



Q VARA

Consolidated financial report for the I half of 2007

Powering the real estate development in major Baltic cities with
uncompromising dedication to quality and services

Q Vara OÜ

Beginning of the first quarter: January 1, 2007;
End of the first quarter: June 30, 2007;
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Main activities: Real estate development;
Construction;
Property management;
Supervisory Council: Alo Lillepea, Jürgen Järvik, Ivo Lillepea;
Management Board: Meelis Šokman, Andre Poopuu;
Auditor: AS Deloitte Audit Eesti.

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Financial summary

Income Statement

	IH 2007	IH 2006	2006	IH 2007	IH 2006	2006
<i>(thousands)</i>	EEK	EEK	EEK	EUR	EUR	EUR
Revenue	133 693	143 623	227 643	8 545	9 179	14 549
Sales revenue	57 109	38 458	63 231	3 650	2 458	4 041
Operating profit/loss	53 232	90 033	113 250	3 402	5 754	7 238
Net profit/loss	36 961	100 131	99 358	2 362	6 400	6 350

Balance Sheet

	30.06.2007	30.06.2006	31.12.2006	30.06.2007	30.06.2006	31.03.2006
<i>(thousands)</i>	EEK	EEK	EEK	EUR	EUR	EUR
Total assets	869 229	566 859	765 237	55 554	36 229	48 909
Total liabilities	532 381	261 078	460 269	34 025	16 686	29 417
Total equity	336 848	305 781	304 968	21 529	19 543	19 492
Minority interests	263 281	276 922	256 280	16 827	17 699	16 378

Performance Indicators

	I pa 2007	I pa 2006	2006
ROA	6,1%	15,9%	19,9%
ROE	11,0%	32,7%	38,9%
Equity ratio	38,6%	53,9%	39,9%
Current ratio	2,1	2,9	1,12

Management report

Introduction

As stated in Q vara's first quarter report, cash flow is the main performance indicator in 2007 for Q Vara and the net profit expectation is relatively low. The reasoning behind this is presented in Q Vara Group's first quarter report and in the current report's paragraph "Principles of financial accounting". This statement has gained even more importance during the second quarter as the developers' liquidity in the market has deteriorated. The effect is partly caused by slower sales pace but also banks have an active role in this – their financing policy has become more conservative that has decreased the cash available for real estate development.

In the sluggish real estate market situation of the second quarter Q Vara has made a very good sales result. Altogether the company's sales revenues for the six months in 2007 were 57 109 that exceeded the sales results of the first half of 2006 by 48,5%. The main revenue sources were Kirsiaed and Terminal 11 projects.

At the same time also the negative cash flows have been quite substantial. The main cash outflows are generated by the following projects: Terminal 11 construction, Pinki project's reorganization and construction. Also Taevasmaa, Sofia and Trophy projects have reached the phase in which substantial negative cash flows occur. The regular additional cash outflows are Group's overhead costs and financial costs. As a result planning and managing cash flows has been tight.

Q Vara's gross profit from sale (sales revenue minus cost of goods sold), was 16 329 thousand EEK in the first half of 2007. Development, marketing, financial, and other operating expenses were partly covered by this amount but altogether these expenses exceeded gross profit. It must be kept in mind that development expenses that form the majority of the after-gross-profit-expenses, are made in order to generate revenues in the future. So these should not be compared to current period's revenues.

Q Vara's overdue tax liability that was reported by the media was not a bad surprise but as stated in the stock exchange release on July 18, 2007 an agreement with Estonian Tax and Customs Board. Since the cash flow forecast showed that in the coming months cash flows out exceed cash flows in it was decided to postpone the tax payments by two months until the end of August. As Q Vara has agreed several important sales transactions for August the management is confident in the company's ability to meet the deadline.

The expectations of strong operating cash flows for the whole 2007 have not changed because despite the market sentiment the projects sell well considering. The main cash flow sources are Terminal 11 land plots, Kirsiaed row house units and Kirsiaed residential land plots. Pinki project's cash flows are directed into construction of the further stages so in the near

future this project does not generate free cash flows for other uses. Reorganizing Pinki project is also the main reason why the actual revenue will be lower than the preliminary forecasts – previously most of the project revenues were planned into 2007 but as the delay has been longer than expected a major part of revenues will fall into 2008. Other projects' revenues should be in line with the beginning of the year forecasts. More detailed overview of the current sales situation is presented in "Projects' overview".

According to the Terms and Conditions of Q Vara's January 2006 bond issue, Q Vara presents financial information to investors quarterly. On the other hand the regulation of OMX Tallinn Stock Exchange requires the bond issuers to file financial information once in 6 months and present the information for 6 months. Because Q Vara presented its first quarter results and management report in April, the current report's management overview consists of only the developments in the second quarter of 2007. The financial results are presented for 6 months.

Structure

According to the shareholders' decision from March 6, 2007 Q Vara OÜ will be reorganized from private limited company (osaühing) into public limited company (aktsiaselts) (see also the I quarter report of 2007). By the end of July the transaction is not completed due to administrative dealys in the Central Commercial Registry. The reorganization will be expectedly completed in autumn 2007.

In the second quarter it was decided to abort the buy-out of SIA Quality Nami minority shareholders that was also approved by the same shareholders' meeting in March. The reasons for cancelling the negotiations were the minority shareholder's too high price expectations and relatively low interest of the financiers to finance the transaction (refusals were related to the cooling down of the real estate market). After the transaction was taken off the agenda both shareholders decided to continue developing the Jonathan project with the same ownership structure.

Management and personnel

As stated also in the first quarter report Q Vara OÜ's Supervisory Board decided on April 24, 2007 to withdraw Tõnis Vare from Q Vara OÜ's management board. No new management board member was elected and Q Vara OÜ's management board continues with two members: Meelis Šokman and Andre Poopuu. The Supervisory Board's decision is related to the deeper integration of Q Vara OÜ's and Q Ehitus OÜ's activities as a result of which several development activities are shifted from Q Vara OÜ over to Q Ehitus OÜ.

In the second quarter of 2007 Q Vara Group's team grew by 18 people up to 107 people. Altogether 25 new employees joined the group and 7 people left.

The most significant development during the first half of 2007 has taken place on Q Vara Group's construction side. By the end of the second quarter Q Ehitus employed 42 people. The estimated annual capacity of the

team is 200 000 thousand of construction revenue which currently exceeds Q Vara's needs. As a result Q Ehitus is ready to offer construction main contracting services also outside the Group. The first outside projects are being already analyzed. Similar notable development has taken place in SIA Q Buve in Latvia where similar strong team is being completed. Q Buve's capacity is approximately half of Q Vara's capacity. Since Q Buve currently works on Pinki project it is realistic to offer its services to the outside market too. The construction team formation is also being prepared in Lithuania. In the beginning Q Vara Group does not establish a special construction company there but develops a construction team in UAB Q Vara.

Financial results

Q Vara's consolidated operating income in the first half of 2007 was 133 693 thousand EEK; 8 544 thousand EUR (2006 first half: 143 623 thousand EEK; 9 179 thousand EUR). Sales revenue for the same period was 57 109 thousand EEK; 3 650 thousand EUR (2006 first half: 38 458 thousand EEK; 2 458 thousand EUR). Hence the 2007 first six months' sales revenues exceeded the same period's amount in 2006 by 48,5%.

Q Vara generated altogether 16 329 thousand EEK of gross profit (sales revenues minus cost of goods sold) in the first half of 2007. It is a good result despite the fact that development expenses, marketing expenses and financial expenses exceeded the amount. It must be noted that development expenses are related to the future revenues and should not be measured against the current period's revenues. Considering the large projects that are in the development phase such expenses and cash flows are logical in the high growth phase.

The consolidated net profit for the ended six months was 36 961 thousand EEK; 1 814 thousand EUR (first half of 2006: 100 315 thousand EEK; 6 411 thousand EUR). The main reason behind the lower profits is the lower real estate revaluation revenue – in 2007 only Sofia project's balance sheet value was changed (based on Colliers International evaluation report).

Q Vara's management has not yet acted on investment property value in the Baltic market and is waiting the market to take a definite direction. The revaluation decisions will be made in the third and fourth quarter of 2007. Q Vara has ordered several new evaluation reports according to which the real estate value estimations vary largely. According to the reports Q Vara should lower the value of some projects in the total amount of 43 000 thousand EEK (mainly Taevasmaa project) but at the same time increase the value of other projects (Terminal 11, Pärtlepõllu, Sofia, Trophy, Maskavas, Maakri) by 114 000 thousand EEK. Also the price ranges for a single project vary considerably as different evaluators calculate the fair value. In such circumstances Q Vara's management has taken a waiting position in order to find out what will happen to the Baltic real estate market. The management will make the final decision about the property revaluations in the second half of the year as the market is assumed to show more clear trend.

In the first six months of 2007 also financial expenses have played a significant role in the net profit amount. More specifically two large liabilities

– bonds and a loan from Gild Arbitrage – that form the majority of interest expenses. Currently both liabilities' interest expense is accounted for in the profit and loss statement but has not actually generated negative cash flow. Altogether the net financial revenues and expenses were -16 700 thousand EEK in the first half of 2007 (10 188 in the first half of 2006). In the next quarters the interest expense is expected to decrease as Q Vara will refinance the GILD Arbitrage's loan with cheaper resources.

At the end of the second quarter 2007 Q Vara Group is still strongly capitalized: equity forms 38,8% of total assets. In the end of the quarter the total asset amount was 869 229 thousand EEK; 55 554 thousand EUR and total equity amount was 336 848 thousand EEK; 21 589 thousand EUR. At the end of the second quarter 2006 the total asset amount was 566 859 thousand EEK; 35 590 thousand EUR. Compared to the end of the second quarter of 2006 the asset amount of Q Vara has grown 53,3% by the end of the second quarter in 2007.

Overview of the projects

Kirsiaed triple houses

Location: Viimsi parish, Estonia | **Segment:** Residential, high | **Development:** Rowhouses | **Period:** 2006-2007 | **Sellable space:** 3 305 m²

Introduction: Kirsiaed (“Cherry tree garden”) is a residential development project, in which a family friendly and enjoyable living environment is created through combination of architecture, landscape and greenery. Position towards the sun and privacy of the residents were considered as the main starting points inform the very beginning. The main features of the units are brightness, practical and considered interior planning and a magnificent view on the silhouette of Tallinn. One may choose a unit with high quality finishing’s in place or a unit where one can make the designs by oneself.

Development: According to the sales pace and clients’ choices the interior finishing of the remaining units continue. In April also the greening works were started and the works were finalized in June.

Sales: In the second quarter the active realization of booked apartments took place and by the end of the second quarter altogether 14 units were sold. Also some new bookings were made some of which ended up in new sales contracts in July and some will be finalized in August. In the end of the second quarter already 12 families had moved in.

The client interest is stronger than in the first months of 2007 due to the fact that the houses are finished and the planned concept is visible. Therefore the client days have emerged as the most successful marketing tool.

Kirsiaed residential properties

Location: Viimsi parish, Estonia | **Segment:** Residential, high | **Development:** Residential land plots | **Period:** 2006-2007 | **Sellable space:** 23 219 m²

Introduction: Kirsiaed residential property project is one of the few plot developments in Viimsi that has all utility, connections, asphalt road and street-lighting. Partial greenery has been planted to the plots already today – fir-trees, thornbush hedges, rowantrees and low cherry trees. The plots are situated on a hilly terrain, from with a nice view on the Tallinn-panorama.

Sales: In March-April the amount of potential clients increased considerably as a result of what four new sales transactions took place in the second quarter. At the same time several negotiations failed and all the booked apartments did not end up in actual transactions. From June the sales activity slowed down due to summer vacations but nevertheless the sales

- In the end of the first quarter the greening works were started which were finished by June;
- As of the end of the second quarter 12 families had moved in their new homes and in the third quarter three additional families will join them;

- Sales activity increased in the end of the first quarter 2007;
- By the end of the second quarter 5 land plots were sold and 3 land plots were booked;

team got three new bookings by the end of the second quarter. One more was added in July so in addition to the 5 sold properties the sales team expects to close four transactions in August-September.

Taevasmaa

Location: Harku parish, Estonia | **Segment:** Residential, medium | **Development:** Gallery- and rowhouses | **Period:** 2007-2009 | **Sellable space:** 32 137 m²

Introduction: The name Taevasmaa (Skyland) name comes from two architecturally very different parts of the project (rowhouses – sky (Taevas in Estonian) and gallery houses – land (maa in Estonian), which as joined together compile an interesting and aesthetically pleasing living environment. The residential area is situated nearby Tabasalu and has already today the value in the surrounding nature and privacy. Q Vara is developing there apartment houses and row houses with low acquisition costs and low monthly expenses. In creating the living areas, the attention is paid on HEALTH and on INTEGRATION, which means houses with few apartments, surrounding sporting facilities, playgrounds, greeneries', play parks and kindergarten.

Ergonomics and practicality are considered also as very important details throughout the development (entrance-room closets, kitchen furniture etc).

Development: After thorough analysis and consultations with local government Q vara's management decided to change the concept of the project's first stage. The new concept foresees reducing the number of apartments in each gallery house as a result of what the first stage consists of 10 gallery houses with 6 apartments in each (60 apartments). The total net space of the first stage amounts 3 980 sqm.

The construction of the first stage is divided into smaller sets that include 3-4 houses (see the picture). This allows to test the market for demand and also make the project bankable in the current market situation (banks' risks are smaller at any point of time). The launch of the first set is yet undetermined and it depends on the issuance of construction permit and the final financing decision.

The construction was launched in April with the earth works that were finished by June. The next phases will be started after the construction permit and final financing decision is received. The issuance of construction permit is expected to take place in August 2007.

Sales: The pre-sales is launched after the general construction of the houses begins. The preparations (marketing materials, project website etc) for sales launch is underway.

- The first stage consists of 10 apartment houses;
- Earth works were started in April 2007;
- The construction continues after the construction permit and the final financing decision is received;
- The construction permit will be expectedly issued in August 2007;

Terminal 11

Location: Rae parish, Estonia | **Segment:** Commercial, medium | **Development:** Warehouses | **Period:** 2007-2009 | **Sellable space:** 42 000 m²

Introduction: Project's name – Terminal 11 – comes from its positioning beside the Tallinn traffic circle (11th highway). The warehouses are aimed for small and medium-sized companies, to whom the optimal storage size, common location of storage and office space, very comfortable working conditions to the employees and efficient storage managing are crucial. The project's focus is also on minimizing clients' monthly loan repayments and administration costs.

Development: The construction of Terminal 11, the industrial park near Tallinn, was launched in March 2007 with earth works. After receiving the construction permit in the second quarter of 2007 the construction continued with digging works for utility lines and the construction of the first building's foundation.

By the end of the second quarter Sampo Pank also gave a positive financing decision for the whole first stage that includes utility lines and first three buildings. The decision increased the previous loan limit of 1 569 thousand euro by 4 071 thousand euro.

Sales: In order to support the own financing part of the warehouses (besides the pre-sales) part of the project's property is sold as land plots with utility connections. The estimated sales price per land plot sqm is 800 EEK (51.1 EUR; not including the VAT). Because the actual cash flows from the sale of land plots and the pre sales contracts becomes available in a few months (the marketing was launched in the second half of April) the first months' own financing is obtained from other Q Vara's projects.

In May the preparation of sales materials (including the project website www.terminal11.ee and print materials) was completed. The first marketing stage included public advertising as well as direct mailing. The focus was mainly on land plots with warehouses fading in after a few weeks.

The campaign started off successfully and several interested clients asked for more information right away. By the end of the second quarter eight land plots were booked and negotiations were opened with three clients on the warehouse space. The first contracts were signed in the beginning of the third quarter. As of the end of July two warehouse units and two land plots were sold. The next contracts were also agreed for August.

Maakri

Location: Tallinn, Estonia | **Segment:** Residential / commercial, high | **Development:** high-rise buildings | **Period:** - | **Capacity:** -

Introduction: Through an associate (Stansfield OÜ) Q Vara has two properties in the centre of Tallinn. According to Tallinn City's general plans the area is going to be a district with high-rise buildings that accommodate residential as well as commercial space.

- 13 properties will be sold as land plots with utilities (see the drawing);
- Warehouses for SME-s are developed on 8 properties (see the drawing);
- 1 stage of the project includes utilities on all properties and developing 2 warehouses;
- The warehouses' construction permit was issued in the end of the second quarter;
- The financing agreement for the first stage is signed;
- The client interest is strong with 8 land plots and 3 warehouse units booked by the end of the second quarter;

- Q Vara established a joint venture together with OÜ Mark Invest and OÜ Maakri KVF – AS Maakri City;
- The area's traffic planning was launched;

Development: In the second quarter the planning for the development was launched. The first task is to solve the traffic in the neighboring area for which the first sketch drawings were drawn and the final traffic project was ordered. To start off with the best solution also Tallinn City officials were included in the process. The next major step is to launch the next stage of the design competition for the whole block.

At the same time the shareholders agreement of AS Maakri City were being finalized and in the coming months it is expected to be signed.

Pärtlepõllu

Location: Lubja village, Estonia | **Segment:** Residential, medium | **Development:** private house plots | **Period:** 2007-2009

Introduction: Q Vara signed a contract in 2006 to purchase the Pärtlepõllu land plot in Viimsi parish. Part of the property will be developed into residential land and part of it remains as a green area. As Q Vara has not finalized the property's purchase transaction the land is not on Q Vara's balance sheet.

Development: As reported in the first quarter Q Vara's management decided to sell Pärtlepõllu land plot. After the sale was launched several bids were received but all bids were significantly lower than the value in the latest evaluation report that was composed in the end of the first quarter. Due to that it was decided not to sell the property.

The detail planning process continued as planned. The detail plan sketch was presented to the local government who after a few consultations and amendments approved it. The following tasks include receiving several other obligatory approvals to the detail plan (health board, neighbours etc.)

- The sketch drawings of detail plan were approved by the local government;
- The active sale of Pärtlepõllu property is cancelled;

Silukalni

Location: Pinki village, Latvia | **Segment:** Residential, medium | **Development:** Double and rowhouses | **Period:** 2005-2007 | **Sellable space:** 8 525 m²

Introduction: Silukalni residential area is located next to a pine forest which together with its suburban location makes a perfect home for a family. Double- and rowhouses includes 72 units.

Development: Starting from the second quarter the main contractor of the whole project is SIA Q Buve. Q Buve finished the first three houses by the end of June. After that the construction of the following six houses continues. Similarly the whole project will be finished in stages.

Sales: In addition to the 28 units that were sold in the first stage of selling 9 units had been sold (pre-sales agreements were signed) by the end of the second quarter. As a very important development first three houses (six units) were handed over to the clients and the final sales agreements were signed. Handing over the next six houses is planned to take place in autumn 2007.

- Altogether 37 contracts with customers are signed;
- Q Buve finished the construction of the first three houses that were handed over to clients;
- The next six houses will be handed over in autumn 2007;

365

Location: Jurmala, Latvia | **Segment:** Residential, high | **Development:** Apartment building | **Period:** 2006-2008 | **Sellable space:** 2 730 m²

Introduction: 365 apartment building is situated in a prestigious Jurmala beach town. It is a stylish apartment building designed by Latvian top architectural company SIA Sīlis, Zābers & Klava. The building includes thirty exclusive apartments, which net space ranges from 60 to 160 m².

Development: By the end of June the construction of the foundation and the underground parking floor was closing to an end. The construction pace currently matches the planned timeline.

Sales: Altogether 7 apartments were sold in the 365 apartment building by the end of the second quarter. In addition to the already signed agreements three more interested clients have shown interest in purchasing apartments. On the contrary to other locations in beach town Jurmala the sales activity increases in summer. So the sales team has received many client contacts in the past few months.

Jonathan

Location: Riga, Latvia | **Segment:** Residential, medium | **Development:** Apartment building | **Period:** 2007-2010 | **Sellable space:** 30 575 m²

Introduction: Jonathan is an apartment building that is situated in Riga, ashore of Daugava river, 15 minutes drive from Riga city centre. The project's main attraction is a pond in the courtyard which means that the building is partly in the water and the pond has a direct connecting canal with the river. Nothing is impossible...

Development: In April the sketch drawings of the apartment building were approved by the Riga City and preparation of technical plans continued. The technical project is carried out in two stages of which the zero cycle plans should be ready by the end of 2007. After that the construction of the foundation works can be launched and the preparation of the whole buildings' technical plans can be carried out parallelly and will be finished expectedly in the second quarter of 2008.

The construction of the project will be divided into stages. According to the preliminary analysis the zero cycle works can be splitted into two stages and the rest of the construction into four to five stages. The final decision on the staging will expectedly be made in the third quarter and the technical plans will be redrawn accordingly.

Sales: The presales of the project begins after the construction permit is received and it is expected to take place in the first half of 2008. Currently the active preparation of the sales materials is the main task on sales and marketing side.

- Altogether seven booking agreements have been signed;
- Construction of the building's foundation and the under-ground car-park is in the final phase;

- The main open tasks are preparing technical plans and analyzing the opportunities of staged construction;
- Pre-sales will be launched after the construction permit is received;

Trophy

Location: Vilnius, Lithuania | **Segment:** Residential, high | **Development:** Apartment building | **Period:** 2007-2008 | **Sellable space:** 2 300 m²

Introduction: The project is developed on UAB Q Vara's property that was acquired in the end of 2006 – 1 800 m² property, addressed in Vilnius, Elniu 20.

The plan is to develop a 3-4 floor apartment building, with total volume of 2 300 m². The property is located in a prestigious green area in Vilnius called Zverynas, right next to the downtown of Vilnius. The apartments with high quality finishing that are targeted at upper-middle-class customers are priced from 2 300 to 2 900 euros per square meter and the size of the apartments ranges from 55 to 120 m².

Development: In the second quarter the detail planning of Elniu 20 continued and it was successfully finished by the end of the quarter – Vilnius City approved the detail plan on July 18, 2007.

Also the sketch drawings of the apartment building were finished and the agreement with the architects on preparing the technical plans is expected to be signed in the third quarter.

Sales: The sales and active marketing activities of the project start after the construction permit is received.

- Vilnius City approved the detail plan;
- Preparing technical plans and filing the construction permit application are the following tasks;
- Pre-sale and marketing begin after the construction permit is received;

Sofia

Location: Sofia, Bulgaria | **Segment:** Residential / Business, medium / high | **Development:** - | **Period:** - | **Sellable space :** 60 265 (gross space)

Introduction: In 2006 Q Vara entered Bulgarian real estate market and acquired 60% of a company named OOD Delta Retail. The minority shareholder of the company is a local real estate company OOD Delta Imoti Capital. The acquired company owns an 11 000 m² property in the centre of Sofia. Since the acquisition was not formally documented by the end of 2006, with the negotiations over the shareholders agreement still pending, the investment was recorded as a loan granted in the end of 2006.

The purpose of the property allows to develop there high rise buildings with apartments and office spaces in it. In total Q Vara invested 46 673 thousand EEK (2 983 thousand EUR) into the project acquisition.

Development: The main event in the second quarter was receiving the design visa from Sofia City. The design visa allows to develop altogether 60 265 sqm of gross space on the project's property. Also other conditions like unlimited height and mixed use spaces were confirmed. These conditions allow to develop one of the most spectacular developments on Q Vara Group's property. Also the sketch drawings competition was finished and based on the filed works the architect of the technical plans will be chosen in the third quarter.

- The sketch competition is finished and based on the results the architect is chosen;
- Sofia city issued the design visa;

Principles of financial accounting

In order to have full and clear understanding of Q Vara Group's consolidated report the following main accounting principals must be introduced.

Recording expenses in Income Statement

Currently major parts of Q Vara's expenses are related to projects in the early stage of development. In financial reports these projects are recorded as investment property and no sales income is yet gained. The expenses that are related to investment property are not capitalized and are recorded as 'direct development expenses' and 'construction expenses' in Income Statement. These expenses include the expenses of development department and several expenses related to projects (land detail plan costs, interest expense related to acquisition of investment property).

Consequently the operating expenses to income ratio for the companies in growing phase are relatively higher than for the companies in maturity phase. As the figure shows, the company, whose goal is to compose a development portfolio of 100 000 m² has to cover the development expenses of future projects as well as expenses of the present projects on first year.

For mature companies development expenses of future projects make up relatively smaller part of total expenses. Therefore the margins are also higher. Q Vara Group is in the growing phase and faces the issues related to that.

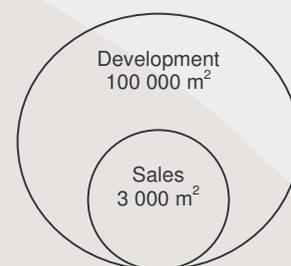
To give a better overview of the expenses and margins of the sold projects, construction expenses and development expenses are separated in Q Vara Group's consolidated report.

Investment property

Land acquired for the purpose of increasing the market value and is not held for the Group's own use or for sale in the ordinary course of business, is recorded as investment property in Q Vara Group reports. Investment property is initially recorded in balance sheet at cost value, including direct transaction expenses related to acquisition: notarial fees, state taxes, advisory fees and other expenses necessary for the acquisition. Later the investment property is stated at its fair value, for which the independent expert evaluation is used. Gains and losses arising from the change in fair value are recorded in the income statement for the financial year. Current expenses directly related to investment property (expenses of land detail

Growth phase.

Income:	3 000 m ²	sales
Expense:	3 000 m ²	constr.
	100 000 m ²	develop.



Maturity phase.

Income:	100 000 m ²	sales
Expense:	100 000 m ²	constr.
	100 000 m ²	develop.

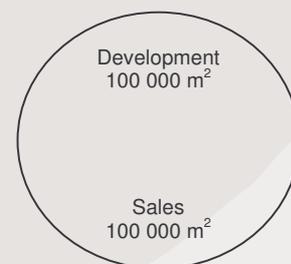


Figure 1. Sales revenue and development expense ratio of growth phase companies and mature companies.

plan, interest expenses etc.) are recorded directly as expense in the income statement.

Property for sale

With the decision of Management Board the property is re-classified from investment property to inventory immediately after construction and development of the property begins. Entry 'Property for sale' consists of the value of land at the moment of reclassification the land from investment property to inventory and of acquisition cost of unfinished construction, which includes the construction price, non-refundable taxes, transportation expenses related to acquisition, interest expenses and of other direct expenses.

Profit calculations

Q Vara Group's accounting system is based on international financial accounting standards (IFRS) and therefore the property investments are stated in their fair value. Fair value method generates profit when the value of real estate increases (fair value increases as a result of rising market prices or as a result of property development). So as a result of price stabilization profit decreases considerably. The profits remain also unaffected by the revenue increase because as the profit is included in the properties' fair values it has been stated in the profit & loss statements of the previous periods (hence the current sales price equals the more-less the calculated cost of sales).

This profit accounting speciality does not affect cash flows because cash flows are still equal to revenues minus land acquisition price and construction cost. So cash flows is the most important indicator in analysing Q Vara Group's financial performance.

Consolidated income statement

	Notes	01.01.2007- 30.06.2007	01.01.2006- 31.12.2006	01.01.2007- 30.06.2007	01.01.2006- 31.12.2006
		EEK	EEK	EUR	EUR
<i>(In thousands)</i>					
Revenue					
Sales revenue		57 109	63 231	3 650	4 041
Revaluation of investment property		73 487	161 545	4 697	10 325
Other income		3 097	2 867	198	183
Total revenue		133 693	227 643	8 545	14 549
Operating expenses					
Building expenses		-40 780	-63 789	-2 606	-4 077
Direct development expenses		-14 076	-8 950	-900	-572
General development expenses		-16 966	-23 326	-1 084	-1 491
Marketing expenses		-3 904	-9 459	-250	-605
Administrative expenses		-1 779	-1 940	-114	-124
Other expenses		-2 256	-6 929	-144	-442
Total operating expenses		-79 761	-114 393	-5 098	-7 311
Operating profit		53 932	113 250	3 447	7 238
Net financial income and expense	1	-16 700	-3 046	-1 067	-195
Profit before income tax		37 232	110 204	2 380	7 043
				0	
Deferred income tax expense		-211	-10 787	-13	-689
Property tax expense		-60	-59	-4	-4
Net profit for financial year		36 961	99 358	2 362	6 350
Net profit attributable to the owners of the Parent		8 578	79 831	548	5 102
Net profit attributable to minority interests		28 383	19 527	1 814	1 248

Consolidated balance sheet

	Notes	30.06.2007 EEK	31.12.2006 EEK	30.06.2007 EUR	31.12.2006 EUR
<i>(In thousands)</i>					
Assets					
Current assets					
Cash and cash equivalents		2 905	1 116	186	71
Accounts receivable		37 092	4 174	2 371	267
Short-term loan receivables		17 461	74 334	1 116	4 751
Other short-term receivables		55 775	48 645	3 565	3 109
Interest receivable		7 616	6 677	487	427
Prepayments made		9 752	25 908	623	1 657
Property for sale		348 777	216 043	22 291	13 808
Total currents assets		479 378	376 897	30 638	24 090
Non-current assets					
Long-term loan receivables		8 641	5 760	552	368
Associated companies		32 618	32 618	2 085	2 085
Investment property	2	334 901	338 250	21 404	21 618
Tangible and intangible fixed assets		13 691	8 826	875	564
Goodwill		0	2 886		184
Total non-current assets		389 851	388 340	24 916	24 819
Total assets		869 229	765 237	55 554	48 909
Liabilities and equity					
Current liabilities					
Short-term borrowings		171 205	290 169	10 942	18 545
Finance lease liabilities		569	1 149	36	74
Customers prepayments collected		8 370	5 577	535	357
Accounts payable		19 731	22 163	1 261	1 416
Due to employees		2 688	2 650	172	169
Interest payable		20 369	14 164	1 302	905
Tax payables		7 788	0	498	0
Total current liabilities		230 720	335 872	14 746	21 467
Non-current liabilities					
Long-term loans		133 315	14 936	8 520	955
Other long-term payables		59 813	90	3 823	6
Bonds issued		76 863	76 863	4 912	4 912
Finance lease liabilities		4 486	5 468	287	349
Deferred income tax liabilities		27 184	27 040	1 737	1 728
Total non-current liabilities		301 661	124 397	19 280	7 950
Total liabilities		532 381	460 269	34 025	29 417
Equity					
Equity attributable to the owners of the Parent					
Share capital		73 511	73 511	4 698	4 698
Reserves		7 361	7 361	470	470
Unrealized exchange rate differences		200	177	12,78233	13
Retained earnings		182 209	175 231	11 645	11 197
Total equity attributable to the owners of the Parent		263 281	256 280	16 827	16 378
Minority interests		73 567	48 688	4 702	3 114
Total equity		336 848	304 968	21 529	19 492
Total liabilities and equity		869 229	765 237	55 554	48 909

Consolidated cash flow statement

	Notes	01.01.2007- 30.06.2007	01.01.2006- 31.12.2006	01.01.2007- 30.06.2007	01.01.2006- 31.12.2006
		EEK	EEK	EUR	EUR
<i>(In thousands)</i>					
Cash flows from operating activities					
Profit before income tax		36 961	99 358	2 362	6 350
Change in goodwill as a result of a merger		-2 886		-184	
Change in assets and liabilities from currency exchange rate		383		1	
Gain from equity method			-9 958		-636
Changes in fair value of investment property		-72 437	-161 545	-4 653	-10 325
Real estate reclassification into inventories		100 256	58 798	6 408	3 759
Sale of subsidiary			-40		-3
Gain (loss) from sales of financial investments			1 189		76
Depreciation and write off of tangible and intangible fixed assets		-649	1 937	-41	124
Interest income		-939	-6 848	-60	-438
Interest expense		6 873	17 598	439	1 125
Unrealized exchange rate differences			-158		-10
Deferred income tax		144	10 835	9	692
<i>Changes in current assets and liabilities</i>					
Changes in accounts receivable		-32 918	-321	-2 104	-21
Changes in other short-term receivables		-7 130	-224	-456	-14
Changes in prepayments		16 156	-18 467	1 033	-1 184
Changes in property for sale		-132 734	-136 870	-8 483	-8 747
Changes in customer prepayments collected		2 793	-715	179	-44
Changes in accounts payable		-2 432	12 519	-155	802
Changes in taxes payable		7 788	-2 548	498	-163
Changes in other accrued expenses		38	667	2	43
Changes in other long-term payables		59 723	90	3 817	6
Total cash flows from/used in operating activities		-21 730	-134 703	-1 389	-8 608
				0	
Cash flows used in investing activities					
Investment property from purchasing a company	2	-50 430		-3 223	
Purchase of investment property	2		-61 029		-3 900
Proceeds from disposal of investment	2	26 320	36 084	1 682	2 306
Prepayments for financial investments			-46		-3
Purchase of investment property			-29 445		-1 882
Purchase of tangible assets		-4 216	-6 986	-269	-448
Changes in loans granted		53 992	-61 367	3 451	-3 922
Interest collected			187		12
Total cash flows used in investing activities		25 666	-122 602	1 640	-7 837
Cash flows from financing activities					
Shares issued					
Loans raised		-585	179 666	-37	11 483
Repayments of finance lease principals		-1 562	4 760	-100	305
Interest paid			-5 751		-368
Bonds issued			76 863		4 912
Total cash flows from financing activities		-2 147	255 538	-137	16 332
Total cash flows		1 789	-1 767	114	-113
Cash and cash equivalents at the beginning of financial year		1 116	2 883	71	184
Cash and cash equivalents at the end of financial year		2 905	1 116	186	71
Change in cash and cash equivalents		1 789	-1 767	114	-113

Notes to the consolidated quarterly accounts

Note 1. Financial income and expenses

	I kv 2007	2006	I kv 2007	2006
<i>(In thousands)</i>	EEK	EEK	EUR	EUR
Loss from sale of subsidiary		-1 266		-81
Profit calculated based on equity method		9 958		636
Earnings from sale of financial investment		77		5
Interest revenue	556	6 848	36	438
Bonds' interest expense	-4 326	-8 366	-276	-535
Interest expenses	-12 950	-9 232	-828	-590
Loss on translation of foreign currencies		-715		-46
Other financial income and expense	20	-350	1	-22
Total	-16 700	-3 046	-1 067	-195

Note 2. Investment property

Estonian kroons (EEK)

<i>(thousand)</i>	Maskavas-Latvia	Jurmala-Latvia	Elniu - Lithuania	Eestküinka I - Estonia	Eestküinka III - Estonia
Residual value 31.12.2005	119 547	22 408	0	23 927	1 073
Additions in 2006			17 134	0	9 663
Revaluation in 2006	72 455		2 538	32 853	32 740
Reclassification to inventories in 2006		-22 408			
Residual value 31.12.2006	192 002	0	19 672	56 780	43 476
Sale in 2007					
New investment property from the purchase of companies					
Revaluation in 2007					
Changes from exchange rate	360				
Reclassification into inventories				-56 780	-43 476
Residual value 30.06.2007	192 362		19 672		

<i>(thousand)</i>	Pärnu mnt - Estonia	Nõmme tee - Estonia	Koplipere kinnistu - Estonia	Sofia property - Bulgarian	Total
Residual value 31.12.2005	2 713		36 390		206 058
Additions in 2006		2 648			29 445
Revaluation in 2006	19 286	1 673			161 545
Reclassification to inventories in 2006		0	-36 390		-58 798
Residual value 31.12.2006	21 999	4 321			338 250
Sale in 2007	-21 999	-4 321			-26 320
New investment property from the purchase of companies				50 430	50 430
Revaluation in 2007				72 437	72 437
Changes from exchange rate					360
Reclassification into inventories					-100 256
Residual value 30.06.2007				122 867	334 901

Euros (EUR)

<i>(thousand)</i>	Maskavas-Latvia	Jurmala-Latvia	Elniu - Lithuania	Eestkũnka I - Estonia	Eestkũnka III - Estonia
Residual value 31.12.2005	7 640	1 432		1 529	69
Additions in 2006	173		1 095		618
Revaluation in 2006	4 631		162	2 100	2 092
Reclassification to inventories in 2006	1 233	-1 432			
Residual value 31.12.2006	12 271		1 257	3 629	2 779
Sale in 2007	1 406				
New investment property from the purchase of companies	-1 406				
Revaluation in 2007					
Changes from exchange rate	23				
Reclassification into inventories				-3 629	-2 779
Residual value 30.06.2007	12 294		1 257	-2 779	

<i>(thousand)</i>	Põrnu mnt - Estonia	Nõmme tee - Estonia	Koplipere kinnistu - Estonia	Sofia property - Bulgarian	Total
Residual value 31.12.2005	173		2 326		13 170
Additions in 2006		169			1 882
Revaluation in 2006	1 233	107			10 325
Reclassification to inventories in 2006			-2 326		-3 758
Residual value 31.12.2006	1 406	276			21 618
Sale in 2007	-1 406	-276			-1 682
New investment property from the purchase of companies				3 223	3 223
Revaluation in 2007				4 630	4 630
Changes from exchange rate					23
Reclassification into inventories					-6 408
Residual value 30.06.2007				7 853	21 404