



# Q VARA

Consolidated Quarterly Report for the I quarter 2007

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

## Q Vara OÜ

Beginning of the first quarter: January 1, 2007;  
End of the first quarter: March 31, 2007;  
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Main activities: Real estate development;  
Construction;  
Property management;  
Supervisory Council: Alo Lillepea, Jürgen Järvik, Ivo Lillepea;  
Management Board: Meelis Šokman, Andre Poopuu;  
Auditor: AS Deloitte Audit Eesti.

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## Financial summary

### Income Statement

	IQ 2007	IQ 2006	2006	IQ 2007	IQ 2006	2006
<i>(thousands)</i>	EEK	EEK	EEK	EUR	EUR	EUR
Revenue	16 081	27 969	227 643	1 028	1 788	14 549
Sales revenue	14 507	27 516	63 231	927	1 759	4 041
Operating profit/loss	-11 681	-6 470	113 250	-747	-414	7 238
Net profit/loss	-18 229	-8 736	99 358	-1 165	-558	6 350

### Balance Sheet

	31.03.2007	31.03.2006	31.12.2006	31.03.2007	31.03.2006	31.12.2006
<i>( thousands)</i>	EEK	EEK	EEK	EUR	EUR	EUR
Total assets	797 335	486 018	765 237	50 959	31 062	48 909
Total liabilities	515 456	204 377	460 269	32 944	13 062	29 417
Total equity	281 879	238 779	304 968	18 015	15 261	19 492
Minority interests	48 144	42 862	48 688	3 077	2 739	3 114

### Performance Indicators

	IQ 2007	IQ 2006	2006
ROA	-1,5%	-1,4%	19,9%
ROE	-6,2%	-3,6%	38,9%
Equity ratio	35,4%	49,1%	39,9%
Current ratio	1,79	4,38%	1,12

## Management report

### Introduction

The real estate market in the Baltic countries is in an interesting phase. The hyper growth in prices has stopped and the fierce demand for any kind of real estate together with that. Customers have taken a step back and carefully analyse the product before making the purchase decision. But it does not mean that the demand has vanished - the demand for good quality products with correct price is still very strong.

At the same time the developments on the financing side have shifted also towards conservatism. The macroeconomic signs of over heating (high inflation, exploding borrowing against real estate, large trade deficit, booming internal consumption etc.) have made banks cautious about financing real estate. For example the debt financing share of construction has decreased from around 80% to 60-70%. At the same time financing new land plot purchases has decreased even more (especially land plots without detail plan).

The financiers are now looking more carefully on developers' previous experience, own financing capacity and project assumptions. Also the financing structures include more pre-sales requirements and breaking the projects into smaller stages. The lastly mentioned assumption has been a key measurement also for Q Vara to make the projects bankable.

Several important decisions were made in the first quarter of 2007 about Q Vara's projects that should reduce risks and align with the new market situation. The brief insight of such changes are described in the "Projects' overview" section.

### Cash flows matter

Considering the fact that in 2007 four Q Vara Group's projects are in the sales phase (Kirsiaed row houses, Kirsiaed residential plots, Pinki residential project, Terminal 11 industrial properties) the 2007 is expected to bring the highest sales revenues for Q Vara Group. The management expects the consolidated revenue to reach at least 350 000 thousand EEK by the end of 2007. Together with strong sales revenues the cash flow from the sale of real estate should also be significant (total cash flows from operations is lower by the own financing investments into the construction of new projects). As historically also the first quarter in 2007 showed modest sales results and cash flows from sales and the management of Q Vara expects significant improvement to that in the second quarter. This expectation is supported also by the strong client interest towards Q Vara Group's projects that

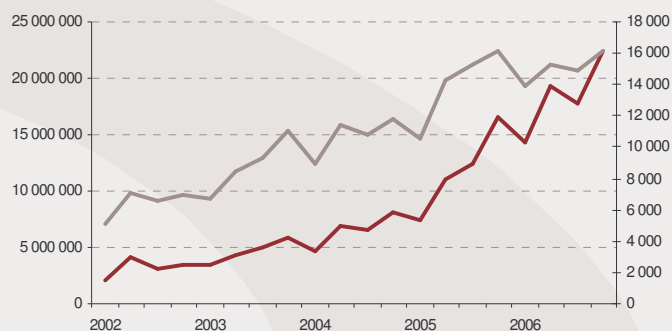


Figure 1. Quarterly number of real estate transactions (grey line; right axis) and the value of real estate transactions (red line; left axis; thousand EEK) in Estonia 2002-2006 (Data: Statistics Estonia) .

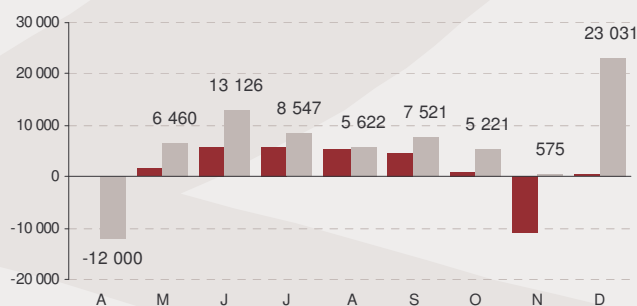


Figure 2. Q Vara Group's cash flow forecast from April to December 2007; Cash flow from the projects in the sales phase (grey bars; thousand EEK) and the Group's total cash flows (red bars; thousand EEK).

are in the sales phase (see also „Projects' overview”)

Q Vara Group's accounting system is based on international financial accounting standards (IFRS) and therefore the property investments are stated in their fair value. Fair value method generates profit when the value of real estate increases (fair value increases as a result of rising market prices or as a result of property development). So as a result of price stabilization profit decreases considerably (in Q Vara this means that revaluation profit will be derived just from the value increase from development and only from projects in early development phase like Trophy, Jonathan and Sofia). This is exactly the case of the first quarter results in 2007 and that will probably affect the annual results of 2007. The profits remain also unaffected by the revenue increase because as the profit is included in the properties' fair values it has been stated in the profit & loss statements of the previous periods (hence the current sales price equals the more-less the calculated cost of sales).

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

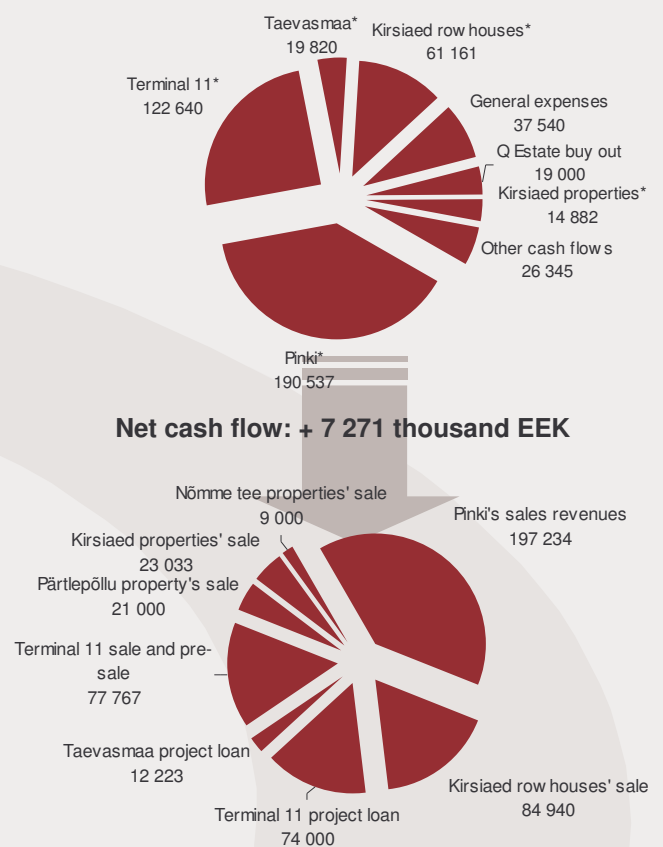
The management of Q Vara Group expects record cash flows from the sale of real estate in 2007. The final Group's cash flows are lower by the own financing investments into the new projects' construction. Q Vara Group's forecast of cash flows in and cash flows out from development projects and administrative expenses are presented on figure 3.

### Structure

In the first quarter 2007 the group restructuring transactions were officially finished. Firstly OÜ Multi Metall Kinnisvara and Merona Group transactions were recorded in Estonian Commercial Registry which means that the merger between Q Vara and these two companies is completed.

Another change in the group that was started in 2006 but finalized in 2007 was shifting the real estate maintenance service to Q Vara's 100% subsidiary OÜ Q Haldus. By the end of the first quarter Q Haldus has already taken over from Q Vara and the client contracts were being changed.

A new company in Q Vara Group is AS Maakri City. The company was established by Q Vara OÜ's jointly controlled company Stansfield OÜ together with Mark Invest OÜ (subsidiary of SRV) and Maakri KVF OÜ established. AS Maakri City was established for developing jointly the land plots between Maakri, Kuke and Lennuki streets in Tallinn. The share capital amount of the new company is 420 thousand EEK (27 thousand EUR) and the shares are equally divided between the three shareholders.



**Figure 3.** Q Vara Group's cash flows in and cash flows out from development projects and administrative expenses from April to December 2007 (forecast; thousand EEK);

Each shareholder owns 14 000 shares with a nominal value of 10 EEK (0,64 EUR). Tõnis Vare (Q Vara OÜ's management board member), Margus Mändmets (SRV's management board member) and Urmas Kivisalu (Maakri KVF's management board member) were elected as the management board members of AS Maakri City.

On March 6, 2007 the shareholders of Q Vara OÜ decided to reorganize Q Vara from private limited company (osaühing) into public limited company (aktsiaselts). The decision does not bring any changes in the current shareholders' share proportions. The change also does not affect employees, management board members nor supervisory board members.

The shareholders' meeting also decided to approve the 25% minority shareholder buyout by Q Vara OÜ's subsidiary SIA Q Estate in SIA Quality Nami. The minority shareholding is owned by Viktorija Zagrebilnaja. SIA Quality Nami is developing an apartment building with 403 apartments in Riga on Maskavas street. Currently SIA Q Estate owns 75% of SIA Quality Nami.

The third decision by the same shareholders' meeting was to approve the establishment of OÜ Q Ehitus' subsidiary in Lithuania. The new company will start to offer construction main contracting services in Lithuania. The company will be named Q Statyba and Q Ehitus will own 100% of its shares.

#### **Management and personnel**

The first quarter saw also several changes in Q Vara Group's team. Altogether 34 new employees joined the Group of whom most (20) were employed by the Group's Latvian construction company SIA Q Būve. The total number of employees who left the group to find their next challenge was four.

As the team has grown considerably during the last 12 months the constant training on teamwork and work efficiency continue. Also the alignment of our activities and team members' individuality bring slight changes within the group.

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

In the contest of "Best Personnel Project 2006" Q Vara Group's "Management training through organizing Paide Triathlon" was selected as the winner among small companies. The project combined organizing Estonia's leading triathlon competition with Q Varas trainings of teamwork and management skills. All the assignments starting from setting up the track to cleaning up after the race, were 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 strengthening the team spirit and mutual trust. Q Vara Group has already started to prepare also the 2007 event.

### **Risk management**

Because of the changing economic environment Q Vara's management looked through the previous forecasts and realigned the plans. The actions were targeted at two main problems: market risk and financing risk. Market risk is a risk that there is no demand for the developed project that can arise from oversupply, clients' financing difficulties or product specification problems. Financing risk on the other hand is a risk that the company is not able to raise financing for project development. This risk can arise from the banks' credit policy changes towards reducing overall credit amount, drop in developers' credit rating or lack of funds for own financing.

To hedge these risks Q Vara's management decided to reduce the development volume by slicing projects into stages and connecting the development pace to sales pace. Developing projects in smaller stages also improves cash flow because less own financing is needed for investments at once and also the cash locked into inventories decreases. Considering slower sales pace than before the cash flow argument is a strong incentive to divide the projects into stages. It also increases financiers' willingness to finance development projects because their risks at any point of time is lower than in case the whole project is in development and their outstanding risk amount (loan amount) is connected to sales volume.

Because the own financing share in development projects has increased Q Vara's management has looked through also the own financing sources. To increase available own financing the decision was made to sell the Pärtlepõllu property in Viimsi parish (Q Vara signed a contract to purchase the property in 2006) and to realize some of the industrial properties in Terminal 11 project as land plots. Such sales transactions enable the Group to secure needed own financing in development projects and also to cover the overhead costs.

The more specific details about measures in each project are described in the Projects' Overview section.

### **Bonds**

In January 2007 Q Vara paid annual interests on the bonds issued in the beginning of 2007. The interest payment amounted 8 606 thousand EEK (550 thousand EUR). Q Vara issue bonds in January 2006 with total face value of 72 233 thousand EEK (5 000 thousand euro) and annual yield of 11%. The bonds mature on January 10, 2009.

### **Financial results**

Q Vara's consolidated operating income in the first quarter of 2007 was 16 081 thousand EEK; 1 028 thousand EUR (2006 I quarter: 27 969 thousand EEK; 1 788 thousand EUR). Sales revenue from real estate for the same period was 14 507 thousand EEK; 927 thousand EUR (2006 I quarter: 27 516 thousand EEK; 1 759 thousand EUR). The consolidated net loss for the



ended three months was 18 229 thousand EEK; 1 165 thousand EUR (2006 I quarter loss: 8 736 thousand EEK; 558 thousand EUR).

At the end of the first quarter 2007 Q Vara Group is still strongly capitalized: equity forms 35,4% of total assets. In the end of the quarter the total asset amount was 797 335 thousand EEK; 50 959 thousand EUR and total equity amount was 281 897 thousand EEK; 18 015 thousand EUR. At the end of the first quarter 2006 the total asset amount was 486 019 thousand EEK; 31 062 thousand EUR.

## Overview of the projects

### Kirsiaed triple houses

**Location:** Viimsi parish, Estonia | **Segment:** Residential, high | **Development:** Rowhouses | **Period:** 2006-2007 | **Sellable space:** 3 305 m<sup>2</sup> | **Sold:** 20,0% (with bookings 40,0%)

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

**Development:** By the end of February 2007 15 units with final interior decoration were finished and the other 15 units remain with "grey" finishing and wait for the client's choice. In April also the greening works were started.

**Sales:** By the end of the first quarter of 2007 already six units were sold. At the end of the quarter the clients started to show even more interest in the project and by the third week of April already eight new bookings have been made. Q Vara's sales team continues preparing these deals and hopes to sign notarial sales agreements during the next couple of weeks. The increased interest among clients can be explained by finished buildings and full environment concept. Also the contacts from the previous client events are starting to bare fruit as a result of active sales.

- Sales activity has increased in the end of the first quarter 2007
- 6 units sold and 8 units booked;
- General construction is finished
- Interior works in 15 units to be done (waiting for customers' selections)
- Greening works under way
- Cash flow from sale is invested into other projects as own financing

### Kirsiaed residential properties

**Location:** Viimsi parish, Estonia | **Segment:** Residential, high | **Development:** Residential land plots | **Period:** 2006-2007 | **Sellable space:** 23 219 m<sup>2</sup> | **Sold:** 12,5% (with bookings 100,0%)

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

**Sales:** By the end of the first quarter 2007 the number of completed sales transactions was two and a couple of interested clients were standing by. But in the second half of March the demand increased considerably and by the third week of april all 16 properties were booked. Q Vara's sales

- Sales activity has increased in the end of the first quarter 2007
- Active sales and marketing process ongoing;
- By April all 16 properties have been booked;

departments expects to complete the sales transactions by the end of May 2007.

## Taevasmaa

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

**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 construction and sale of Taevasmaa project will be split into stages and the stages into smaller sets. The timeline of different stages and sets is determined by the sales pace.

The first stage of Taevasmaa consists of 10 apartment houses, each with 10 apartments (altogether 100 apartments). The first stage total volume is 8 157 sqm (including basements and saunas) and the preliminary construction price is 16 520 EEK (1 056 EUR; excluding land price and utility line costs). The construction of the first stage is divided into smaller sets that include 3-4 houses (see the picture). This allows to test the market for demand and also make the project bankable in the current market situation (banks' risks are smaller at any point of time). The launch of the first set is yet undetermined and it depends on the issuance of construction permit and the final financing decision.

The construction of the second set of houses is launched only after at least 50% of the first set are pre-sold (notarial agreements signed and 15% of the final price paid in). Similarly the third set construction is launched after 50% of the second set plus 100 % of the first set are pre sold.

As of the utilities, the lines that connect to the public utility network are constructed considering all project stages (Eestkünka I and Eestkünka III properties on full scale) but the lines on the project land are fully built only on the plots of the first stage.

The first works were started in the beginning of April 2007 when the earth works were launched. Earlier months were used for various preparation activities (designing, preparing technical plans, communicating with local government booking resources etc.). The general construction works follow

- The first stage consists of 10 apartment houses;
- The first stage is divided into smaller sets of 3-4 houses each;
- The second and the third set are started only after 50% of the previous set is pre-sold;
- The first stage's financing ratio is 70% bank loan and 30% own financing;
- Earth works were started in April 2007;

after construction permit is issued and the financing agreement has been signed on full scale.

Taevasmaa projects' first stage is financed by bank loan (70% of the cost) and own financing (30% of the cost). The financier is most probably DnB Nord Pank that makes its final decision in May. In the first quarter 2007 DnB Nord Pank has already opened a loan limit of 12 000 thousand EEK (767 thousand EUR) to finance the launch of the construction of the utility networks.

The main part of the first set's own financing comes from other Q Vara's projects. Still some positive cash flows is expected to be received from pre sales but this occurs in the later stages of the first set.

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

## Terminal 11

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

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

**Development:** The construction of Terminal 11, the industrial park near Tallinn, was launched in March 2007 with earth works. On 8 land plots out of 22 Q Vara develops warehouses that are divided into 5-6 sections and are sold to small and medium sized enterprises. Similarly to Taevasmaa project also Terminal 11 is divided into smaller stages.

The first stage includes the construction of utility lines on the whole project property and the construction of two warehouses. One of the buildings lies on one land plot and features 6 sections and another lies over 2 land plots and features 12 sections (properties no. 9-11 on the figure 4). The construction of the two buildings is started at different time. Firstly, together with the construction of the utility lines starts the construction of the smaller building. At the same time the pre-sales begins. After at least 50% of the smaller building is pre-sold (transaction is deemed completed after notarial pre-sales contract is signed and 10-15% of the final price is paid) the construction of the second building is launched.

The construction of one building takes about 6 months which means that the first building should be finished by the end of 2007. Still the final sales revenues are forecasted to be paid by the customers in 2008.

- 13 properties will be sold as land plots with utilities (see the drawing);
- Warehouses for SME-s are developed on 8 properties (see the drawing);
- I stage of the project includes utilities on all properties and developing 2 warehouses;
- The second warehouse construction begins after 50% of the first is pre-sold;
- The financing ratio is 70% debt and 30% own financing.
- Earth works started in March 2007;

The construction of utilities and buildings will be financed with bank loan (70% of the project's cost) and own financing (30% of the project's cost). SEB Eesti Ühispank has already made a binding offer to finance the project and Sampo Pank will give the offer in May. Currently Sampo Pank, who financed also the purchase of the land plot, has opened a loan limit of 12 000 thousand EEK (767 thousand EUR) to finance the launch of the construction of utilities.

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

As of the beginning of April 2007 the projects' website has been set up ([www.terminal11.ee](http://www.terminal11.ee)). Also the print material has been prepared that in all allows to launch the sales campaign of the project in the second half of April. Firstly the main attention is focused on the sale of properties to which the warehouses add up starting from May 2007. Q Vara has also negotiated direct sales support from the corporate banking departments of the largest banks in Estonia. The first interested potential clients have already registered themselves on a waiting list that shows strong demand for commercial spaces targeted at SME's.

### 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<sup>2</sup> 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).



**Figure 4.** The property of Terminal 11. Red area marks the land plots for sale and black area marks the area of future warehouses. In the top the sketch of warehouses is presented.

- Sales transaction was completed in January 2007;

In January 2007 the sales-purchase contract was signed and the transaction was made. The property's sales price was 22 000 thousand EEK (1 406 thousand EUR).

## 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:** The negotiations between Stansfield, Mark Invest and Maakri KVF over joint development of the area continued. In the first quarter a joint company – AS Maakri City – was established where all three parties own equal share. The shareholders agreement continues. Also the negotiations with other property owners to join joint development or to sell their properties go forward.

## Pärtlepõllu

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

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

**Development:** In the first quarter the detail planning documents were filed and the local government started to work on them. The detail plan is expected to be approved during 2007.

**Sales:** In the end of the first quarter Q Vara's management decided to start looking for potential buyers for the property. The reason for selling the land is that the funds received from the sale can be used in other projects as own financing. Also the development of another small project disperses the resources across various projects that on one hand can result in lack of focus and on the other hand increased overheads. Also selling the project releases additional risk limit in banks that allows to successfully to finance other projects.

By April 2007 several interested buyers approached Q Vara and started negotiations to purchase the property.

- Q Vara established a joint venture together with OÜ Mark Invest and OÜ Maakri KVF;
- Shareholder agreement negotiations continue;

- Detail planning was started and documents filed to the local government;
- The decision was made to sell the property;
- Sales negotiations were started;

## Silukalni

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

**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:** In the first quarter of 2007 the main contractor agreement was terminated with SIA Pinki and Q Būve became the new main contractor. The problem with SIA Pinki was the inability to meet the agree deadlines and finishing the first stage was again postponed. Most important is that the new constructor has been able to stabilize the project and is working on the realistic project timetable and budget. In construction activities the main focus is on the first stage houses that are already pre-sold and almost ready (approximately 80% of the first houses is finished).

An important achievement was also agreeing with DnB Nord Banka to increase the project's bank loan limit because compared to the preliminary budget the construction has become more expensive. Releasing the additional loan limit is strictly tied to handing over the first stage apartments and every apartment that is handed over releases additional share of new loan. The first three houses (six units) are handed over in May/June.

**Sales:** The sale of the second and third stage started in December 2006 and has proved successful. By April 2006 six contracts has been signed and five are expected to be signed in a few weeks.

## 365

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

**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<sup>2</sup>.

**Development:** By March 2007 the earth and pile works were finished and BMGS handed the construction site over to the general constructiona main contractor SIA Ars Domina. The project is in on schedule and the already done construction works' quality is very good.

The project's budget is 100% covered with bank financing and the bank releases the limit according to the pre sales of the apartments.

**Sales:** The pre-sales started in November and since then five apartments with the highest price have been booked.

The active marketing campaign of the projects was launched in March. It includes direct marketing to private banking clients in larger banks and PR articles and large advertisements in the largest real estate magazines. Also

- Customer interest towanrs the project is strong;
- The first stage is sold (28 units);
- Six units on the second stage is sold and five transactions are agreed;
- SIA Q Būve took over as the new main contractor;
- The project is financed to cover the finishing expenses;

- The sales has been successful (5 apartments from the highest price range are sold);
- Active marketing campaign started in march;
- The pile works are finished and the general construction has been launched;
- 100% of the project's budget is financed by DnB Nord Banka.

a special sales office is prepared for the project in Old Riga, at Torna Street 4. The sales office features a scale model of the project and other informative materials – booklets, plans etc. Also a short film is prepared to introduce the project which will be presented to sales office visitors.

## Jonathan

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

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

**Development:** In January 2007 the project's detail plan was approved by Riga City. After that the approval process of the project's sketch drawings continued. In April also the scetch drawings were approved and preparation of technical plans continues. The technical project is carried out in two stages of which the zero cycle plans should be ready by the end of 2007. After that the construction of the foundation works can be launched and the preparation of the whole buildings' technical plans can be carried out parallelly and will be finished expectedly in April 2008.

In the end of the first quarter the project's team started also to analyze weather it is possible to divide the project's construction into stages. According to the preliminary estimations the zero cycle works can be splitted into two stages and the rest of the construction into three stages. The preliminary project's timetable foresees that the construction of the project will be launched in the first half of 2008.

**Sales:** The presales of the project begins in the end of 2007. In order to achieve maximal possible sales volume with existing areas, special attention is to be paid to marketing activities and informative materials. Sales of apartments is planned to start with wide advertising campaign in mass media in the second half of 2007. Advertisements will be placed in the largest thematic real estate magazines and other issues. Along with advertising in mass media, home page in the form of flash presentation will be developed, too.

Similarly to 365 also a sales office in Old Riga, at Torna Street 4 will be opened. Also here the sales office features a scale model of the project, Various informative materials and a film about the project's story. The short film contains dynamic three-dimensional description of the development. A short version of the film will be also be shown in Cinema Forums in the block of advertisements before the show.

- Detail plan and sketch drawings are approved by Riga City;
- Preparing technical plans continues;
- Pre-sales will expectedly start in the end of 2007;



## Trophy

**Location:** Vilnius, Lithuania | **Segment:** Residential, high | **Development:** Apartment building | **Period:** 2007-2008 | **Sellable space:** 2 300 m<sup>2</sup>

**Introduction:** The project is developed on UAB Q Vara's property that was acquired in the end of 2006 – 1 800 m<sup>2</sup> property, addressed in Vilnius, Elniu 20.

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

**Development:** In the first quarter of 2007 UAB Q Vara continued the detail planning process and passed a couple of important procedures like local community's public discussion and the construction commission. The detail plan will expectedly be finished by the end of the second quarter of 2007.

At the same time the designing of the apartment house resumed and by the beginning of April the first sketch drawings were already completed (see the illustration below).

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

- Detail planning in process and is expected to be finished by the end of the II quarter;
- First sketch drawings ready and designing continues;



**Figure 5.** First sketch drawings of Q Vara's Trophy project

## 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<sup>2</sup> property in the centre of Sofia. Since the acquisition was not formally documented by the end of 2006, with the negotiations over the shareholders agreement still pending, the investment was recorded as a loan granted in the end of 2006.

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

**Development:** In the first quarter a contest for the best sketch design of the project was launched. The concept materials were distributed to four architects. The first work was presented in the beginning of April.

As the first project team members were also hired the project coordination is from now on sharply focused and the development has started to pick up speed.

- Project management team in place;
- First scetch drawings ready;



**Figure 6.** First sketch drawings of Q Vara's Sofia project

## Principles of financial accounting

In order to have full and clear understanding of Q Vara Group's consolidated report the following main accounting principals must be introduced. 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<sup>2</sup> has to cover the development expenses of future projects as well as expenses of the present projects on first year.

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

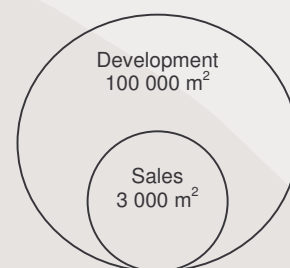
To give a better overview of the expenses and margins of the sold projects, construction expenses and development expenses are separated in Q Vara Group's consolidated report.

### Investment property

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

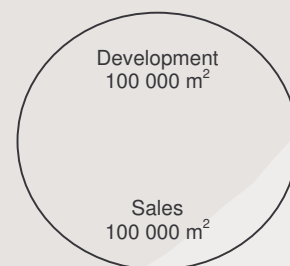
#### **Growth phase.**

Income:	3 000 m <sup>2</sup>	sales
Expense:	3 000 m <sup>2</sup>	constr.
	100 000 m <sup>2</sup>	develop.



#### **Maturity phase.**

Income:	100 000 m <sup>2</sup>	sales
Expense:	100 000 m <sup>2</sup>	constr.
	100 000 m <sup>2</sup>	develop.



**Figure 7.** Sales revenue and development expense ratio of growth phase companies and mature companies.

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

#### Property for sale

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

#### Profit calculations

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

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

## Consolidated income statement

	Notes	IQ 2007	2006	IQ 2007	2006
<i>(In thousands)</i>		EEK	EEK	EUR	EUR
<b>Revenue</b>					
Sales revenue		14 507	63 231	927	4 041
Revaluation of investment property			161 545		10 325
Other income		1 574	2 867	101	183
<b>Total revenue</b>		<b>16 081</b>	<b>227 643</b>	<b>1 028</b>	<b>14 549</b>
<b>Operating expenses</b>					
Building expenses		-8 494	-63 789	-543	-4 077
Direct development expenses		-4 087	-8 950	-261	-572
General development expenses		-8 102	-23 326	-518	-1 491
Marketing expenses		-1 897	-9 459	-121	-605
Administrative expenses		-1 894	-1 940	-121	-124
Other expenses		-3 288	-6 929	-210	-442
<b>Total operating expenses</b>		<b>-27 762</b>	<b>-114 393</b>	<b>-1 774</b>	<b>-7 311</b>
<b>Operating profit</b>		<b>-11 681</b>	<b>113 250</b>	<b>-747</b>	<b>7 238</b>
<b>Net financial income and expense</b>	1	<b>-6 548</b>	<b>-3 046</b>	<b>-418</b>	<b>-195</b>
<b>Profit before income tax</b>		<b>-18 229</b>	<b>110 204</b>	<b>-1 165</b>	<b>7 043</b>
Deferred income tax expense			-10 787		-689
Property tax expense			-59		-4
<b>Net profit for financial year</b>		<b>-18 229</b>	<b>99 358</b>	<b>-1 165</b>	<b>6 350</b>
Net profit attributable to the owners of the Parent		-18 328	79 831	-1 171	5 102
Net profit attributable to minority interests		99	19 527	6	1 248

## Consolidated balance sheet

	Notes	31.03.2007	31.12.2006	31.03.2007	31.12.2006
<i>(In thousands)</i>		EEK	EEK	EUR	EUR
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents		1 626	1 116	104	71
Accounts receivable		12 522	4 174	800	267
Short-term loan receivables		76 196	74 334	4 870	4 751
Other short-term receivables		63 430	48 645	4 054	3 109
Interest receivable		7 226	6 677	462	427
Prepayments made		33 389	25 908	2 134	1 657
Property for sale		241 753	216 043	15 451	13 808
<b>Total currents assets</b>		<b>436 142</b>	<b>376 897</b>	<b>27 875</b>	<b>24 090</b>
<b>Non-current assets</b>					
Long-term loan receivables		6 264	5 760	400	368
Associated companies		32 618	32 618	2 085	2 085
Investment property	2	309 826	338 250	19 801	21 618
Tangible and intangible fixed assets		12 485	8 826	798	564
Goodwill		0	2 886	0	184
<b>Total non-current assets</b>		<b>361 193</b>	<b>388 340</b>	<b>23 084</b>	<b>24 819</b>
<b>Total assets</b>		<b>797 335</b>	<b>765 237</b>	<b>50 959</b>	<b>48 909</b>
<b>Liabilities and equity</b>					
<b>Current liabilities</b>					
Short-term borrowings		188 900	290 169	12 073	18 545
Finance lease liabilities		7 488	1 149	479	74
Customers prepayments collected		877	5 577	56	357
Accounts payable		30 190	22 163	1 929	1 416
Due to employees		2 505	2 650	160	169
Interest payable		12 414	14 164	793	905
Tax payables		1 693	0	108	0
<b>Total current liabilities</b>		<b>244 067</b>	<b>335 872</b>	<b>15 599</b>	<b>21 467</b>
<b>Non-current liabilities</b>					
Long-term loans		163 122	14 936	10 425	955
Other long-term payables		287	90	18	6
Bonds issued		76 863	76 863	4 912	4 912
Finance lease liabilities		4 849	5 468	310	349
Deferred income tax liabilities		26 268	27 040	1 679	1 728
<b>Total non-current liabilities</b>		<b>271 389</b>	<b>124 397</b>	<b>17 345</b>	<b>7 950</b>
<b>Total liabilities</b>		<b>515 456</b>	<b>460 269</b>	<b>32 944</b>	<b>29 417</b>
<b>Equity</b>					
<b>Equity attributable to the owners of the Parent</b>					
Share capital		73 511	73 511	4 698	4 698
Reserves		7 361	7 361	470	470
Unrealized exchange rate differences		-1 154	177	-74	13
Retained earnings		154 017	175 231	9 843	11 197
<b>Total equity attributable to the owners of the Parent</b>		<b>233 735</b>	<b>256 280</b>	<b>14 938</b>	<b>16 378</b>
Minority interests		48 144	48 688	3 077	3 114
<b>Total equity</b>		<b>281 879</b>	<b>304 968</b>	<b>18 015</b>	<b>19 492</b>
<b>Total liabilities and equity</b>		<b>797 335</b>	<b>765 237</b>	<b>50 959</b>	<b>48 909</b>

## Consolidated cash flow statement

	Notes	IQ 2007	2006	IQ 2007	2006
<i>(In thousands)</i>		EEK	EEK	EUR	EUR
<b>Cash flows from operating activities</b>					
Profit before income tax		-18 229	99 358	-1 165	6 350
Change in goodwill as a result of a merger		2 886		184	
Change in assets and liabilities from currency exchange rate		2 454		157	
Gain from equity method		0	-9 958	0	-636
Changes in fair value of investment property		0	-161 545	0	-10 325
Real estate reclassification into inventories		0	58 798	0	3 759
Sale of subsidiary		0	-40	0	-3
Gain (loss) from sales of financial investments		0	1 189	0	76
Depreciation and write off of tangible and intangible fixed assets		300	1 937	19	124
Interest income		556	-6 848	36	-438
Interest expense		-7 124	17 598	-455	1 125
Unrealized exchange rate differences		-1 331	-158	-85	-10
Deferred income tax		0	10 835	0	692
<i>Changes in current assets and liabilities</i>				0	
Changes in accounts receivable		-8 348	-321	-534	-21
Changes in other short-term receivables		-14 785	-224	-945	-14
Changes in prepayments		-7 481	-18 467	-478	-1 184
Changes in property for sale		-25 710	-136 870	-1 643	-8 747
Changes in customer prepayments collected		-4 700	-715	-300	-44
Changes in accounts payable		7 884	12 519	504	802
Changes in taxes payable		-1 693	-2 548	-108	-163
Changes in other accrued expenses		4 124	667	264	43
Changes in other long-term payables		197	90	13	6
<b>Total cash flows from/used in operating activities</b>		<b>-71 000</b>	<b>-134 703</b>	<b>-4 538</b>	<b>-8 608</b>
<b>Cash flows used in investing activities</b>					
Purchase of investment		0	-61 029	0	-3 900
Proceeds from disposal of investment*		21 999	36 084	1 406	2 306
Prepayments for financial investments		0	-46	0	-3
Purchase of investment property		0	-29 445	0	-1 882
Purchase of tangible assets		-760	-6 986	-49	-448
Changes in loans granted*		-2 366	-61 367	-151	-3 922
Interest collected		0	187	0	12
<b>Total cash flows used in investing activities</b>		<b>18 873</b>	<b>-122 602</b>	<b>1 206</b>	<b>-7 837</b>
<b>Cash flows from financing activities</b>					
Shares issued			0	0	0
Loans raised		46 917	179 666	2 999	11 483
Repayments of finance lease principals		5 720	4 760	366	305
Interest paid		0	-5 751	0	-368
Bonds issued		0	76 863	0	4 912
<b>Total cash flows from financing activities</b>		<b>52 637</b>	<b>255 538</b>	<b>3 364</b>	<b>16 332</b>
<b>Total cash flows</b>		<b>510</b>	<b>-1 767</b>	<b>33</b>	<b>-113</b>
Cash and cash equivalents at the beginning of financial year		1 116	2 883	71	184
Cash and cash equivalents at the end of financial year		1 626	1 116	104	71
<b>Change in cash and cash equivalents</b>		<b>510</b>	<b>-1 767</b>	<b>33</b>	<b>-113</b>

\*Sale to the Parent related company Q Capital OÜ.

## Notes to the consolidated quarterly accounts

### Note 1. Financial income and expenses

	I kv 2007	2006	I kv 2007	2006
<i>(In thousands)</i>	EEK	EEK	EUR	EUR
Loss from sale of subsidiary	0	-1 266	0	-81
Profit calculated based on equity method	0	9 958	0	636
Earnings from sale of financial investment	0	77	0	5
Interest revenue	556	6 848	36	438
Bonds' interest expense	-2 390	-8 366	-153	-535
Interest expenses	-4 734	-9 232	-303	-590
Loss on translation of foreign currencies	0	-715	0	-46
Other financial income and expense	20	-350	1	-22
<b>Total</b>	<b>-6 548</b>	<b>-3 046</b>	<b>-418</b>	<b>-195</b>

### Note 2. Investment property

<i>(thousand; EEK)</i>	Maskavas- Latvia	Jurmala- Latvia	Elniu - Lithuania	Eestkünka I - Estonia	Eestkünka III - Estonia	Pärnu mnt - Estonia	Nõmme tee - Estonia	Koplipere kinnistu - Estonia	Total
<b>Residual value 31.12.2005</b>	<b>119 547</b>	<b>22 408</b>	<b>0</b>	<b>23 927</b>	<b>1 073</b>	<b>2 713</b>	<b>0</b>	<b>36 390</b>	<b>206 058</b>
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
<b>Residual value 31.12.2006</b>	<b>192 002</b>	<b>0</b>	<b>19 672</b>	<b>56 780</b>	<b>43 476</b>	<b>21 999</b>	<b>4 321</b>	<b>0</b>	<b>338 250</b>
Sale in 2007	0	0	0	0	0	-21 999	0	0	-21 999
Changes from exchange rate	-3 226	0	0	0	0	0	0	0	-3 226
<b>Residual value 31.03.2007</b>	<b>188 776</b>	<b>0</b>	<b>19 672</b>	<b>56 780</b>	<b>43 476</b>	<b>0</b>	<b>4 321</b>	<b>0</b>	<b>313 025</b>

<i>(thousand; EUR)</i>	Maskavas- Latvia	Jurmala- Latvia	Elniu - Lithuania	Eestkünka I - Estonia	Eestkünka III - Estonia	Pärnu mnt - Estonia	Nõmme tee - Estonia	Koplipere kinnistu - Estonia	Total
<b>Jääkväärtus 31.12.2005</b>	<b>7 640</b>	<b>1 432</b>	<b>0</b>	<b>1 529</b>	<b>69</b>	<b>173</b>	<b>0</b>	<b>2 326</b>	<b>13 170</b>
Soetamine 2006 aastal	0	0	1 095	0	618	0	169	0	1 882
Ümberhindlus 2006 aastal	4 631	0	162	2 100	2 092	1 233	107	0	10 325
Ümberklassifits. varudesse	0	-1 432	0	0	0	0	0	-2 326	-3 758
<b>Jääkväärtus 31.12.2006</b>	<b>12 271</b>	<b>0</b>	<b>1 257</b>	<b>3 629</b>	<b>2 779</b>	<b>1 406</b>	<b>276</b>	<b>0</b>	<b>21 618</b>
Müük 2007 aastal	0	0	0	0	0	-1 406	0	0	-1 406
Valuutakursist tingitud muutused	-206	0	0	0	0	0	0	0	-206
<b>Jääkväärtus 31.03.2007</b>	<b>12 065</b>	<b>0</b>	<b>1 257</b>	<b>3 629</b>	<b>2 779</b>	<b>0</b>	<b>276</b>	<b>0</b>	<b>20 006</b>