Q VARA

Consolidated Annual Report for the Financial Year 2006

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

Q Vara OÜ

Beginning of financial year:	January 1, 2006;
End of financial year:	December 31, 2006;
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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, Tõnis Vare;
Auditor:	AS Deloitte Audit Eesti.

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Values

- We work because its fun;
- We never limit ourselves to certain sector;
- We believe in people. We love the families;
- We build the companies around our main competences;
- We do not tie our employees to the company. We believe in freedom and free will;
- We may swap the people from one company to an other any time;
- We always explore our limits;
- We do not accept common rules of management. We always ask more questions and look "through" the problems;
- We are honest. We do not tolerate corruption;
- We value open communication;
- We control our companies as strategic investors, no matter whether we own 24 or 100% shares ;
- We control all over sub contractors quality ands are responsible for their mistakes.

VALUES

Statement of the Chairman of the Council

Year 2006 was extremely fascinating...

The end of real estate boom was no surprise for us. In our case is important to notice that we are rather late arrivals in real estate market, and therefore we have not had the opportunity to enjoy the value increase that comes with leveraging property. We have been smaller than our competitors and we have not always had the best locations in the city.

This has derived our weapon selection to be cleverness. For us being clever is a clear strategy: right investments in properties and filling the value chain with good people and their priceless experiences.

Increase in prices, successful land detail plans and great demand has given us the opportunity to create an organisation and to grow tremendously fast, still profitably. Alongside growing we have not forgotten the importance of human intelligence and the readiness to face every possible market situation. Great help here is provided by the Theory of Constraints (TOC) and by our very simple managing structure and philosophy.

Based on human intelligence and already acquired properties in good locations, I forecast a continuous growth for Q Vara also for the following two three years. Significant growth. If by so far we have been making decisions quickly and in rather small circles, then now is the time to let our staff to act freely. They can do it much better than I could ever hope for.

It is a good thing to know. Let’s go!

Alo Lillepea

Chairman of Q Vara OÜ’s Supervisory Council

Statement of the Chairman of the Management Board

We have a dream – we create living environments where we would like to live ourselves (many of our team members have found their home in residencies, developed by us) and of which we can later be proud of.

In past 15 years, the economy in Baltic States has experienced fast development and many changes. There have been structural changes but also changes in people's minds and feelings about life being. We have done very well. How to move on? I think that compared to 10% GDP growth rate up to now the growth rate will cool off – after all life and business tends to proceed like a sinusoid but currently there is no basis for drastic change of course. As the history has shown, the world is for brave ones. For those who do not admit the average, who do not admit imitation and do not admit the limitations. If we would live by risk managers' crisis predictors' or by other oracles' theories, published in Estonian business journalism, then the level of our business development would very likely still be in year 1995. People in the Baltic countries have always shown remarkable entrepreneurship level, but still we must keep on going instead of resting on laurels.

Q Vara is a very young company, founded in 2003. We have developed very quickly. Last year we started real estate developing activity in Lithuania and Bulgaria, where the market has great potential. In addition we expanded our subsidiary Q Ehitus to Latvian market. The number of employees increased from 33 to 73 in 2006. It is nice to recognize that we have managed to recruit many top-employees from different successful companies into our team. The main success factors in this have definitely been the values of our company, our inner-climate and our dreams. We do our work with enthusiasm and with fun, demanding maximum from each other. We want to bring out the strengths of every person and by using these strengths in creating success to make people shine.

In general, year 2006 was focused on building up the team. We can evaluate the success probably in 2007/2008.

Our future promise for investors, partners and for our clients to be honest, sporty, vital, no-limits-thinking, oriented on solutions and results. We promise to respect the environment surrounding us and to respect ourselves.

Life is short, so let us dream and realize these dreams!

Meelis Šokman

Chairman of Q Vara's Management Board

Financial summary

Income Statement

(in thousands of EEK)	2006 EEK	2005 EEK	2006 EUR	2005 EUR
Revenue	227 643	256 848	14 549	16 416
Gross profit	113 250	133 181	7 238	8 512
Net profit for the financial year	99 358	137 045	6 350	8 759
Profit attributable to the owners of the Parent	79 831	107 884	5 102	6 895

Balance Sheet

(in thousands of EEK)	31.12.2006 EEK	31.12.2005 EEK	31.12.2006 EUR	31.12.2005 EUR
Total assets	765 237	372 289	48 909	23 793
Total liabilities	460 269	166 521	29 418	10 642
Total equity	304 968	205 768	19 492	13 151
Equity attributable to the owners of the Parent	256 280	176 607	16 378	11 287
Minority interests	48 688	29 161	3 114	1 864

Performance Indicators

	2006	2005
Gross profit margin	49,7%	51,9%
Net profit margin	43,6%	42,0%
ROA	19,9%	57,2%
ROE	38,9%	125,5%
Equity ratio	39,9%	55,3%
Equity ratio for equity attributable to the owners of the Parent	33,5%	47,4%
Current ratio	1,12	1,53

Management report

Introduction

In 2006 the fast growth of the Baltic real estate market continued, although the signs of stabilisation in demand and prices occurred in the second half of the year. Speedy increase in labour and building material prices that caused the construction prices increase in general was specific in whole region. Though lengthening of sales period, derived from the clients desire to see the completed product before interest to buy, was mainly observed in Estonia and in more expensive market segment. In other words- alongside the increase in offering, the quality of development, location and other factors have become more important. The same factors had no importance in past years' exploding growth stage.

According to Q Vara OÜ's (hereinafter "Q Vara") management, Q Vara and its subsidiaries (hereinafter "Q Vara Group" or "the Group") have adapted the new market situation well. As a response to fast changes in market situation, the sales process of Kirsiaia and Silukalni projects were decided to postpone to final project stage. This step has helped to avoid the situation where low sales prices fixed by precontracts and increasing construction prices have had a decreasing influence to the profit margin. Q Vara Group has focused on long-term profit and no margin decreasing firesale is or will be performed in order to reach short-term goals and forecasts.

Q Vara is mainly focused on large scale development projects which derives Q Vara to realize smaller properties with good profit. I.e. at the end of 2006 the terms of the sales of Pärnu Road property in Tallinn were concluded, by which the profit receivable is sourced as own financing into Taevasmaa residential project and to Terminal 11 industrial park. Another example is also the Kirsiaia residential land plot project, where earlier plans foresaw the development of rowhouses that would have locked far larger amount of capital for a longer period.

The key points of Q Vara Group investment policy are clear focus on segmentation and the best risk-profit ratio. The principle of segmenting states that the project portfolio must include at least three projects from different segments in each market. I.e. in our Estonian portfolio we have Taevasmaa residential development (houses, medium segment), Terminal 11 industrial park (business segment), Kirsiaed (houses, highest segment), Maakri block (downtown, high segment) and in addition some smaller projects. Following the same logic, the plan is into invest into diversifying the portfolio also in other markets. For example in Latvia after finishing the Silukalni project (houses, medium segment) and Jurmala apartment house (365) project (high segment), there is a need to invest in a new residential project and a new commercial space project in addition to the existing large Jonathan (Maskavas) apartment building development.

Before investing, a complete research about the current market situation is made, in other words- the investment risk-profit ratio compared to different alternatives is investigated. In the current market situation in Estonia, Q Vara is planning to keep the portfolio size on the present level and not to invest into further growth of the land portfolio. Since Lithuanian market has higher profitability level, most of the investments are focused there. In longer perspective the markets beyond the Baltic's are also targeted.

Management and personnel

During 2006 the team in Q Vara Group grew by 40 people. The process of building up the team is at its final stage in Estonia. In Latvia it is still in progress (especially in construction company) but in Lithuania and Bulgaria the staffing is in a relatively early stage.





Throughout 2006 there were significant changes and additions in each team. Since July 2006, the new Chairman of the Management Board is Meelis Šokman, who previously was a director of the corporate financing division in AS Hansapank. At the same time Marge Laanemaa joined Q Vara team as chief accountant. Marge Laanemaa was previously the chief accountant in AS Lõhmus, Haavel & Viisemann.

In August Andre Poopuu was employed as a new sales department manager and was also named as a member of the Management Board. Also Tõnis Vare, the manager of Q Vara's development department, was named as a member of the Management Board. Andre Poopuu's previous experience includes working in AS Hansapank as the head of the youth banking department. Tõnis Vare has worked for Estonian larges construction company AS Merko Ehitus as a project manager. Ivo Lillepea and Tanel Peeters were recalled from the Management Board by the Supervisory Council and they continue managing the whole Group in Q Vara's parent company OÜ SLProductions. As of the end of 2006 the members of the Q Vara OÜ's Board are Meelis Šokman (Chairman of the Board), Andre Poopuu and Tõnis Vare.

In 2006 Meelis Šokman, Sarmite Sazoncika (manager of Q Estate sales department) and Ervins Koncevics (manager of developing department) became the new members of the Board of SIA Q Estate (hereinafter "Q Estate"). Sarmite Sazoncika has previously worked in AS Hansabanka as client executive. Ervin Koncevics has previously worked as project manager in real estate development company named SIA Re&Re. Peeter Põldaru and Alo Lillepea were recalled from the Management Board; Alo Lillepea continues managing the Group in Q Vara's parent company OÜ SLProductions as Chairman of the Board. By the year end the members of Q Estate's Board are Meelis Šokman (Chairman of the Board), Sarmite Sazoncika and Ervins Koncevics.

At the end of 2006, Peeter Põldaru decided to leave Q Estate and to sell his 15% share in Q Estate to Q Vara OÜ, by which Q Vara becomes the sole shareholder of Q Estate. The share purchase agreement was signed between Q Vara and Peeter Põldaru in February 2007.

In Lithuania Q Vara's subsidiary UAB Q Vara started operations after Lina Verbliugeviciute was named as executive director in August 2006. Lina Verbliugeviciute has previously worked in a real estate development company UAB Progresyvios Investicijos as a development manager and developed several apartment buildings in Vilnius. In the fourth quarter 2006 a project manager Ingrida Talzuniene and development manager Andre Nutautiene joined UAB Q Vara's team. Ingrida Talzuniene has been working as a project manager in a real estate development company UAB Progresyvios Investicijos and Andre Nutautiene was working as a development manager in AS Merko Ehitus's subsidiary in Lithuania – UAB Merko Statyba.

Alo Lillepea and Ivo Lillepea who were named as UAB Q Vara's Board Members at the company establishment were recalled by the Supervisory council. Lina Verbliugeviciute, Jürgen Järvik and Meelis Šokman (Chairman of the Board) became the new members of the Management Board.

Alo Lillepea was also withdrawn from the Management Board of Q Ehitus, and replaced by Meelis Šokman. By the year end the members of Q Ehitus Management Board were Urmas Altin and Meelis Šokman. The members of Management Board of the Latvian subsidiary of Q Ehitus, SIA Q Būve founded in 2006, are Urmas Altin and Alo Lillepea.

In fourth quarter Q Vara's management decided to enter the Bulgarian market and to acquire a 60% share in Bulgarian company OOD Delta Retail. The transaction was not formally documented by the end of 2006, still the negotiations were held so as of 31.12.2006 the investment made was recorded as a loan granted. Already in January 2007 the team was completed and the development of the investment property was started.

In addition to the personnel changes mentioned above, many more top specialists were recruited to Q Vara Group's team, who handle reporting, development, construction, marketing and sales.





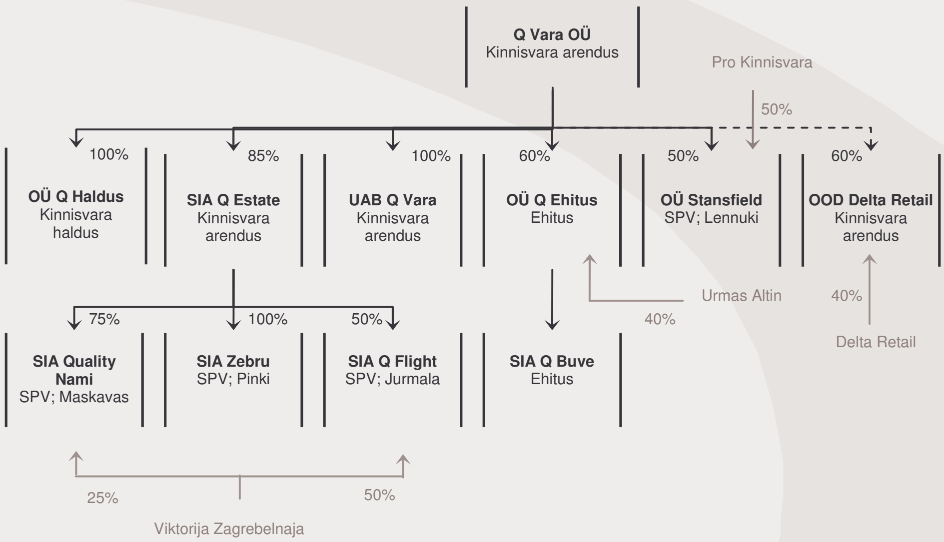
The average number of employees in Q Vara Group was 73 in 2006 (2005: 33).

Total remunerations paid to the Q Vara Group employees in 2006 was 12 021, in euros 768 Th (2005: 6 825 Th EEK, 436 Th euros. Total remunerations in 2006 paid to the members of Management Board amounted to 1 638 Th EEK, 105 Th euros (2005: 499 Th EEK, 32 Th euros).

No remunerations were paid to the members of Q Vara Group's Supervisory Council in 2006 (2005: 0).

Group structure

Several changes took place also in Q Vara Group's structure in 2006 (see Drawing 1). In February Q Vara's Lithuanian subsidiary UAB Q Vara was founded. The actual operations started in August and the first investment into property was made in November. Q Vara owns 100% of UAB Q Vara's shares.



Drawing 1. Q Vara Group structure

To assure the flexibility in construction and high construction quality, Q Ehitus founded a subsidiary in Latvia in autumn 2006. By today the subsidiary Q Būve has taken over the construction of the whole Silukalni project that is developed by Q Estate.

In the final quarter the decision was made to merge OÜ Merona Group and OÜ Multi Metall Kinnisvara with Q Vara. The purpose was to simplify and increase the transparency of the Group structure. Kesk-Kaare properties in Viimsi parish (Kirsiaia plots), owned by OÜ Merona Group and properties in Rae parish (Terminal 11) owned by OÜ Multi Metall and all the liabilities were taken over by Q Vara. The merger was enacted in Commercial Register in the first quarter 2007.

According to Q Vara's shareholders' decision from March 6, 2007, Q Vara is going to be transformed from private limited company (OÜ) into a public limited company (AS). The portions of shareholders' share remain the same. Also no changes with legal relationships with employees, with Management Board members and with Supervisory Council members shall take place. The transformation shall be finished during the second quarter of 2007.

Financial accounting

During 2006, Q Vara's financial accounting quality has increased considerably. As the Group is growing rapidly, the restructuring of our accounting became essential in the fields of accounting personnel, accounting software and reporting quality.

A new ERP software Microsoft Dynamics NAV was implemented in whole Q Vara Group.

Since the terms and conditions of Q Vara's bonds (issued in January 2006) require disclosing Q Vara Group's consolidated and audited annual report by the end of first quarter, the interim audit was performed as of 30.09.2006 with the aim speed up the reporting process,. This early audit made it possible to finish the whole year audit by the end of February and to compose the final annual report by the end of the first quarter of 2007.

Bonds

In January 2006 Q Vara issued bonds, that mature in 3 years at par value of 5 000 000 euros. The bonds were sold both to Estonian and foreign investors. In total 500 bonds were issued with nominal value of 10 000 euros per bond. The bonds' yield per annum is 11%. The bonds are listed on OMX Tallinn Stock Exchange since September 19, 2006. Therefore Q Vara is obligated to disclose all significant corporate information trough stock exchange's information system (http://www.baltic.omxgroup.com/). Q Vara is also supervised by Estonian Financial Board and OMX Tallinn Stock Exchange.

Substantial change took place also in the bonds' collateral structure. The initial collateral (mortgages of properties and pledges of subsidiary's shares) was replaces with Q Vara's parent company's OÜ SLProductions' guarantee. The reasons for the change were the following: a need to start the development of Taevasmaa residential project and to secure the loans taken for construction, the aim to simplify the Group structure by merging two subsidiaries (OÜ Merona Group and OÜ Multi Metall Kinnisvara, merged by today) with Q Vara; and the sales of property located at Pärnu Road, Tallinn. This transaction does not harm the interests of investors, but plays a significant role in Group development and strengthening.

Dividend policy

The fast growth of the Group has a significant influence on dividend policy. Because of the growth large amount of profit is reinvested to the company. The annual dividend amount depends on the current financial results and no more than 10% of consolidated net profit is paid out as dividends.

Risk management

Liquidity risk

If in past years Q Vara's development projects were mostly finished at the year end but now the realisation of projects is spreaded over the year. This has decreased Q Vara's liquidity risk in the first half of the year. This results from several large projects being in development at the same time.

In managing liquidity risk debt financing plays a significant role. Q Vara Group has good relations with financers and employs an experienced financing team that both help to decrease liquidity risk. This keeps several financing alternatives open for the Group and makes it possible to secure the liquidity trough debt financing.

As of the end of 2006, the current ratio of Q Vara Group's short-term liabilities was 1,12. Compared to the same period in 2005 the figure has decreased (2005: 1,53) because at the end of 2005 the volume of unfinished projects was significantly lower than in 2006.

Currency risk

Most of Q Vara Group's business is focused to the Baltic countries, which currencies are pegged to the Euro. So no substantial currency risk exists in the short term. In longer perspective the currency risk lies in the chance that the currencies might be devaluated. Currently Q Vara's management considers this kind of situation rather unlikely to happen.

Interest risk

Most of Q Vara’s loan interests are floating and based on EURIBOR, so interest expense is dependent on the changes in European financial markets. During 2006 EURIBOR demonstrated slight increased and therefore also Q Vara Group’s financial expenses went up.

To manage interest risk, Q Vara Group’s management compares the additional expenses from interest rate fluctuation with potential expense of interest rate risk hedging instruments. Until now no such instruments have been used because their cost exceeds the additional expense from interest rate fluctuation. Also since the majority of construction loans are short-term (less than a year), then no significant interest rate’s increase has so far realized.

Financing risk

When it comes to Q Vara, the financing risk means, that there is a slight probability that the Group is not able to finance the purchase of new properties and the development of existing projects because there is not enough free capital and also external financing resources an unavailable. Since Q Vara’s investments are rather large, the financing risk has a relevant influence on the Group’s sustainable development.

To minimize the financing risk, Q Vara has worked out several financing alternatives for each financing case and works constantly on strengthening investor-relations. Q Vara Group has also kept the investor relations as transparent as possible that make the Group more attractive and less risky for investors.

Financial results

Q Vara’s consolidated operating income in 2006 was 227 643 Th EEK (2005: 256 848). Sales revenue from real estate for the same period was 63 231 Th EEK (2005: 126 614). The consolidated net profit was 99 358 Th EEK (2005: 137 045).

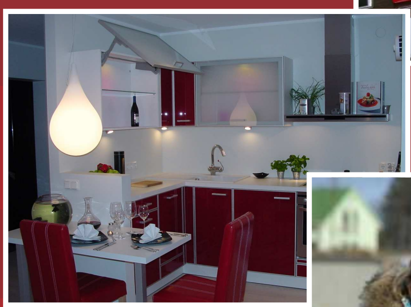
Compared to turnover budgeted in the beginning of 2006, the actual results ended up lower. Still the development of Q Vara Group meets the expectations. Since the finishing and sales of projects planned into 2006 (see ”Projects overview”) was delayed, the major part of 2006 turnover is postponed into the first half of 2007. The slower sales pace has helped the Group to avoid the profitability decrease that is usually the result of a sudden increase in construction prices and prefixed sales prices. To analyse the Q Vara Group’s profitability, it is essential to understand also the Group’s cost accounting principles that are stated in ”Principles of financial accounting”.

At the year end Q Vara Group is still strongly capitalized: equity forms 39,9% of total assets. In the end of 2006 the total asset amount was 765 237Th EEK and total equity amount was 304 968 Th EEK.

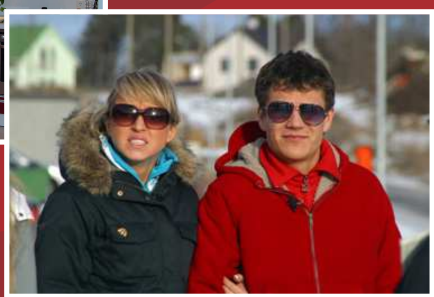
Soosepa gallery house

4 couples

4 apartments



Biggest award in Estonian TV history



1 winner

Produced by: Starlite Agency
Host: Alari Kivisaar
Producers: Q Vara ja Starlite Agency
Channel: TV3 ja 3Plus
Partners: Hansapank, Lincona Põrandakeskus, FEB Sanitaartehnika, Interno Plaadimaja

Naabrist Parem was a spectacular and thrilling reality show, where 4 couples were given an assignment to build up and furnish a flat in a 4-apartment house in Soosepa residental area, developed by Q Vara. For the winning couple the prize was 500 000 EEK worth of remission on buying self-designed apartment.

Overview of the projects

Soosepa residential area

Location: Viimsi parish, Estonia | **Segment:** Residential, medium | **Development:** Gallery- and double-houses | **Period:** 2003-2006 | **Net space:** 10 211 m^2

Introduction:

Soosepa residential area is the first large-scale residential development project, started by Q Vara in summer 2004. The project's main strength is the complete living environment – houses, greenery, playgrounds, kindergarten and public transportation. Soosepa project gained publicity and attention also in "Naabrist Parem", a reality show by channel TV3, which was the first TV-show of a kind. The distinctive architectural features of Soosepa gallery houses and their blending with environment were recognized also in national TV culture program OP!.

In 2006 the last 10 gallery houses were finished and handed over to clients. The planned kindergarten for 90 children is Soosepa was in the phase of detail planning and the negotiations with Viimsi parish were started. Completion of kindergarten is planned in summer 2008. In order to improve more the complete environment of the village, Q Vara is also planning to make improvements to children's playground and to the entire greenery.

Since the beginning of the project altogether 22 gallery houses were completed – 15 houses with six apartments, 7 houses with four apartments – and 9 double houses. In total the turnover of the 136 dwellings exceeded 150 million EEK (9,5 million euros).

Tammerpargi apartment houses

Location: Rae parish, Estonia | **Segment:** Residential, medium | **Development:** Apartment houses | **Period:** 2005-2006 | **Sellable space:** 3 042 m^2

Introduction: In 2005 and 2006 Q Vara developed three apartment houses in Jüri village with 48 apartments. The existing infrastructure (shops, kindergarten and public transit) is adding a substantial value to the living environment. Tammepargi apartment house project was the first project which was built by Q Ehitus.

Altogether, the project was very successful and was sold-out in relatively short period. Last apartments were realized in the first quarter of 2006. In spring the greening was finished, (it was impossible to do it in winter due to the weather conditions) and the works were finished by the end of 2006.

Kirsiaed triple houses

Location: Viimsi parish, Estonia | **Segment:** Residential, high | **Development:** Rowhouses | **Period:** 2006-2007 | **Sellable space:** 3 305 m^2

Introduction: Kirsiaed ("Cherry tree") 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: Q Ehitus started the construction of Kirsiaia houses in the first quarter of 2006 with foundation and earth-works and after gaining a construction permit on the houses continued with the general construction. The sample-unit was finished in November and is since then open for visitors. By the end of 2006 all houses were under the roof and interior works were engaged.

Sales: The sales of Kirsiaed project started in the third quarter of 2006, but more active sales activity started after the sample unit was finished. The reason for the late launch of sales is the fact that most buyers of higher segment products would like to see the finished unit before making the decision.

The sale so far has been successful: of the thirty units, in the price range of 3,3-3,8 million EEK, 1 unit was sold and 6 units were booked by the end of 2006. Until the end of March 2007, 4 additional units were sold, the notary transactions were agreed with 3 additional clients and in there re 3 clients who are seriously interested in making a transaction. A complete realization of the project is planned into the first half of 2007.

Kirsiaed plots

Location: Viimsi parish, Estonia | **Segment**: Residential, high | **Development:** Residential land plots | **Period:** 2006-2007 | **Sellable space:** 23 219 m^2

Introduction: Kirsiaia residential land plot 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.

Development: Until the second quarter of 2006 Q Vara had planned to build row houses on Kesk-Kaare street plots. But due to increase in construction prices and due to a fact that Q Vara already had a higher segment product (Kirsiaed triple houses) the decision was made in the third quarter of 2006 to sell the plots as land plots only. Financially the change results in a similar gross profit figure, but leaves development resources free for other larger projects. Relatively warm fourth quarter allowed Q Vara to complete greenery, to build paved entrance paths and to cover Kesk-Kaare street with asphalt, after which the plots were completely ready for sale.

Sales: The presales was started in September 2006, but more intensive marketing was activated some months later, after paving the roads with asphalt, finishing the construction of utility lines and finishing the greenery. As of the year end 1 plot was sold, but by the beginning of March 2007 there were 2 more clients, whose the purchase agreement was under preparation. Most of the plots are planned to be realized in the first half of 2007.

Taevasmaa

Location: Harku parish, Estonia | **Segment:** Residential, medium | **Development:** Gallery- and rowhouses | **Period:** 2007-2009 | **Sellable space:** 32 137 m^2

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: The land detail plan was approved by Harku parish's local government in May 2006. After that the development department of Q Vara started to develop a unique and complete living environment. Firstly a thorough initial assignment was documented that became the basis of further actions and decisions. According to the initial assignment Taevasmaa project will be divided into 3-4 stages, first stage's construction will begin in 2007.

The competition to find the best architectural solution for the first stage houses was launched in the third quarter of 2006. Four architectural companies took part and from all the works, Q Vara selected Põldme Arhitektuur OÜ designs for gallery houses and Meelis Press' designs for rowhouses. With these two concepts the designing of the first stage took off.

In the second half of the year the negotiations with AS Eesti Energia and AS WaterSer were started to connect the residential area into power and water networks. By the beginning of March 2007 the contracts were signed. The construction permit for utility lines was issued in March. The building of utility lines is financed by AS DnB Nord Pank.

Sales: Presales of the project is started in the first half of 2007. The marketing agencies Brilliant and Loovvool were already selected in the second half of 2006 to support with the marketing concept. Based on works of the marketing agencies, the visual solution of the project is created.

Terminal 11

Location: Rae parish, Estonia | **Segment:** Commercial, medium | **Development:** Warehouses | **Period:** 2007-2009 | **Sellable space:** 42 000 m^2

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: In 2006 the active development of the project was initiated after Jaak Puistama started as the project's manager in the third quarter. The first tasks included the development of a thorough initial assignment and the negotiations with the utility companies. The initial assignment document included a thorough concept description and technical details that were the basis for the designing and planning that started in the fourth quarter. First architectural sketches were completed by the end of 2006. Similarly the terms of utility line agreements were agreed with the utility companies (AS Eesti Energia and AS WaterSer).

Building licence to start the construction of the utility lines was issued in the beginning of 2007 and simultaneously the preliminary plans of the houses were completed. At the end of February 2007 the construction of utility lines was started and in the second quarter the general building of the warehouses will begin. Q Vara plans to hand over the first warehouses to customers in the end of 2007. Altogether 70-80% of the construction will be financed with bank loans. At the moment the financing agreement that covers the construction of the utility lines is signed with AS Sampo Pank. Negotiations about the terms of financing general construction are in progress.

Sales: At the end of 2006 the sales concept was developed and final marketing directions were set. Also the marketing partners were selected: Velvet and Loovvool.

Presale of the project starts at the end of the first quarter of 2007. First interested buyers appeared already before official start of the project.

Pärnu mnt 113 / Rapla 1

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

Introduction: The project includes a property at Pärnu mnt, near downtown of Tallinn. According to Tallinn City's general plan an apartment-house / office building may developed on the property.

In third quarter of 2006 Q Vara's Board decided to sell the 650 m^2 property, because the realization enables to earn profit more than 400%.

Also one of the reasons for the sale is that instead of splitting the resources between many small projects they can be drawn together into larger projects (Taevasmaa and Terminal 11). Negotiations with potential buyers started in September. In December the agreement with a buyer was achieved and notarial sales agreement was signed in the first days of 2007.

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.

Development: An architectural competition which was organized by Tallinn City and The Union of Estonian Architects, in which Estonian top architects presented their vision of the architectural concept for the area. The excellent location of OÜ Stansfield's properties enables the company to develop various large volume high-rise buildings.

Because the 11 000 m^2 sized block has various owners, the area can be developed only in cooperation with other owners. In the second quarter of 2006 Q Vara started the negotiations with other property holders. As a result Q Vara, Mark Invest OÜ (subsidiary of SRV Kinnisvara AS) and Maakri KVF signed an agreement to establish a joint venture called AS Maakri City. The shareholders' agreement negotiations and preparations for development continued right after that.

Silukalni

Location: Pinki village, Latvia | **Segment:** Residential, medium | **Development:** Double and rowhouses | **Period:** 2005-2007 | **Sellable space:** 8 525 m^2

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: Preparations for the project's development (projection, applying for license of constructions) were started already in second quarter of 2005 by Q Estate and were finished by the end of the first quarter in 2006. In the second quarter of 2006 building permissions were obtained from the local government and construction works were started. In the middle of the second quarter the main contractor became insolvent. Q Estate and the same main contractor reorganized the construction company and the project was restarted. As the object was behind the initial schedule, all the efforts were focused on the buildings that were already sold. However in the third quarter the decision was made that the faltering contractor with lacking resources will be replaced with Q Ehitus' subsidiary in Latvia - SIA Q Būve.




SIA Q Būve was assigned to finish project's second and third phase that was unsold. SIA The initially selected construction company's inability to meet the deadlines and assure construction quality lead to the decision to end the co-operation and deliver all the construction (included finishing the first part construction) to Q Būve in the beginning of 2007. Handing over of the first units to the clients begins in the first quarter of 2007.

Sales: Half of the apartments (the whole first stage) were already sold in the beginning of 2006. The sales of second and third stage was intentionally started in December 2006 because the sales prices were increasing, resulting in twice the price compared to the prices in first stage and the construction prices were not yet finally in place. The interest against the apartments is significant - already 27 buyers have registered themselves on the waiting list as of the end of 2006. No sales contracts were signed by the year end. By March 2007 four contracts were signed. More intense marketing activity begins in March 2007 and the majority of turnover will probably fall into the first half of 2007.

365

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

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 to160 m^2.

Development: In third quarter of 2006 SIA BMGS was chosen to perform the foundation and earth works. BMGS is Latvian largest company in this field. The works were started in November and by March 2007 the works were finished. Ars Domina was chosen as the main contractor of general construction (incl. interior works). The completion date is planned to fall into the first quarter of 2008. The construction is financed by AS DnB Nord Banka.

Sales: At the same time with preparations for construction also the sales preparations were dealt with. The sales price in the project is 3 000 – 3 800 euros per square metre.

Although no active sale has been launched, there was already one sales contract signed by the end of 2006. Also several preliminary booking agreements were agreed. The active marketing of the project will be launched in spring 2007.

Jonathan

Location: Riga, Latvia | **Segment:** Residential, medium | **Development:** Apartment building | **Period:** 2007-2010 | **Sellable space:** 30 575 m^2

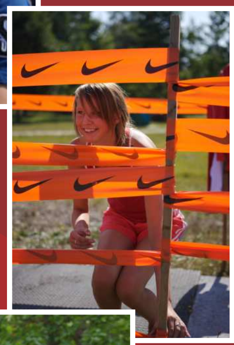
Introduction: Jonathan is an apartment building that is situated in Riga, ashore of Daugava river, 15 minutes drive from Riga city centre. The project's main attraction is a pond in the courtyard which means that the building is partly in the water and the pond has a direct connecting canal with the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

Development: Throughout the year the land detail plans and the design of the building were being prepared. At the beginning of the fourth quarter the process of land detail planning was finished and the City of Riga issued its approval. The land detail plan allows for a subsidiary of Q Estate, the SIA Quality Nami to build an apartment building with more than 30 000 square metres on the shore of Daugava river.

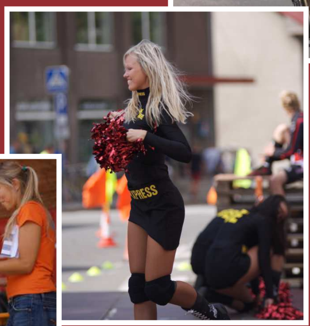




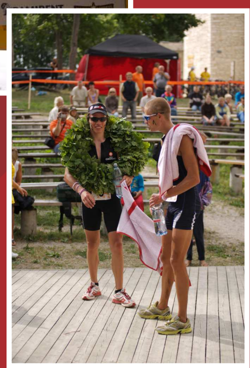




Paide Triathlon



We are back already in summer of 2007 and some of us also on the track ...

Consept author: Ain-Alar Juhanson
Coordinators: Q Vara, volunteers

International Paide Triathlon is the biggest triathlon competition in Estonia. The event is combined with Q Varas trainings of teamwork and management training programmes. All the assignments starting from setting up the track margins to clean up after the race, are carried out by Q Vara's employees and volunteers. According to Q Vara's employees this has been the best management training but most of all irreplaceable event for strenghtening the team spirit and mutual trust.

In contest of the Best Personnel project 2006, Paide Triathlon was among the top three and moved on to the finals. The best programme will be nominated in April 2007.

New Investments

Trophy

Location: Vilnius, Lithuania | **Segment:** Residential, high | **Development:** Apartment building | **Period:** 2007-2008 | **Sellable space:** 2 340 m^2

Introduction: The project is developed on UAB Q Vara's property that was acquired in the end of 2006 – 1 800 m^2 property, addressed in Vilnius, Elniu 20. The price of the property was 3,64 million LVL and 75% was financed by bank loan. The financer was AB SEB Vilniaus Banka.

The plan is to develop a 2-3 floor apartment building, with total volume of 2 300 m^2. 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 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 m^2.

Development: Right after the purchase of the property, the land detail planning was started. The detail planning is expected to end in the second quarter of 2007 and the construction permit will expectedly be issued by the fourth quarter of 2007.

Sales: The sales and active marketing activities of the project are scheduled to start in October 2007.

Sofia

Location: Sofia, Bulgaria | **Segment:** Residential / Business, medium / high | **Development:** - | **Period:** - | **Sellable 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 m^2 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 2,98 million euros into the project acquisition.

Development: In the fourth quarter of 2006 general planning of the area was continued by Sofia City. At the same time Q Vara started sketching the development and compiling the team.

Expectations for the year 2007

Q Vara expects year 2007 to bring several changes to the real estate market: stabilisation of demand, lengthening sales period and putting the active sales into the last stage of the project. Also construction quality, location, environment and concept are gaining more importance than earlier. The developer is pressured by constant increase of construction prices.

The key of Q Vara Group's success lies in effectiveness of Q Ehitus and in sharing the pan-Baltic know-how. Already in 2006 the Group had very strong teams in every country, but the management continues to merge these teams as one strong team. Also the opening of Bulgarian market and growing the construction activity in Latvia is are important challenges for Q Vara Group. As for personnel, significant additions are expected to Q Ehitus team, Lithuanian team and Bulgarian team that are going to enrich the whole Group with experience and knowledge.

Main projects of the first half of 2007 shall be Kirsiaed and Silukalni and in the second half of the year Terminal 11, 365, Trophy and Taevasmaa. So 2007 year should be on one side as team building year and on other side as a preparation year for next large

Estonian Ski Association

We support the Estonian skiers because of two main reasons. First and the most important is that we truly believe in sport, enthusiasm and good example in the highest tower in competitions is also very important. From our point of view the foundation and some proper houses are already ready in Estonian skiing. And we believe that it is possible to develop a beautiful village.

We hope that this is the way it will happen and we give our best to support it.

Ain-Alar Juhanson

Ain-Alar Juhanson is the heaviest ironman in the worked. The man, who has no presumptions to be in the top of the world's leading triathletes, but with his will and dedication he has proved his right to belong there. It is good that there are dreamers like him.

We are honoured to support them in realizing their dreams.

We have set ourselves great goals and the whole team is 100% dedicated on achieving these goals. This is a hard work. So we value and admire everyone who dares to set great goals for themselves and even more the strong people, who achieve these goals. We are honoured to support these people in realizing their dreams.

Our purpose of sponsoring is to support a joy that is reflects from the eyes of athletes and of their supporters. It is contagious...

Gerd Kanter and Estonian Atlhetics Association

In previous years Q Vara has supported Gerd Kanter and since Gerd proved in Helsinki and Göteborg that he is able to show amazing results, we are sincerely glad that we have the opportunity to support him and his ambitions. In addition to Gerd, more perspective young athletes have arisen in Estonian athletics that has derived Q Vara to support the whole athletics association in the future.

Matiss Karro

Matiss Karro is a young Latvian motocross ace. Already for now he has become a Latvian champion for multiple times and in 2006 also the European champion. Who knows what he can achieve in the future...

WE SUPPORT

Principals 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. Accounting principles are presented in more detail in notes 1-4.

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 m^2 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

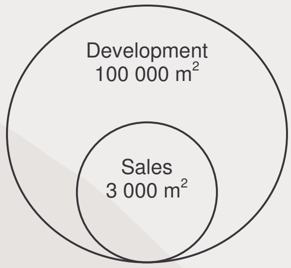
Land acquired for the purpose of increasing the market value and is not held for the Group's own use or for sale in the ordinary course of business, is recorded as investment property in Q Vara Group reports. Investment property is initially recorded in balance sheet at cost value, including direct transaction 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 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.

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.

Management Board confirmation to the consolidated annual accounts

The Management Board is declaring its responsibility for the preparation of the consolidated annual accounts of Q Vara Group for the financial year ended on 31 December 2006.

The annual accounts are prepared according to the International Financial Reporting Standards as adopted by the European Union, and present a true and fair view of the financial position, economic performance and cash flows of the Group.

Preparation of the annual accounts according to the International Financial Reporting Standards assumes the Management Board to make estimates on the assets and liabilities of the Group as at 31 December 2006, and on income and expenses for the reporting period. These estimates are based on up-to-date information about the state of the Group and consider the plans and risks as at 31 December 2006. The ultimate outcome of the business transactions recorded may differ from those estimates.

Subsequent events that materially affect the valuation of assets and liabilities, occurring until the preparation date of the annual accounts, 16 March 2007, have been considered.

The Management Board considers the Group companies to carry its activities as a going concern.

Meelis Šokman

Chairman of the board

Andre Poopuu

Member of the board

Tõnis Vare

Member of the board

Consolidated income statement

(In thousands)	Notes	2006 EEK	2005 EEK	2006 EUR	2005 EUR
Revenue					
Sales revenue		63 231	126 614	4 041	8 092
Revaluation of investment property	17	161 545	130 234	10 325	8 324
Other income		2 867	0	183	0
Total revenue	5	**227 643**	**256 848**	**14 549**	**16 416**
Operating expenses					
Building expenses		-63 789	-106 227	-4 077	-6 789
Direct development expenses		-8 950	-5 478	-572	-350
General development expenses		-23 326	-7 849	-1 491	-502
Marketing expenses		-9 459	-3 818	-605	-244
Administrative expenses		-1 940	0	-124	0
Other expenses		-6 929	-295	-442	-19
Total operating expenses	6	**-114 393**	**-123 667**	**-7 311**	**-7 904**
Operating profit		**113 250**	**133 181**	**7 238**	**8 512**
Net financial income and expense	7	**-3 046**	**20 244**	**-195**	**1 294**
Profit before income tax		**110 204**	**153 425**	**7 043**	**9 806**
Deferred income tax expense	24	-10 787	-16 355	-689	-1 045
Property tax expense		-59	-25	-4	-2
Net profit for financial year		**99 358**	**137 045**	**6 350**	**8 759**
Net profit attributable to the owners of the Parent		79 831	107 884	5 102	6 895
Net profit attributable to minority interests		19 527	29 161	1 248	1 864

Consolidated balance sheet

(In thousands)	Notes	31.12.2006 EEK	31.12.2005 EEK	31.12.2006 EUR	31.12.2005 EUR
Assets					
Current assets					
Cash and cash equivalents		1 116	2 883	71	184
Accounts receivable	9	4 174	3 853	267	246
Short-term loan receivables	8	74 334	40 659	4 751	2 599
Other short-term receivables	10	48 645	893	3 109	57
Interest receivable	11	6 677	16	427	1
Prepayments made	12	25 908	7 395	1 657	473
Property for sale	13	216 043	79 173	13 808	5 060
Total currents assets		**376 897**	**134 872**	**24 090**	**8 620**
Non-current assets					
Long-term loan receivables	16	5 760	117	368	7
Other long-term receivables		0	91	0	7
Associated companies	15	32 618	24 488	2 085	1 565
Investment property	17	338 250	206 058	21 618	13 170
Tangible and intangible fixed assets	18	8 826	3 777	564	240
Goodwill		2 886	2 886	184	184
Total non-current assets		**388 340**	**237 417**	**24 819**	**15 173**
Total assets		**765 237**	**372 289**	**48 909**	**23 793**
Liabilities and equity					
Current liabilities					
Short-term borrowings	19	290 169	64 551	18 545	4 126
Finance lease liabilities	21	1 149	430	74	27
Customers prepayments collected		5 577	6 292	357	402
Accounts payable		22 163	9 880	1 416	631
Due to employees		2 650	1 983	169	127
Interest payable		14 164	2 317	905	148
Tax payables	20	0	2 548	0	163
Total current liabilities		**335 872**	**88 001**	**21 467**	**5 624**
Non-current liabilities					
Long-term loans	19	14 936	60 888	955	3 891
Other long-term payables		90	0	6	0
Bonds issued	26	76 863	0	4 912	0
Finance lease liabilities	21	5 468	1 427	349	91
Deferred income tax liabilities	24	27 040	16 205	1 728	1 036
Total non-current liabilities		**124 397**	**78 520**	**7 950**	**5 018**
Total liabilities		**460 269**	**166 521**	**29 417**	**10 642**
Equity					
Equity attributable to the owners of the Parent					
Share capital	23	73 511	73 511	4 698	4 698
Reserves		7 361	10	470	1
Unrealized exchange rate differences		177	335	13	21
Retained earnings		175 231	102 751	11 197	6 567
Total equity attributable to the owners of the Parent		**256 280**	**176 607**	**16 378**	**11 287**
Minority interests		48 688	29 161	3 114	1 864
Total equity		**304 968**	**205 768**	**19 492**	**13 151**
Total liabilities and equity		**765 237**	**372 289**	**48 909**	**23 793**

Consolidated cash flow statement

(In thousands)	Notes	2006 EEK	2005 EEK	2006 EUR	2005 EUR
Cash flows from operating activities					
Profit before income tax		99 358	137 045	6 350	8 759
Gain from equity method	15	-9 958	-23 596	-636	-1 507
Changes in fair value of investment property	17	-161 545	-130 234	-10 325	-8 324
Real estate reclassification into inventories	17	58 798	0	3 759	0
Sale of subsidiary	14	-40	0	-3	0
Gain (loss) from sales of financial investments	14	1 189	-547	76	-35
Depreciation and write off of tangible and intangible fixed assets	18	1 937	329	124	23
Interest income		-6 848	-71	-438	-5
Interest expense		17 598	3 989	1 125	255
Unrealized exchange rate differences		-158	126	-10	8
Deferred income tax	24	10 835	0	692	0
Changes in current assets and liabilities					
Changes in accounts receivable	9	-321	-7 351	-21	-470
Changes in other short-term receivables	10	-224	-1 102	-14	-70
Changes in prepayments	12	-18 467	1 923	-1 184	123
Changes in property for sale		-136 870	23 385	-8 747	1 495
Changes in customer prepayments collected		-715	-1 671	-44	-107
Changes in accounts payable		12 519	18 333	802	1 169
Changes in taxes payable	20	-2 548	18 625	-163	1 190
Changes in other accrued expenses		667	2 185	43	140
Changes in other long-term payables		90	0	6	0
Total cash flows from/used in operating activities		**-134 703**	**41 368**	**-8 608**	**2 644**
Cash flows used in investing activities					
Purchase of investment	14	-61 029	-5 066	-3 900	-324
Proceeds from disposal of investment*	14	36 084	797	2 306	51
Prepayments for financial investments	12	-46	-6 744	-3	-431
Purchase of investment property	17	-29 445	-58 665	-1 882	-3 749
Purchase of tangible assets	18	-6 986	-3 861	-448	-247
Changes in loans granted*	19	-61 367	-38 124	-3 922	-2 437
Interest collected		187	1	12	0
Total cash flows used in investing activities		**-122 602**	**-111 662**	**-7 837**	**-7 137**
Cash flows from financing activities					
Shares issued		0	15	0	1
Loans raised	19	179 666	81 283	11 483	5 195
Repayments of finance lease principals		4 760	-229	305	-15
Interest paid		-5 751	-8 051	-368	-514
Bonds issued	26	76 863	0	4 912	0
Total cash flows from financing activities		**255 538**	**73 018**	**16 332**	**4 667**
Total cash flows		**-1 767**	**2 724**	**-113**	**174**
Cash and cash equivalents at the beginning of financial year		2 883	159	184	10
Cash and cash equivalents at the end of financial year		1 116	2 883	71	184
Change in cash and cash equivalents		**-1 767**	**2 724**	**-113**	**174**

*Sale to the Parent related company Q Capital OÜ.

Consolidated statement of changes in equity

(In thousands of EEK)	Equity belonging to the owners of the Parent						
	Share capital	Mandatory legal reserve	Exchange rate differences	Retained earnings	Total	Minority interests	Total
Balance at 31.12.2004	**17 550**	**10**	**153**	**-5 133**	**12 580**	**0**	**12 580**
Exchange rate differences from translation of foreign subsidiaries	0	0	182	0	**182**	0	**182**
Issue of new shares	55 961	0	0	0	**55 961**	0	**55 961**
Net profit for 2005	0	0	0	107 884	**107 884**	29 161	**137 045**
Balance at 31.12.2005	**73 511**	**10**	**335**	**102 751**	**176 607**	**29 161**	**205 768**
Increase in mandatory legal reserve	0	7 351	0	-7 351	**0**	0	**0**
Exchange rate differences from translation of foreign subsidiaries	0	0	-158	0	**-158**	0	**-158**
Net profit for 2006	0	0	0	79 831	**79 831**	19 527	**99 358**
Balance at 31.12.2006	**73 511**	**7 361**	**177**	**175 231**	**256 280**	**48 688**	**304 968**

(In thousands of EEK)	Equity belonging to the owners of the Parent						
	Share capital	Mandatory legal reserve	Exchange rate differences	Retained earnings	Total	Minority interests	Total
Balance at 31.12.2004	**1 122**	**1**	**9**	**-328**	**804**	**0**	**804**
Exchange rate differences from translation of foreign subsidiaries	0	0	12	0	**12**	0	**12**
Issue of new shares	3 576	0	0	0	**3 576**	0	**3 576**
Net profit for 2005	0	0	0	6 895	**6 895**	1 864	**8 759**
Balance at 31.12.2005	**4 698**	**1**	**21**	**6 567**	**11 287**	**1 864**	**13 151**
Increase in mandatory legal reserve	0	470	0	-469	**1**	0	**1**
Exchange rate differences from translation of foreign subsidiaries	0	0	-10	0	**-10**	0	**-10**
Net profit for 2006	**0**	0	0	5 100	**5 100**	1 250	**6 350**
Balance at 31.12.2006	**4 698**	**471**	**11**	**11 198**	**16 378**	**3 114**	**19 492**

Notes to the consolidated annual accounts

Note 1. General principles

Q Vara OÜ (the "Parent") is an enterprise registered and operating in Estonia. The average number of employees in the Group in 2006 added up to 73 (33 in 2005). The main activities of the Group are described in Note 5 "Segment information" and besides Estonia operations are carried out through subsidiaries in Latvia and Lithuania and newly entered Bulgarian market.

The consolidated annual accounts of Q Vara OÜ and its subsidiaries have been prepared according to the International Financial Reporting Standards (hereinafter IFRS) as adopted by the European Union.

In 2006, the Group comprises of the Parent company Q Vara, subsidiaries SIA Q Estate (Latvia – shareholding 85%), UAB Q Vara (Lithuania – shareholding 100%), Q Ehitus OÜ (Estonia – shareholding 60%), Q Haldus OÜ (Estonia – shareholding 100%), Merona Group OÜ (Estonia – shareholding 100%) and Multi Metall Kinnisvara OÜ (Estonia – shareholding 100%). The last two were merged with the Parent company in the first quarter of 2007.

In 2005, the Group constituted of the Parent company Q Vara, subsidiaries SIA Q Estate (Latvia – shareholding 85%), Q Ehitus OÜ (Estonia – shareholding 60%), Merona Group OÜ (Estonia – shareholding 100%), Multi Metall Kinnisvara OÜ (Estonia – shareholding 100%) and Urbanfors OÜ (Estonia – shareholding 100%).

Q Vara OÜ measurement currency is Estonian kroon (EEK). Group companies organize their accounting and prepare financial reporting according to accounting principles generally accepted in Estonia or according to the local jurisdiction under which the Group company is operating. These annual accounts are prepared on bases of accounting data provided including necessary adjustments and reclassifications, which assure fair presentation according to the International Financial Reporting Standards as adopted by the European Union.

The annual accounts are prepared in thousands of Estonian kroons. To correspond with the regulations of OMX Tallinn Stock Exchange, annual accounts are also presented in euros, rounded to nearest thousand.

The financial statements are presented in euros based on financial statements prepared for current reporting period in Estonian kroon by using official Estonian Central Bank rate 15,6466 EEK/EUR.

In some cases, prior reporting period balances are restated to assure comparability with current financial year presentation principles.

The annual accounts have been prepared on the historical basis, except for the fair value revaluation of certain properties and financial instruments.

<u>Basis of consolidation</u>

The consolidated financial statements comprise the financial statements of Q Vara OÜ and its subsidiaries consolidated line by line as well as the profits of associated companies using the equity method of consolidation. The financial years of all group enterprises coincide with the calendar year and do not differ from the reporting period of the Parent. The Group companies' use in material respects the same accounting principles and estimation criteria.

A subsidiary is an entity over which the Parent company has significant influence or control. Control means the power to determine financial and operating policies of subsidiaries through shareholding, according to agreement or any other way. Generally, a subsidiary is considered to be under the control of the Parent, when the Parent owns, directly or indirectly, more than a half of the voting power in an entity.

Subsidiaries' assets, liabilities, revenues, expenses and cash flows are consolidated from the date, on which the Group obtained control and continue to be consolidated until the date that such control ceases.

New subsidiaries are included in the consolidated financial statements using the purchase method of accounting. Accordingly, the consolidated income statement and consolidated cash flow statement include the results and cash flows of new subsidiaries for the period starting from their acquisition date. The net assets of a subsidiary are initially consolidated based at the fair value of the acquisition date. Any difference between the acquisition cost of a business combination and the fair value of the net assets of the investment is considered to be goodwill. Any negative goodwill is recognised as income when incurred; principles for subsequent measuring of the goodwill are pointed out in Note 4.

All intra-group balances, income, expenses, cash flows, and unrealised profits/losses, are eliminated in full.

Investments in associated companies are measured using the equity method of consolidation. According to the equity method, the investment is initially recognised at cost, which is adjusted in the following periods according to the changes in the owners' equity of the investment. The intra-group unrealized gains are also eliminated according to the size of the holding. Unrealized losses are eliminated, except when the unearned loss has resulted from decrease in value of the participating assets. The book value of the investment in an associate includes goodwill arising from acquisition. In case the participation in an associate is equal or greater than the book value, the book value of the investment is decreased until equals zero and future losses are accounted for as off-balance sheet items. Exceptions are the situations where the company has guaranteed or bound to meet the associate's liabilities – in that case, both the liability and the loss will be recorded. If the Parent has financed the operations of the associate additionally with borrowings, the relative loan receivable from the associate will be written-down.

Detailed information about associated companies of Q Vara OÜ is presented in the note 15.

Minority interests have been presented separately in the consolidated income statement and on the consolidated balance sheet within equity.

Note 2. Changes in accounting policies and presentation

<u>Presentation of expenses on income statement</u>

With the purpose of giving better overview of the Group's cost structure, direct and general expenses of development, marketing expenses and expenses related to rendering administrative services are differentiated in 2006 financial statements. Administrating and marketing expenses are related to preparation of projects for the following periods. In 2006, administrating expenses amounted to 8 950 Th EEK, 572 Th euros (5 478 Th EEK, 350 Th euros in 2005) and marketing expenses 9 459 Th EEK, 605 Th euros (3 818 Th EEK, 244 Th euros in 2005). This restatement does not change the profit for the respective period.

<u>Management of investments</u>

Investments in companies Urbanfors OÜ, Eesti Metsamaakler OÜ and Digitech OÜ were disclosed as financial investments in 2006. According to the agreement of Q Vara OÜ shareholders, Q Vara OÜ sold its shareholding in the aforementioned companies to Q Capital OÜ on 22 December 2006. Financial results of the entities sold were not consolidated with the Group financial results in 2006. Compared to results in 2005, adjustment has no significant influence on Group results.

<u>Segment reporting</u>

As a result of the decision to desist administration of investments not related to property, segmenting by business operations turned out unrational. In 2006, annual accounts primary reporting segment of the Group is geographical segment.

Measurement of investments to subsidiaries on Parent's separate financial statements.

To give more objective overview of the value of its assets, starting from 2006 the Parent measures investments to subsidiaries in fair value using the method of discounted cash flows. Subsidiaries are measured based on projects' 3 year discounted cash flows. Only projects currently in progress are included in calculations. In 2006 the Parent reported financial income 9 958 Th EEK gained from of increase in the value of investments to subsidiaries. Aforementioned change in accounting principles has only influence on The Parent's separate financial statements there is no influence on results of the Group.

New financial reporting standards and the interpretations of International Financial Reporting Interpretations Committee (IFRIC)

New financial reporting standard or interpretation accepted in 2006 applied to the Group is IFRIC 4 "Determine whether an Arrangement contains a Lease", but application of this standard did not materially affect the Group's accounting principles or financial statements.

New standards and interpretations, which are not effective by the preparation of present annual accounts, are the following:

- IFRS 7 "Financial Instruments: Disclosures", will be applied starting 1 January 2007.
- IFRS 8 "Operating Segments", applied to the period starting 1 January 2007 or after;
- IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies", applied to period started 1 May 2006 or after.
- IFRIC 8 "Scope of IFRS 2", applied to period starting 1 May 2006 or after.
- IFRIC 9 "Reassessment of Embedded Derivatives", applied to period starting 1 June 2006 or after.
- IFRIC 10 "Interim Financial Reporting and Impairment", applied to the period starting 1 January 2007 or after;
- IFRIC 11 "IFRS 2: Group and Treasury Shares Transactions" applied to the period starting 1 March 2007 or after;
- IFRIC 12 "Service Concession Agreements", applied to the period starting 1 January 2008 or after;

Management of the Group does not consider the amendments to the aforementioned standards to materially affect the Group's financial statements.

Note 3. Management's significant judgments and estimates

The preparation of consolidated financial statements in conformity with IFRS requires the management of the Group to make estimates and decisions that affect the reported amounts and accounting policies for assets, liabilities, income and expenses and disclosures of contingencies.

Management decisions

The management of the Group has made the following judgments, which have a significant effect on the amounts recognised in the financial statements:

Classification of real estate

The classification of real estate as investment property or property held for sale is based on the management intention of the future use of the real estate. Accuracy of this classification is decreased by factors independent of the management like changes in registered intended use of land, approval of the architectural drawings, obtaining licenses for construction and others.

As property investment the Group is recognizing property, which is waiting to be developed or for which has not set an intended use. At the start of construction, with the purpose of developing the property for the sale of living environments, individual housing or plots of land, the land is reclassified to inventories.

In 2006, the Group did not rent out any real estate investments on the conditions of operating lease.

Main uncertainties of making estimates

The estimates made by the management are based on experiences and information available until the date of preparation for the annual accounts. There is a risk that the estimates, reported at the balance sheet date and related to the value of assets, liabilities, income and expenses, need to be revisited in the future. The highest risk of uncertainty of the estimates lies in the areas discussed below.

Goodwill – impairment test

The Group determines at least once a year whether the book value of goodwill has decreased below its recoverable amount. The estimate is made through assessment of fair value (less costs to sell) or value in use. Estimating the value in use requires the management to assess the expected future cash flows from the relevant cash-generating unit and to choose a suitable discount rate in order to determine the present value of the future cash flows. The book value of goodwill as of 31.12.2006 was 2 886 Th EEK (2005: 2 886 EEK). More details about the impairment test principles are presented in Note 4.

Investments property – determining fair value

As of the balance sheet date, investment property has been measured in fair value. Fair value is determined based on appraisal report of independent and certified real estate valuator. Detailed information about the fair value of y investment property is disclosed in Note 17.

Note 4. Summary of significant accounting policies

Segment reporting

Segment reporting is based on segmentation of the Group companies used in internal reporting (managerial accounting and budgeting). The main basis for segmentation is geographical segment.

Main geographical segments of the Group are:

- Estonia;
- Latvia;
- Lithuania.

Segment revenue is the revenue is directly attributable to the segment and a portion of other income that can be allocated to the segment on a reasonable basis. These revenues include revenues from sales to external clients or transactions with other segments. Revenues from transactions between Group enterprises belonging to the same segment have been eliminated.

Segment expenses are expenses resulting from the operating activities of the segment that are directly attributable to the segment and a part of the Group expenses that can be allocated to the segment on a reasonable basis. Financial expenses, Group's general administrative expenses and other expenses related to the Group as a whole are not segment expenses. The Group expenses can be attributable to the segment only if they are related to the main activities of the segment and they can reasonably be assigned to that specific segment. Expenses from transactions between entities belonging to the same segment are eliminated.

The result of a segment is segment revenue less segment expenses.

Segment assets are those assets that are employed by the segment in its operating activities and that either can be directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets include current assets, investment property, tangible and intangible assets related to the operating activities of the segment. If a depreciation or Amortisation expense of a particular asset is included in the segment expenses, then the related asset belongs to the segment's assets. Segment assets do not include assets, which are used for the general purposes of the Group or which cannot directly be allocated to the segment.

Segment liabilities are those liabilities that are employed by the segment in its operating activities and which are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are accounts payable and other payables, accrued expenses, client prepayments, warranty provisions and other provisions.

Foreign currency transactions and financial assets and liabilities quoted in foreign currency

All currencies, except Estonian kroon, are considered to be foreign currencies. Foreign currency transactions are recorded at the rates of exchange quoted by the Bank of Estonia at the transaction date. Foreign currency items that are carried at fair value are retranslated into Estonian kroon at the official foreign currency exchange rates prevailing at the balance sheet date. Gains and losses from foreign currency transactions are recorded in the income statement as income and expenses for the reporting period.

In consolidating the financial results of subsidiaries, their assets and liabilities are translated at the official Bank of Estonia exchange rate prevailing at the balance sheet date. In translating revenues and expenses, weighed average exchange rates for the year are used. Exchange rate differences arising from the translation are recorded as “exchange rate differences” in the owners’ equity.

Cash and cash equivalents

Petty cash, demand deposits, short-term time deposits (up to 3 months) and money market securities are reported as cash and cash equivalents in the cash flow statement.

Financial assets and liabilities

Cash, contractual rights to receive cash or other financial assets (i.e. trade receivables) from third parties, equity instruments of other entities and contractual rights to exchange financial assets with third parties under the conditions that are potentially favourable to the Group, are considered financial assets. Contractual obligations to deliver cash or other financial assets to third parties and contractual obligations to exchange financial assets with third parties under the conditions that are potentially unfavourable to the Group are considered to be financial liabilities.

Financial assets and liabilities are initially measured at cost, which is the fair value of consideration given or received to acquire the financial asset or liability. Initial cost of all financial assets and liabilities include direct transaction costs, except those financial assets and liabilities, which are acquired for trading purposes, and derivatives.

Sale and purchase transactions of financial instruments, commenced at regular market terms, are recognised at the trade date. Depending on their category, financial assets and liabilities are subsequently measured at fair value, cost or amortised cost.

Financial instruments carried at fair value are revalued on each balance sheet date. Change in fair value of financial assets and liabilities that are acquired for trading, as well as derivatives are recognised in the income statement for the period. Other changes in fair value of financial assets are recognised in the income statement for the period.

The amortised cost of a financial instrument is the amount at which it is measured at initial recognition, discounted using the effective interest method minus principal repayments and any reduction for impairment or uncollectability.

Property held for sale

Property held for sale and unfinished construction is initially recorded at acquisition cost, which comprises purchase price, non-refundable taxes and other direct expenditures less discounts provided.

Investment property

Investment property is land held for capital appreciation and that is not used in business activities nor is held for sale. Investment property is initially recorded at acquisition cost, which comprises directly attributable transaction fees: notary fees, state duty, fees paid to advisors and other expenses in order to complete the transaction. Subsequent to initial recognition, investment properties are stated at fair value, which is an evaluation of an independent expert. Gains/losses from such revaluations are recorded on the income statement for the related period.

Loans granted and other receivables

Loans granted and other receivables are measured at amortised cost, which are adjusted by principal repayments received and possible impairment losses, if necessary.

Receivables or loans that are not expected to be collected are expensed. Receivables and loans granted are written down to the amount probably receivable. Receivables, which are considered to be non-collective, are written off from balance sheet.

Impairment of assets

At each balance sheet date, a review of whether there is any indication that financial assets are impaired is performed by the Group. The value of a financial asset is decreased and impairment is recognised if there are objective circumstances indicating impairment (loss event), these circumstances have arisen after the initial recognition of the asset and these circumstances have an influence on reliably measured future cash flows. Examples of objective circumstances are the following:

- Significant financial difficulties of the debtor;
- Breach of the terms of contract, including failure to pay due payments;
- It is likely that the debtor will go bankrupt;
- Loss of active market for the financial asset due to financial difficulties;
- Known information, which implies to a significant decrease of cash flows from the financial asset or the asset group, although the decrease is not reliably measurable.

If needed, book value of an asset is decreased through the depreciation account for receivables and the arising loss is recorded to the Income Statement. If the value of financial assets carried at amortised cost increases in subsequent periods, the previously recognised impairment loss is reversed. The amount of the reversal of impairment losses is recognised in the income statement for the financial year on the same expense account as a reverse entry.

Tangible assets

Assets used for rendering services or administrative purposes, with useful lives of over one year, are considered tangible assets. Tangible assets are recognised at cost (including customs duty and other non-refundable taxes), which comprises purchase price and other directly attributable expenditures. Tangible assets are measured at acquisition cost, less the accumulated depreciation and possible impairment losses. In case the recoverable amount (higher of the following two: net sales price of an asset or value in use) is lower than the book value, the relevant assets are written down to the recoverable amount. Depreciation is calculated on the straight-line method. Depreciation rates are assigned separately to each tangible asset as follows:

- motor vehicles – 20% per annum;
- office furniture – 20% per annum;
- office equipment – 25% per annum.
- computers – 33% per annum;

Land is not depreciated.

Goodwill

Goodwill arising from business combinations is initially recorded at cost. The difference between the cost of acquisition and the fair value of the net assets corresponding to Group shareholding of the acquired subsidiary is recognised as goodwill. The fair value of the subsidiary's net assets is the difference between the fair value of the identifiable assets less the fair values of liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. If the recoverable amount of the cash-generating unit is less than the carrying value, an impairment loss is recognised.

Other intangible assets

Intangible assets are recognised at cost, which comprises purchase price and other directly attributable expenditures. The cost of intangible assets acquired through business combinations is the fair value of the asset on the date of the purchase. Such intangible assets are presented separately from goodwill only if the fair value of these assets can be reliably estimated. Subsequent to initial recognition, intangible assets are measured at cost, less accumulated amortisation and impairment losses.

For Amortisation purposes, intangible assets are divided between assets with definite and indefinite useful lives. Intangible assets with definite useful lives are amortised using the straight-line method and an Amortisation rate of 33% per annum.

Intangible assets with indefinite useful lives are not amortised. At the end of each financial year an assessment is made whether the useful life of those assets have changed to definite. When the useful life of an intangible asset changes from indefinite to definite, amortisation of the relevant asset will commence, all necessary adjustments are made in subsequent periods to the date of the change.

Financial liabilities

All financial liabilities (accounts payable, loans payable, accrued expenses and other liabilities) are initially recorded at the fair value of the consideration received less directly attributable transaction costs. Subsequent measuring is made at amortised cost.

The amortised cost of short-term financial liabilities is usually equal to the nominal value; therefore short-term financial liabilities are recognised at the amount due. The amortised cost of long-term financial liabilities is calculated using the effective interest method. Financial liability is considered short-term if the term of repayment is within 12 months from the balance sheet date; or in case the Group has unconditional right to postpone repayment of obligation more than 12 months after the balance sheet date. Liabilities, the payment of which are due less than 12 months from the balance sheet date, but which will be refinanced with long-term fund after the balance sheet date but before the approval of the annual accounts, are classified as current liabilities. Liabilities, which can be recalled on the balance sheet date in case of breach of the terms of the contract, are recorded as short-term liabilities.

Borrowing costs are recognised as an expense when incurred (under "financial income and expenses). Interest expenses related to the financing of construction of assets (real estate projects recorded as inventory) are included into the acquisition cost during the period from the launch of construction until the completion of the works.

Leases

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at cost at the date of acquisition. Payments for operating leases are recorded as expenses on the Income Statement over the period of the lease using the straight-line method.

Payables to employees

Payables to employees consists of contractual salary and holiday reserve as at the balance sheet date calculated based on regulations applied in Estonia. Holiday reserve and bonuses including the related social and unemployment taxes are presented, on the balance sheet as “Payables to employees” and in the income statement as “Direct development expenses”, “General development expenses” and “Marketing expenses”.

Bonds issued

Bonds issued are initially recognised at cost, which is the fair value of the consideration received. Initial cost includes all transaction fees related to acquisition. Subsequently the bonds are measured at amortised costs, by using the effective interest method.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation because of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In recognizing a provision, management estimate of the size of the probable liability and the timing of realisation. The amount of the provision is the total of the amount estimated by management, which would be needed in order to meet the relative claim or transfer it to a third party. Provisions are expensed to the relative reporting period. No provisions are made to cover the possible losses of future periods.

Promises, guarantees and other obligations that in certain circumstances may become liabilities because of one or more uncertain future events are disclosed as contingent liabilities in the notes to the consolidated annual accounts.

Deferred income tax

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and therefore there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of net profit, dividends payable out of retained earnings are subject to taxation, regardless of the actual payment date or the period for which the dividends are paid for. The maximum possible tax liability which would become payable if retained earnings were fully distributed is disclosed in Note 24.

In Latvia and Lithuania, accrued profit adjusted according to the local legislation with permanent and temporary differences is imposed to tax (see Note 24).

Deferred income tax expense is recorded into the database of taxable assets and liabilities with temporary differences and is located between the relative values in the consolidated annual report. Deferred income tax is not applied, in case it results from the initial recognition of an asset or a liability, other than that arising from business combination, which, during the transaction, does not influence the accounting- or taxable profit (or loss).

Deferred income tax expense is calculated using statutory tax rates and local laws applicable at the balance sheet date, which is assumed to be prevailing also at the time of the realisation of the related assets or liabilities. Based on the concept of prudence, the Group does not recognize deferred tax assets.

Statutory legal reserve

Statutory legal reserve is recorded according to the requirements of the Commercial Code and comprises the provisions made of the net profit. The annual provision must be at least 1/20 of the approved net profit for the financial year until the statutory legal reserve equals at least 1/10 of the share capital amount. The reserve capital can be used to cover losses or to increase share capital. No disbursements to the owners can be made from the reserve capital.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when economic benefits are probable and can be measured reliably.

Sale of real estate

Sales of real estate are recognised when all significant risks and rewards related to ownership of goods have been transferred to the buyer and the seller has no obligations to perform additional work on that real estate. In general, the sale is considered to have taken place after the signing of real right contract. Amounts paid in advance of the signing of the contract are considered as prepayments collected.

Sales of other goods

Sales of goods are recognised when all significant risks and rewards related to ownership of those goods have been transferred to the buyer and the amount of revenue can be reliably measured.

Note 5. Segment information

2006	Notes	Estonia		Latvia		Lithuania		Total	
(In thousands)		EEK	EUR	EEK	EUR	EEK	EUR	EEK	EUR
Revenue from external customers		63 231	4 041	0	0	0	0	63 231	4 041
Revaluation of investment property		86 553	5 532	72 454	4 631	2 538	162	161 545	10 325
Other operating income to external customers		2 135	136	732	47	0	0	2 867	183
Total revenue		**151 919**	**9 709**	**73 186**	**4 678**	**2 538**	**162**	**227 643**	**14 549**
Operating expenses		**-98 737**	**-6 310**	**-14 451**	**-924**	**-1 205**	**-77**	**-114 393**	**-7 311**
Segment operating profit		**53 182**	**3 399**	**58 735**	**3 754**	**1 333**	**85**	**113 250**	**7 238**
Group financial income and expense	7	698	45	-3 556	-227	-188	-12	-3 046	-195
Income tax expense	24	0	0	-10 787	-689	0	0	-10 787	-689
Property tax		0	0	-59	-4	0	0	-59	-4
Net profit for financial year		**53 880**	**3 443**	**44 333**	**2 834**	**1 145**	**73**	**99 358**	**6 350**
Segment's assets		**445 123**	**28 449**	**300 157**	**19 185**	**19 957**	**1 275**	**765 237**	**48 909**
Segment's liabilities		**295 942**	**18 915**	**150 362**	**9 610**	**13 965**	**893**	**460 269**	**29 418**
Segment's investments in tangible and intangible assets	18	5 327	340	1 659	108	0	0	6 986	448
Depreciation and Amortisation expense	18	-1 131	-72	-120	-8	0	0	-1 251	-80

2005	Notes	Estonia		Latvia		Total	
(In thousands)		EEK	EUR	EEK	EUR	EEK	EUR
Revenue from external customers		126 614	8 092	0	0	126 614	8 092
Revaluation of investment property		21 951	1 403	108 087	6 908	130 038	8 311
Other operating income to external customers		196	13	0	0	196	13
Total revenue		**148 761**	**9 508**	**108 087**	**6 908**	**256 848**	**16 416**
Operating expenses		**-121 028**	**-7 735**	**-2 639**	**-169**	**-123 667**	**-7 904**
Segment operating profit		**27 733**	**1 773**	**105 448**	**6 739**	**133 181**	**8 512**
Financial income and expense	7	24 969	1 595	-4 725	-301	20 244	1 294
Property tax			0	-25	-2	-25	-2
Income tax expense	24		0	-16 355	-1 045	-16 355	-1 045
Net profit for financial year		**52 702**	**3 368**	**84 343**	**5 391**	**137 045**	**8 759**
Segment's assets		**204 319**	**13 058**	**167 970**	**10 735**	**372 289**	**23 793**
Segment's liabilities		**85 921**	**5 491**	**80 600**	**5 151**	**166 521**	**10 642**
Segment's investments in tangible and intangible assets	18	3 098	198	763	49	3 861	247
Depreciation and Amortisation expense	18	-209	-13	-53	-4	-262	-17

Note 6. Operating expenses

(In thousands)	2006 EEK	2005 EEK	2006 EUR	2005 EUR
Operating expenses				
Building expenses				
Building and development expenses of real estate	-63 789	-106 227	-4 077	-6 789
Total	**-63 789**	**-106 227**	**-4 077**	**-6 789**
Direct development expenses				
Personnel expenses	-5 106	-2 796	-326	-179
Social security and other taxes	-1 646	-932	-105	-60
Operating lease payments	-1 132	-950	-72	-61
Administrative expenses	-1 066	-800	-68	-50
Total	**-8 950**	**-5 478**	**-571**	**-350**
General development expenses				
Personnel expenses	-4 053	-1 964	-259	-126
Social security and other taxes	-1 324	-631	-85	-40
Other personnel expenses	-675	0	-43	0
Operating lease payments	-2 123	-593	-136	-38
Administrative expenses	-11 329	-4 131	-724	-264
Amortisation and depreciation	-1 251	-262	-80	-17
Sponsorship	-2 374	-268	-152	-17
Other expenses	-197	0	-13	0
Total	**-23 326**	**-7 849**	**-1 492**	**-502**
Marketing expenses				
Advertising expenses	-5 277	-977	-337	-62
Personnel expenses	-2 862	-2 065	-183	-132
Social security and other taxes	-927	-625	-59	-40
Operating lease payments	-366	-151	-23	-10
Administrative expenses	-27	0	-2	0
Total	**-9 459**	**-3 818**	**-604**	**-244**
Administrative expenses				
Expenses related to administrative services	-1 940	0	-124	0
Total	**-1 940**	**0**	**-124**	**0**
Other operating expenses				
Expenses for doubtful receivables	-4 507	0	-288	0
Other operating expenses	-2 422	-295	-155	-19
Total	**-6 929**	**-295**	**-443**	**-19**
Total operating expenses	**-114 393**	**-123 667**	**-7 311**	**-7 904**

Note 7. Financial income and expenses

(In thousands)	Notes	2006 EEK	2005 EEK	2006 EUR	2005 EUR
Loss from sale of subsidiary	14	-1 266	0	-81	0
Profit calculated based on equity method	15	9 958	23 596	636	1 507
Earnings from sale of financial investment	14	77	547	5	35
Interest income		6 848	71	438	5
Interest expenses		-17 598	-3 989	-1 125	-255
Loss on translation of foreign currencies		-715	-255	-46	-15
Other financial income and expense		-350	274	-22	17
Total		**-3 046**	**20 244**	**-195**	**1 294**

Note 8. Short-term loans granted

31.12.2006	**Residual value**		**Maturity date**	**Interest rate**	**Currency**
(In thousands)	EEK	EUR			
Loans granted to related parties (Note 27)*	26 938	1 721	31.12.2007	0-3,5%	EEK
Other loans granted	47 396	3 030	31.12.2007	3%	EEK
Total	**74 334**	**4 751**			

31.12.2005	**Residual value**		**Maturity date**	**Interest rate**	**Currency**
(In thousands)	EEK	EUR			
Loans granted to related parties (Note 27)	40 384	2 581	31.12.2006	0-3%	EEK
Other loans granted	275	18	31.12.2006	3%	EEK
Total	**40 659**	**2 599**			

*In 2006 loans granted in the amount of 22 050 Th EEK (1 409 Th EUR) were sold to the Parent company OÜ Q Capital.

Note 9. Receivables

(In thousands)	**31.12.2006** EEK	**31.12.2005** EEK	**31.12.2006** EUR	**31.12.2005** EUR
Trade receivables	4 174	3 877	267	248
Allowance for doubtful receivables	0	-24	0	-2
Total	**4 174**	**3 853**	**267**	**246**

Note 10. Other short-term receivables

(In thousands)	**31.12.2006** EEK	**31.12.2005** EEK	**31.12.2006** EUR	**31.12.2005** EUR
Receivable from sale of investment	47 976	797	3 066	51
Prepayments to shareholders	511	0	33	0
Advance payments due to employees	155	0	9	0
Other short-term receivables	3	96	1	6
Total	**48 645**	**893**	**3 109**	**57**

Note 11. Interest receivables

(In thousands)	31.12.2006 EEK	31.12.2005 EEK	31.12.2006 EUR	31.12.2005 EUR
Interest receivables from related parties (see note 27)	6 289	16	402	1
Interest receivables	388	0	25	0
Total	**6 677**	**16**	**427**	**1**

Note 12. Prepayments

(In thousands)	31.12.2006 EEK	31.12.2005 EEK	31.12.2006 EUR	31.12.2005 EUR
Prepaid value-added tax	18 740	0	1 198	0
Prepayments for investment property	6 790	6 744	434	431
Prepaid trade payables	378	651	25	42
Total	**25 908**	**7 395**	**1 657**	**473**

Note 13. Real estate purchased for sale

(in thousands)	31.12.2006 EEK	31.12.2005 EEK	31.12.2006 EUR	31.12.2005 EUR
Unfinished / finished real estate development	214 997	75 291	13 741	4 812
Merchandise for sale	1 046	3 882	67	248
Total	**216 043**	**79 173**	**13 808**	**5 060**

Note 14. Financial investments

(In thousands of EEK)	Notes	OÜ Aadli Maja	OÜ Digitech	OÜ Eesti Metsa-maakler	OÜ Urbanfors	Sampo liquidity fund	Total invest-ments
Balance as of 31.12.2004		**250**	**0**	**0**	**0**	**0**	**250**
Proceed from disposal		-797	0	0	0	0	-797
Gain/loss		547	0	0	0	0	547
Balance as of 31.12.2005		**0**	**0**	**0**	**0**	**0**	0
Changes in 2006:							
Reclassification of associates into financial investment		0	1 761	0	0	0	1 761
Reclassification of subsidiaries into financial investment		0	0	0	408	0	409
Additions		0	0	25 042	0	35 987	61 029
Disposals		0	0	0	-20	-36 064	-36 084
Sale to the Parent related company *	27	0	-864	-25 042	-20	0	-25 926
Gain		0	0	0	0	77	77
Loss		0	-898	0	-368	0	-1 266
Balance as of 31.12.2006		**0**	**0**	**0**	**0**	**0**	**0**

*In 2006 Q Vara sold investments in cost value 25 926 Th EEK (16 858 Th EUR) to the Parent Group company OÜ Q Capital.

(In thousands of EEK)	Notes	OÜ Aadli Maja OÜ	OÜ Digitech	OÜ Eesti Metsa-maakler	OÜ Urbanfors	Sampo liquidity fund	Total invest-ments
Balance as of 31.12.2004		**16**	**0**	**0**	**0**	**0**	**16**
Proceed from disposal		-51	0	0	0	0	-51
Gain/loss		35	0	0	0	0	35
Balance as of 31.12.2005		**0**	**0**	**0**	**0**	**0**	0
Changes in 2006:							
Reclassification of associates into financial investment			112	0	0	0	112
Reclassification of subsidiaries into financial investment			0	0	28	0	28
Additions			0	1 600	0	2 300	3 900
Disposals			0	0	-1	-2 305	-2 306
Sale to the Parent related company *	27		-56	-1 600	-2	0	-1 658
Gain			0	0	0	5	5
Loss			-56	0	-25	0	-81
Balance as of 31.12.2006			**0**	**0**	**0**	**0**	**0**

Note 15. Associates

Company	Country of incorporation	Segment	Ownership as of 31.12.2006	Ownership as of 31.12.2005
Digitech OÜ	Estonia	Investment management	0%	24%
Stansfield OÜ*	Estonia	Real estate development	50%	50%
Merona Group OÜ	Estonia	Real estate development	100%	100%
Q Flight SIA	Latvia	Real estate development	50%	50%

In 2005, the stake in Merona Group OÜ was increased up to 100% and as of 17.02.2005 Merona Group OÜ is a subsidiary of the Group. In February 2007, Merona Group OÜ will be merged with the Parent company (see note 28).

(In thousands of EEK)	Notes	Merona Group OÜ	Digitech OÜ	Stansfield OÜ	Total
Share of ownership % 31.12.2004		**32,3%**	**0%**	**0%**	**-**
Cost value 31.12.2004		672	0	0	672
Acquired ownership in 2005					
Acquired ownership %		67,7%	24%	50%	-
Cost value of acquired ownership		4 174	864	28	5 066
Profit calculated based on equity method	7	67	897	22 632	23 596
Reclassifications to subsidiaries		-4 846	0	0	-4 846
Ownership % 31.12.2005		**100%**	**24%**	**50%**	**-**
Interest in the equity of the investment 31.12.2005		**67**	**1 761**	**22 660**	**24 488**
Cost value of ownership 31.12.2005		**67**	**1 761**	**22 660**	**24 488**
Changes in 2006					
Reclassification to investment		0	-1 761	0	-1 761
Reclassification to subsidiaries		-67	0	0	-67
Profit calculated based on equity method	7	0	0	9 958	9 958
Ownership % 31.12.2006		**100%**	**0%**	**50%**	**-**
Interest in the equity of the investment 31.12.2006		**0**	**0**	**32 618**	**32 618**

(In thousands of EUR)	Notes	Merona Group OÜ	Digitech OÜ	Stansfield OÜ	Total
Share of ownership % 31.12.2004		**32,3%**	**0%**	**0%**	**-**
Cost value 31.12.2004		43	0	0	43
Acquired ownership in 2005					
Acquired ownership %		67,7%	24%	50%	-
Cost value of acquired ownership		267	56	2	325
Profit calculated based on equity method	7	4	57	1 446	1 507
Reclassification to subsidiaries		-310	0	0	-310
Ownership % 31.12.2005		**100%**	**24%**	**50%**	**-**
Interest in the equity of the investment 31.12.2005		**4**	**113**	**1 448**	**1 565**
Cost value of ownership 31.12.2005		**4**	**113**	**1 448**	**1 565**
Changes in 2006					
Reclassification to investment		0	-112	0	-112
Reclassifications to subsidiaries		-4	0	0	-4
Profit calculated based on equity method	7	0	0	636	636
Ownership % 31.12.2006		**100%**	**0**	**50%**	**0**
Interest in the equity of the investment 31.12.2006		**0**	**0**	**2 084**	**2 085**

Note 16. Long-term loans receivables

31.12.2006	**Residual value**		**Maturity date**	**Interest rate**	**Currency**
(In thousands)	EEK	EUR			
Loans to related parties (Note 27)	5 760	368	31.12.2008	0%	LVL

31.12.2005	**Residual value**		**Maturity date**	**Interest rate**	**Currency**
(In thousands)	EEK	EUR			
Loans to related parties (Note 27)	117	7	31.12.2008	0%	LVL

Note 17. Investment property

(In thousands of EEK)	**Maskavas-Latvia**	**Jurmala-Latvia**	**Elniu - Lithuania**	**Eestkünka I - Estonia**	**Eestkünka III - Estonia**	**Pärnu Road - Estonia**	**Nõmme Road - Estonia**	**Koplipere property - Estonia**	**Total**
Residual value 31.12.2004	**203**	**0**	**0**	**0**	**0**	**2 713**	**0**	**0**	**2 916**
Additions in 2005	14 313	19 352	0	23 927	1 073	0	0	0	58 665
Reclassification from inventories in 2005	0	0	0	0	0	0	0	14 243	14 243
Revaluation in 2005	105 031	3 056	0	0	0	0	0	22 147	130 234
Residual value 31.12.2005	**119 547**	**22 408**	**0**	**23 927**	**1 073**	**2 713**	**0**	**36 390**	**206 058**
Additions in 2006	0	0	17 134	0	9 663	0	2 648	0	29 445
Revaluation in 2006	72 455	0	2 538	32 853	32 740	19 286	1 673	0	161 545
Reclassification to inventories in 2006	0	-22 408	0	0	0	0	0	-36 390	-58 798
Residual value 31.12.2006	**192 002**	**0**	**19 672**	**56 780**	**43 476**	**21 999**	**4 321**	**0**	**338 250**

(In thousands of EUR)	**Maskavas-Latvia**	**Jurmala-Latvia**	**Elniu - Lithuania**	**Eestkünka I - Estonia**	**Eestkünka III - Estonia**	**Pärnu Road - Estonia**	**Nõmme Road - Estonia**	**Koplipere property - Estonia**	**Total**
Residual value 31.12.2004	**13**	**0**	**0**	**0**	**0**	**173**	**0**	**0**	**186**
Additions in 2005	915	1 236	0	1 529	69	0	0	0	3 749
Reclassification from inventories in 2005	0	0	0	0	0	0	0	911	911
Revaluation in 2005	6 712	196	0	0	0	0	0	1 416	8 324
Residual value 31.12.2005	**7 640**	**1 432**	**0**	**1 529**	**69**	**173**	**0**	**2 327**	**13 170**
Additions in 2006	0	0	1 095	0	618	0	169	0	1 882
Revaluation in 2006	4 631	0	162	2 100	2 092	1 233	107	0	10 325
Reclassification to inventories in 2006	0	-1 432	0	0	0	0	0	-2 327	-3 759
Residual value 31.12.2006	**12 271**	**0**	**1 257**	**3 629**	**2 779**	**1 406**	**276**	**0**	**21 618**

Note 18. Tangible and intangible assets

(In thousands of EEK)	**Tangible assets**	**Intangible assets**	**Total**
Balance as of 31.12.2004			
Cost	301	0	301
Accumulated depreciation	-56	0	-56
Carrying value	**245**	**0**	**245**
Changes in 2005			
Additions and improvements	3 434	427	3 861
Disposals	-67	0	-67
Depreciation charge	-261	-1	-262
Balance as of 31.12.2005			
Cost	3 668	427	4 095
Depreciation charge	-317	-1	-318
Carrying value	**3 351**	**426**	**3 777**
Changes in 2006			
Additions and improvements	6 736	250	6 986
Disposals	-686	0	-686
Depreciation charge	-1 205	-46	-1 251
Balance as of 31.12.2006	**8 196**	**629**	**8 826**
Cost	9 718	677	10 395
Accumulated depreciation	-1 522	-47	-1 569
Carrying value	**8 196**	**629**	**8 826**

(In thousands of EUR)	**Tangible assets**	**Intangible assets**	**Total**
Cost	20	0	20
Accumulated depreciation	-4	0	-4
Carrying value	**16**	**0**	**16**
Changes in 2005			
Additions and improvements	220	27	247
Disposals	-6	0	-6
Depreciation charge	-17	0	-17
Balance as of 31.12.2005	**213**	**27**	**240**
Cost	234	27	261
Depreciation charge	-21	0	-21
Carrying value	**213**	**27**	**240**
Changes in 2006			
Additions and improvements	432	16	448
Disposals	-44	0	-44
Depreciation charge	-77	-3	-80
Balance as of 31.12.2006	**524**	**40**	**564**
Cost	621	43	664
Accumulated depreciation	-97	-3	-100
Carrying value	**524**	**40**	**564**

Note 19. Borrowings

Short-term borrowings

31.12.2006 *(In thousands)*	Residual value EEK	EUR	Maturity date	Interest rate	Currency	Guarantee*
Loan from AS Sampo Bank	85 094	5 438	31.12.2007	6%	EEK	Mortgage
Overdraft from AS Hansapank	7 994	511	15.02.2007	5%	EEK	Mortgage
Loan from AS DnB Nord Banka	111 766	7 143	6.09.2007	Euribor + 1,5%	EUR	Mortgage
Loans from entities	62 586	4 000	10.08.2007	30%	EUR	-
Loans from related parties (Note 27)	4 729	302	31.12.2007	0-3%	EEK	-
Loan from AS Sampo Bank	18 000	1 151	21.10.2007	Euribor + 3%	EUR	Mortgage
Total borrowings	**290 169**	**18 545**				

31.12.2005 *(In thousands)*	Residual value EEK	EUR	Maturity date	Interest rate	Currency	Guarantee*
Loan from AS Sampo Bank	12 068	771	31.12.2006	Euribor+2%-4%	EUR	Mortgage
Loan from AS Hansapank	12 566	803	30.12.2006	Euribor+2%-3%	EUR	Mortgage
Overdraft from AS Hansapank	6 670	427	13.01.2007	5%	EEK	Mortgage
Loans from entities	33 247	2 125	25.11.2006	30%	EUR	-
Total borrowings	**64 551**	**4 126**				

Long-term borrowings

31.12.2006 *(In thousands)*	Residual value EEK	EUR	Maturity date	Interest rate	Currency	Guarantee*
Loans from related parties (Note 27)	3 100	198	31.12.2008	0%	EUR	-
SEB Vilniaus Bankas	11 836	757	5.11.2008	Libor+1,7%	EUR	Mortgage
Total borrowings	**14 936**	**955**				

31.12.2005 *(In thousands)*	Residual value EEK	EUR	Maturity date	Interest rate	Currency	Guarantee*
Loans from related parties (Note 27)	3 233	207	13.01.2007	0%	EEK	-
Loan from AS Sampo Bank	18 000	1 150	21.10.2007	Euribor+ 3%	EUR	Mortgage
Latvian AS DnB Nord Banka	39 655	2 534	30.12.2007	3,5-5%	LVL	Mortgage
Total borrowings	**60 888**	**3 891**				

*see also note 22.

Note 20. Taxes payable

(In thousands)	31.12.2006 EEK	31.12.2005 EUR	31.12.2005 EEK	31.12.2005 EUR
Personal income tax	0	0	218	14
Social tax	0	0	355	23
Unemployment insurance and pension contribution	0	0	24	2
Corporate income tax	0	0	112	7
Value added tax	0	0	1 839	117
Total taxes payable	**0**	**0**	**2 548**	**163**

Note 21. Finance and operating lease

Operating lease payments

(In thousands)	2006 EEK	2005 EEK	2006 EUR	2005 EUR
Within 1 year	2 216	1 544	142	99
1-5 years	6 387	3 129	408	200
Total	**8 603**	**4 673**	**550**	**299**

Finance lease

	31.12.2006		31.12.2005	
(In thousands of EEK)	Minimum lease payments	Net present value of minimum lease payments	Minimum lease payments	Net present value of minimum lease payments
Within 1 year	1 149	1 440	430	344
1-5 years	5 468	4 102	1 427	1296
Total	**6 617**	**5 542**	**1 857**	**1 640**

	31.12.2006		31.12.2005	
(In thousands of EEK)	Minimum lease payments	Net present value of minimum lease payments	Minimum lease payments	Net present value of minimum lease payments
Within 1 year	74	92	27	22
1-5 years	349	262	91	83
Total	**423**	**354**	**119**	**105**

Vehicles acquired in terms of finance lease

(In thousands)	2006 EEK	2005 EEK	2006 EUR	2005 EUR
Cost at the end of year	1 991	0	127	0
Accumulated depreciation	-71	0	-5	0
Carrying value	**1 920**	**0**	**123**	**0**
Changes made during the year				
Additions	4 456	1 991	285	127
Depreciable charge	-659	-71	-42	-5
Cost at the end of year	7 548	1 991	482	127
Accumulated depreciation	-730	-71	-47	-5
Carrying value	**6 818**	**1 920**	**436**	**123**

Note 22. Pledged assets

(In thousands)	31.12.2006 EEK	31.12.2005 EEK	31.12.2006 EUR	31.12.2005 EUR
Real estate recorded as inventories	206 509	58 432	13 198	3 734
Investment property	311 930	203 345	19 936	12 996
Total pledged assets	**518 439**	**261 777**	**33 134**	**16 730**

Note 23. Share capital

In 2006, no changes were made in the structure of Q Vara OÜ share capital. As of 31 December 2006, nominal value of share capital was 73 511 Th EEK (4 698 Th EUR). According to increase made in share capital in 2005, 88,12% of shares belong to SL Productions OÜ and 11,88% to Marine Systems OÜ.

In 2005 Q Vara OÜ share capital was increased to 73 511 Th EEK (4 698 Th euro), 55 961 Th EEK (3 576 Th euro) of which was paid as a non-monetary contribution. The object of the non-monetary contribution were payables to SL Productions OÜ, which arose from: (1) contract between LHV Global Opportunity AS and SL Productions OÜ concerning the release of a claim against Q Vara OÜ, according to which SL Productions OÜ obtained the claim from Global Opportunity AS against Q Vara OÜ in the amount of 28 892 Th EEK, (2) a contract between AS LHV Arbitrage and SL Productions OÜ concerning the release of a claim against Q Vara OÜ, according to which SL Productions OÜ obtained the claim from AS LHV Arbitrage against Q Vara OÜ in the amount of 17 069 Th EEK and (3) a loan contract between SL Productions OÜ and Q Vara OÜ in the amount of 10 000 Th EEK (639 Th EUR). Following the increase, the holding of SL Productions in Q Vara OÜ increased from 8 775 Th EEK (561 Th EUR) to 64 736 Th EEK (4 137 Th EUR) and the percentage of the total share capital was 88,12%

Note 24. Income tax

Income tax in Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of profits. Resident legal entities are, since 1 January 2003, liable for income tax on all dividends paid and other profit distributions irrespective of the recipient (Income Tax Act, section 50). The tax rate applicable is 22/78 on the actual dividends paid. Contingent tax liability that may occur when all distributable retained earnings would be paid out as dividends is not reported on the balance sheet. The income tax due on dividend distribution is expensed in the income statement when dividends are declared. The Group's distributable retained earnings as of 31 December 2006 amounted to 175 231 Th EEK (11 198 Th EUR). Consequently, the maximum possible tax liability which would become payable if retained earnings were fully distributed is 49 424 Th EEK (3 158 Th EUR). The tax due on a dividend distribution may be reduced by 22/78 multiplied with dividends received from subsidiaries and associates.

Income tax in Latvia and Lithuania

According to the Latvian and Lithuanian Income Tax Acts, a company's profit is taxable, after the corrections set by the law, with the income tax rate of 15%.

Temporary differences

	31.12.2006	**31.12.2005**	**31.12.2006**	**31.12.2005**
(In thousands)	EEK	EEK	EUR	EUR
Income from investment property revaluation	72 471	108 741	4 632	6 950
Difference between accounting and tax depreciation rates	-558	292	-36	19
Total temporary differences	71 913	109 033	4 596	6 968
Deferred income tax liability 15%	**10 787**	**16 355**	**689**	**1 045**

Deferred income tax liability

(In thousands)	EEK	EUR
Deferred income tax 31.12. 2004	**-150**	**-9**
Deferred income tax expense in 2005	16 355	1 045
Deferred income tax 31.12. 2005	**16 205**	**1 036**
Deferred income tax expense in 2006	10 787	689
Adjustments	48	3
Deferred income tax 31.12.2006	**27 040**	**1 728**

Note 25. Contingent liabilities

In 2006 Q Vara granted as loan to subsidiary Stansfield OÜ in the amount of 35 000 Th EEK (2 237 Th EUR) in the range of 15 000 Th EEK (956 Th EUR), and Q Vara UAB in the amount of 3 626 Th EEK (232 Th EUR) in the range of 1 813 Th EEK (116 Th Euro).

According to Estonian laws, Q Vara is obligated to guarantee repairs of building defects. As it is impracticable to estimate the amounts and probability of occurrence of such guarantee charges, there is no relevant provision recognised. Also many building defects are guaranteed by subcontractors.

Note 26. Bonds issued

In January 2007 Q Vara issued debt securities with a maturity of 3 years in total amount of 78 233 Th EEK (5 000 Th EUR). The bonds' nominal value was 156 Th EEK (10 Th EUR) per bond. The expense related to emission of debt securities amounted to 1 370 Th EEK (88 Th EUR).

Q Vara's bonds' yield is 11% per annum. Since September 19, 2006 Q Vara's bonds are listed on OMX Tallinn Stock Market

According to paragraph 9 in the terms and conditions of the debt securities Q Vara paid the bond owners interest in the amount of 8 605 Th EEK (550 Th EUR) in the beginning of 2007, from which 8 366 Th EEK (535 Th EUR) was reflected in 2006 income statement and 239 Th EEK (15 Th EUR) in 2007 income statement.

Note 27. Transactions with related parties

Parties are considered to be related if one party is controlled by another, or one party has significant influence over another, including the parent company, subsidiaries, associates and other group companies, shareholders, the members of the Supervisory Council and the Management Board, their families and the companies in which they hold majority interest or have significant influence.

The owners of Q Vara Group are as follows:

SLProductions OÜ	ownership 88,12%	Registered in Estonia
Marine Systems OÜ	ownership 11,88%	Registered in Estonia

The transactions and balances with related parties were the following:

(in thousands)	Notes	2006 EEK	2005 EEK	2006 EUR	2005 EUR
Balance of loans granted					
Associates		7 291	16 889	466	1 079
Persons related to subsidiaries		5 760	117	368	7
Owners		16 649	53	1 064	4
Shareholders of the owners and persons related to them			23 442	0	1 498
Companies related to the Parent		2 998	0	192	0
Loans granted at the end of year	**9**	**32 698**	**40 501**	**2 090**	**2 588**
Balance of loans raised					
Loans from the owners of the Parent		1 000	3 233	64	207
Companies related to the Parent		6 829	0	436	0
Loans raised at the end of year		**7 829**	**3 233**	**500**	**207**
Purchases					
Owners		1 445	0	92	0
Shareholders of the owners		0	935	0	60
Total purchases		**1 445**	**935**	**92**	**60**
Sales					
Associates		0	36	0	36
Owners		377	0	24	0
Shareholders of the owners		0	136	0	9
Companies related to the Parent		598	0	38	0
Total revenue		**975**	**172**	**62**	**45**
Receivables					
Interest receivable related to the Parent company	10	6 000	0	383	0
Interest receivable from the Parent and shareholders of owners	10	289	127	19	8
Other receivables from associates		12	36	1	2
Other receivables from the Parent		203	105	13	7
Other receivables from the Parent related companies*	10,14,8	48 678	0	3 111	0
Receivables at the end of year		**55 182**	**268**	**3 527**	**17**
Liabilities					
Owners		1 172	88	75	6
Liabilities at the end of year		**1 172**	**88**	**75**	**6**

*In 2006 Q Vara sold OÜ Capital loans and investments to a company related to the Parent to the amount of 47 976 Th EEK (3 066 Th EUR).

Note 28. Events after the balance sheet date

OÜ Multi Metall Kinnisvara and OÜ Merona Group uniting with Q Vara OÜ

In the last quarter of 2006 Q Vara's management decided to merge OÜ Merona Group and OÜ Multi Metall Kinnisvara with Q Vara. Kesk-Kaare road property in Viimsi parish (Kirsiaia properties) owned by OÜ Merona Group and a property in Rae parish (Terminal 11) owned by OÜ Multi Metall and all the liabilities of entities went over to Q Vara. Association went into force in Trade Register in first quarter of 2007.

Elimination of not related investments from Group

To complete restructuring the Group in order to simplify the structure a sale-purchase contract between Q Vara OÜ and OÜ Q Capital was signed at 22.11.2006. According to the contract Q Vara sold 50% partnership in Urbanfors OÜ, 50% partnership in Eesti Metsamaakler OÜ and 24% partnership in Digitech OÜ to Q Capital. Urbanfors OÜ is the owner of Estonian largest dairy farm Väätsa Agro OÜ and owns 97% of the company, Eesti Metsamaakler OÜ deals with forestry and Digitech OÜ manages one of the most profitable photography products retail chain AS Fotoluks. The main purpose of the deal is to simplify Group's structure by separating entities not related to real estate. Q Capital is owned by the same shareholders as Q Vara OÜ and is active in managing investments. OÜ Eesti Metsamaakler, OÜ Urbanfors and OÜ Digitech sale contract went to in force in Trade Register in first quarter of 2007.

The sold entities were not consolidated with Group's financial results. Compared to 2005 introductions of changes did not effect Group's results.

Q Vara OÜ transformation into stock company

According to the decision of Q Vara OÜ's shareholders the Entity will be transformed from private limited company into public limited company. According to decision of shareholders proportions of shares will remain same. As well there will be no changes in juridical relations with employees, neither Management Board members nor Supervisory Council.

Sale of Pärnu road 113 / Rapla 1 property

In the third quarter Q Vara's management decided to sell 650 m2 property located on Pärnu road 113 / Rapla 1. The main reason was of the sale is that instead of splitting the Group's recourses between different projects, it is more efficient to gather them on larger projects (Taevasmaa and Terminal 11). Negotiations with potential buyers were started in 2006 September. The deal went to in force in December and notarial contract of sale was made on first days in 2007.

Note 29. Financial information of the Parent

Income Statement of the Parent

(In thousands)	**2006** EEK	**2005** EEK	**2006** EUR	**2005** EUR
Operating income				
Revenue	60 600	125 446	3 873	8 017
Revaluation of investment property	86 553	11 923	5 532	762
Other operating income	1 899	0	121	0
Total operating income	**149 052**	**137 369**	**9 526**	**8 779**
Operating expenses				
Building expenses	-63 789	-109 037	-4 077	-6 969
Development direct costs	-5 916	-5 478	-378	-350
General administrative development costs	-19 535	-5 254	-1 249	-336
Marketing expenses	-6 208	-2 050	-397	-131
Administrative expenses	-1 940	0	-124	0
Other operating expenses	-326	-224	-20	-13
Total operating expense	**-97 714**	**-122 043**	**-6 245**	**-7 799**
Operating profit	**51 338**	**15 326**	**3 281**	**980**
Financial income and expenses	43 287	114 369	2 767	7 309
Profit before tax	**94 625**	**129 695**	**6 048**	**8 289**
Net profit for financial year	**94 625**	**129 695**	**6 048**	**8 289**

Balance sheet of the Parent

(In thousands)	31.12.2006 EEK	31.12.2005 EEK	31.12.2006 EUR	31.12.2005 EUR
Assets				
Current assets				
Cash and cash equivalents	22	4	1	0
Trade receivables	7 722	4 136	494	264
Short-term loan receivables	90 701	64 036	5 797	4 093
Other short-term receivables	49 189	809	3 144	52
Interest	12 726	5 987	813	383
Prepaid taxes	8 533	0	545	0
Prepayments	6 826	320	436	20
Real estate purchased for sale	65 448	45 996	4 183	2 940
Total current assets	**241 167**	**121 288**	**15 413**	**7 752**
Non-current assets				
Long-term loan receivables	18 324	0	1 170	0
Subsidiaries	193 150	142 578	12 345	9 112
Associates	28	892	2	57
Investment property	126 576	27 713	8 090	1 771
Tangible and intangible fixed assets	3 300	1 742	211	112
Total non-current assets	**341 378**	**172 925**	**21 818**	**11 052**
Total assets	**582 545**	**294 213**	**37 231**	**18 804**
Liabilities and equity				
Current liabilities				
Short-term borrowings	177 910	76 635	11 371	4 898
Finance lease liability	403	304	26	19
Customer prepayments	339	2 143	22	137
Accounts payable	15 372	9 054	982	579
Due to employees	1 155	415	73	27
Interest payable	13 899	2 495	888	159
Taxes payable	0	2 101	0	134
Total current liabilities	**209 078**	**93 147**	**13 362**	**5 953**
Non-current liabilities				
Bonds issued	76 863	0	4 912	0
Finance lease liability	1 273	359	81	23
Total non-current liabilities	**78 136**	**359**	**4 993**	**23**
Total liabilities	**287 214**	**93 506**	**18 355**	**5 976**
Equity				
Share capital	73 511	73 511	4 698	4 698
Reserves	7 361	10	471	1
Retained earnings	214 459	127 186	13 707	8 129
Total equity	**295 331**	**200 707**	**18 876**	**12 828**
Total equity and liabilities	**582 545**	**294 213**	**37 231**	**18 804**

Cash flow Statement of the Parent

(In thousands)	2006 EEK	2005 EEK	2006 EUR	2005 EUR
Cash flows from operating activities				
Profit before income tax	94 624	129 695	6 048	8 289
Gain from shares of subsidiary	-50 572	-113 791	-3 232	-7 273
Changes in value of investment property	-86 552	-11 775	-5 532	-753
Gain from disposal of financial investments	-78	0	-5	0
Depreciation	626	168	40	11
Interest income	-6 798	-4 813	-434	-308
Interest expense	14 065	4 183	899	267
Changes in current assets and liabilities				
Changes in accounts receivable	-4 288	-2 295	-274	-147
Changes in other short-term receivables	298	-2 281	19	-146
Changes in prepayments	-15 039	-80	-961	-5
Changes in inventories	-19 452	22 232	-1 243	1 421
Changes in customer prepayments	-1 804	-786	-115	-50
Changes in accounts payable	6 318	-4 536	404	-290
Changes in taxes payable	-2 101	1 777	-134	114
Changes in other accrued expenses	740	2 594	47	166
Total cash flows from/ used in operating activities	**-70 013**	**20 292**	**-4 475**	**1 297**
Cash flow used in investing activities				
Purchase of investment	-61 068	-29 250	-3 903	-1 869
Proceeds from disposal of investment	36 084	590	2 306	38
Purchase of investment property	-12 311	-5 245	-787	-335
Purchase of tangible assets	-2 205	-1 195	-141	-76
Sale of tangible assets	21	0	1	0
Loans granted	-67 039	-30 899	-4 285	-1 975
Interest collected	59	38	4	2
Total cash flow used in investing activities	**-106 459**	**-65 961**	**-6 804**	**-4 216**
Cash flow from financing activities				
Changes in loans raised	101 275	52 339	6 473	3 345
Prepayments of finance lease	1 013	0	65	0
Interest paid	-2 661	-6 695	-170	-428
Loan securities granted	76 863	0	4 912	0
Total cash flow from financing activities	**176 490**	**45 644**	**11 280**	**2 917**
Total cash flows	**18**	**-25**	**1**	**-2**
Cash and cash equivalents at the beginning of financial year	4	29	0	2
Cash and cash equivalents at the end of financial year	22	4	1	0
Change in cash and cash equivalents	**18**	**-25**	**1**	**-2**

Statement of changes in equity of the Parent

(in thousands of EEK)	Share capital	Mandatory legal reserve	Retained earnings	Total
Balance as of 31.12.2004	**17 550**	**10**	**-2 509**	**15 051**
Issue of new shares	55 961	0	0	**55 961**
Net profit for 2005	0	0	129 695	**129 695**
Balance as of 31.12.2005	**73 511**	**10**	**127 186**	**200 707**
Increase in legal mandatory reserve	0	7 351	-7 351	**0**
Net profit for 2006	**0**	0	94 624	**94 624**
Balance as of 31.12.2006	**73 511**	**7 361**	**214 459**	**295 331**

(In thousands of EUR)	Share capital	Mandatory legal reserve	Retained earnings	Total
Balance as of 31.12.2004	**1 121**	**1**	**-160**	**962**
Issue of new shares	3 577	0	0	**3 577**
Net profit for 2005	0	0	8 289	**8 289**
Balance as of 31.12.2005	**4 698**	**1**	**8 129**	**12 828**
Increase in legal mandatory reserve	0	470	-470	**0**
Net profit for 2006	**0**	0	6 048	**6 048**
Balance as of 31.12.2006	**4 698**	**471**	**13 707**	**18 876**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Q Vara OÜ:

We have audited the accompanying consolidated annual accounts (page 24 to 56) of Q Vara OÜ and subsidiaries, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Consolidated Annual Accounts

Management Board of Q Vara OÜ is responsible for the preparation and fair presentation of these consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated annual accounts present fairly, in all material respects, the financial position of Q Vara OÜ and subsidiaries as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Veiko Hintsov
Certified Auditor
16 March 2007

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Proposal for Profit Allocation

(in thousands of EEK)	EEK	EUR
Retained earnings	95 400	6 095
Net profit for the year 2006	79 831	5 102
Total retained earnings available for distribution as of 31.12.2006	**175 231**	**11 197**

Management proposes to distribute the profit as follows:

(in thousands of EEK)	EEK	EUR
Do not distribute the consolidated retained earnings.	**175 231**	**11 197**

Management Board's and Supervisory Council signatures to the Annual Report for the Financial Year ended 31 December 2006

Management Board has prepared the management report, the annual accounts and the proposal for profit distribution for the financial year ended 31 December 2006. The Supervisory Council has reviewed the annual report, prepared by the Management Board, consisting of the management report and the annual accounts, the independent auditors' report and the Management Board's proposal for profit distribution, and has approved the annual report for presentation on the Shareholders' General Meeting.

By signing the annual report, all members of the Management Board and the Supervisory Council validate the fair presentation of the annual report.

	Name	Date	Signature
Management Board			
Chairman of the Board	Meelis Šokman	30.03.2007	
Member of the Board	Andre Poopuu	30.03.2007	
Member of the Board	Tõnis Vare	30.03.2007	
Supervisory Council			
Chairman of the Council	Alo Lillepea	30.03.2007	
Member of the Council	Jürgen Järvik	30.03.2007	
Member of the Council	Ivo Lillepea	30.03.2007	