	52
Services purchased	-48	-60	-3	-4
Short-term loan receivables ¹	48,380	4,075	3,092	260
Long-term loan receivables ²	39,807	2,215	2,544	142
Accounts receivable	63,722	4,846	4,073	310
Other receivables	870	121	56	8
Payables	7,933	1	507	0
Transactions with companies having joint control over Group companies				
Revenue	135	486	9	31
Services purchased	-375	-1,550	-24	-99
Other short-term receivables ³	6,850	0	438	0
Short-term loan receivables	0	113	0	7
Current portion of interest-bearing loans and borrowings ⁴	6,972	3,240	446	207
Other payables ⁵	17,387	3,897	1,111	249
Non-current portion of interest-bearing loans and borrowings	109	12,438	7	795
Transactions with key staff of the Group or the Group's management				
Revenue	3,357	240	215	15
Short-term loan receivables	130	5,017	8	321
Accounts receivable	1,980	104	127	7
Current portion of interest-bearing loans and borrowings	1,990	268	127	17
Other payables ⁵	330	0	21	0
Transactions with other related parties				
Revenue	11,015	0	704	0
Services purchased	-2,116	-2,086	-135	-133
Short-term loan receivables ⁶	11,919	8,196	762	524
Other receivables	1,623	5,089	104	325
Long-term loan receivables	1,235	5,197	79	332
Accounts payables	2	0	0	0
Current portion of interest-bearing loans and borrowings	0	552	0	35
Other payables	40,288	39,616	2,575	2,532
Other long-term liabilities	845	0	54	0
Non-current portion of interest-bearing loans and borrowings	7,863	2,960	503	189

¹ In January 2007, the Group sold a 50% stake in the subsidiary Arco HCE OÜ. As a result of the transaction, Arco HCE OÜ became a joint venture and the consolidated accounts include 50% of the Group's receivables from the joint venture.

At 30 September 2007, short-term loan receivables from joint venture Arco HCE OÜ amounted to 42,620 thousand kroons (2,724 thousand euros). The annual interest rate of the loan is 10%.

² Long-term loan receivables from joint ventures as at 30 September 2007 include, among other items, a loan of 37,552 thousand kroons (2,400 thousand euros) granted to Bishumuizhas Nami SIA. The annual interest rate of the loan is 7% and the settlement term is 31 December 2014.

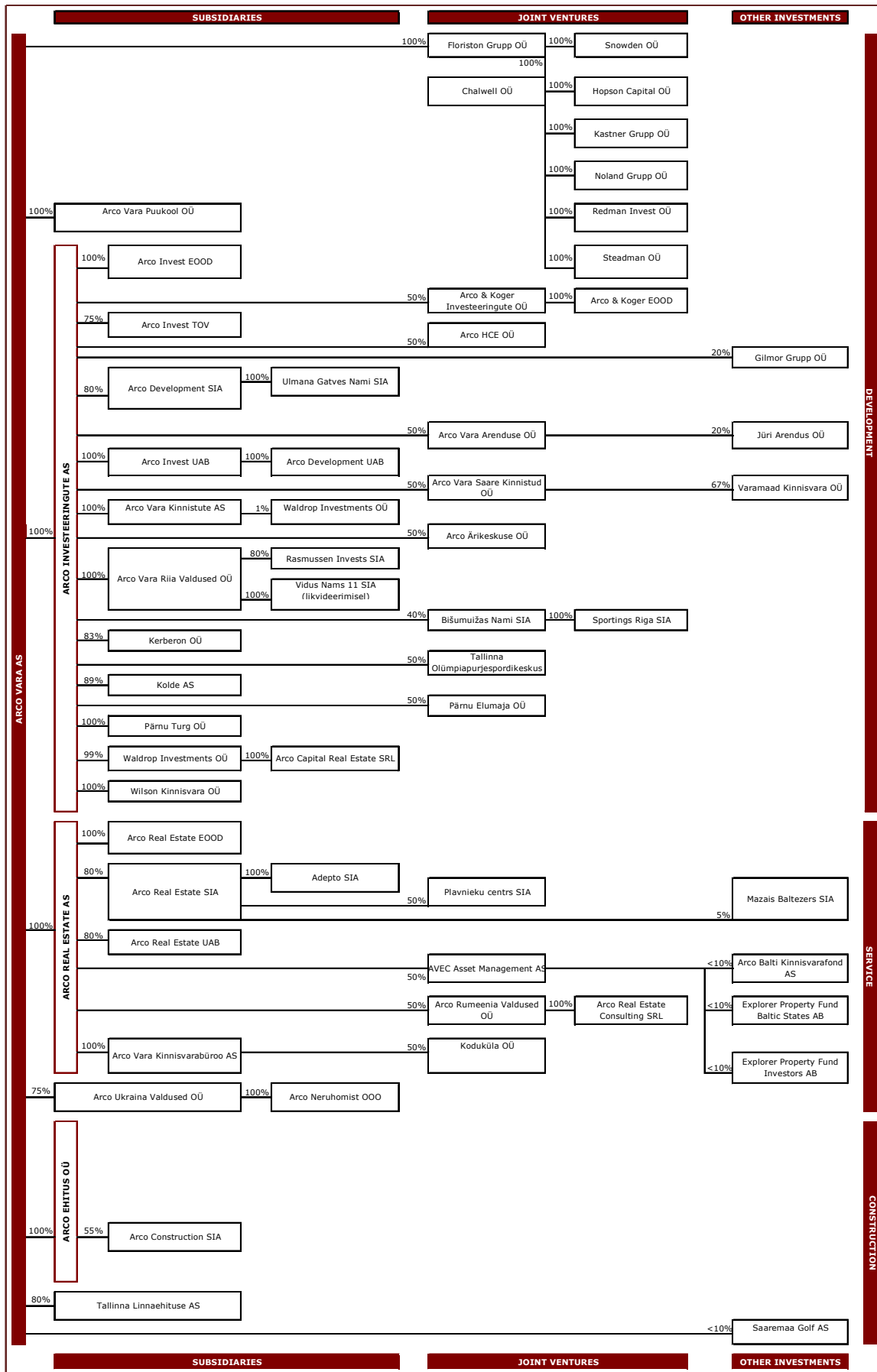
³ At 30 September 2007, other receivables from companies with joint control over Group companies included receivables from the Group's related parties which in the second quarter were taken over by companies holding shares in Arco Vara AS. At the date of transfer, the receivables totalled 8,532 thousand kroons (545 thousand euros). On the distribution of dividends the receivables will be offset against the Group's dividend liabilities. At 30 September 2007, the receivables amounted to 6,850 thousand kroons (438 thousand euros).

⁴ Current portion of interest-bearing loans and borrowings includes 41,678 thousand kroons (2,664 thousand euros) due to the other venturer of Arco HCE OÜ. The annual interest rate of the loan is 10%.

⁵ At 30 September 2007, other payables to companies having joint control over Group companies included dividends payable of 15,599 thousand kroons (997 thousand euros).

⁶ At 31 December 2006, other receivables included items due from Arco Kinnisvaraholduse AS arisen on the takeover of the liabilities to Group companies of 3,810 thousand kroons (243 thousand euros). At the beginning of 2007, the receivable was transformed into a loan. At 30 September 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%.

17. The Group's structure (as at 30 September 2007)



Management's statement

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

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and they give a true and fair view of the financial position, results of operations and cash flows of Arco Vara AS. Arco Vara AS is a going concern.

Viljar Arakas
Chairman of the Management Board

Aare Tammemäe
Member of the Management Board

Avo Rõõmussaar
Member of the Management Board

Veiko Pedosk
Member of the Management Board

Ahto Altjõe
Member of the Management Board