AB Hanner

Consolidated financial statements for the year ended 31 December 2007

Contents

Company details

AB Hanner

Telephone:	+ 370 5 248 72 72
Telefax:	+ 370 5 248 72 73
Company code:	111535724
Registered office:	Konstitucijos ave. 7, Vilnius, Lithuania LT 09308

Management

Robertas Kisielius (Chief Executive Officer)
Tomas Pauliukonis (Chief Financial Officer)

The Board

Arvydas Avulis (Chairman)
Vladas Kojala
Robertas Kisielius

Auditor

KPMG Baltics, UAB

Banks

AB Bankas Hansabankas
AB SEB Bankas

Management's statement on the consolidated financial statements

The Management has today discussed and authorized for issue the consolidated financial statements and the consolidated annual report and has signed the consolidated financial statements and the consolidated annual report on behalf of the Company.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. We consider that the accounting policies used are appropriate and that the consolidated financial statements thus give a true and fair view.

We recommend the consolidated financial statements to be approved at the Annual General Meeting.

Vilnius, 19 August 2008

Management:

Robertas Kisielius
Chief Executive Officer

Tomas Pauliukonis
Chief Financial Officer

"KPMG Baltics", UAB
Vytauto g. 12
LT 08118 Vilnius
Lietuva/Lithuania

Telefonas +370 5 2102600
Telefaksas +370 5 2102659
El. paštas vilnius@kpmg.lt
Internetas www.kpmg.lt

Independent auditor's report to the shareholders of AB Hanner

We have audited the accompanying consolidated financial statements of AB Hanner, which comprise the consolidated balance sheet as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, set out on pages 6–46.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements 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 financial statements that are free from material misstatements, 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 financial statements based on our audit. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Įmonės kodas 111494971
PVM kodas LT114949716
Juridinių asmenų registras

Basis for the qualified opinion

UAB Avestis Capital, the equity accounted investee of AB Hanner, has acquired controlling interest in UAB Avesko Keliai, the company holding shares in UAB Siauliu Plentas group. UAB Avestis Capital accounted the investment in UAB Avesko Keliai at acquisition cost of LTL 26,310 thousand as at 31 December 2007. In our opinion, when preparing consolidated financial statements the investment should have been evaluated following the equity method in order to report AB Hanner share of results in associates and joint ventures fairly. There were no practicable procedures we could perform to estimate impact of the possible adjustments to the net result for the year 2007 as well as the total assets and the equity as at 31 December 2007.

Qualified opinion

In our opinion, except for the possible impact of the matter referred to in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of AB Hanner as at 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on legal and other regulatory requirements

Furthermore, we have read the consolidated annual report for the year 2007 set out on pages 47–53 of the consolidated financial statements and have not identified any material inconsistencies between the financial information included in the consolidated annual report and the consolidated financial statements for the year ended 31 December 2007.

Vilnius, 19 August 2008
KPMG Baltics, UAB

Domantas Dabulis
Partner
Certified Auditor

Consolidated balance sheet

as at 31 December

In thousand Litas	Note	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	7	115,552	3,268
Investment property	8	299,560	267,000
Investments in associates and joint ventures	10	59,819	33,492
Other receivables	11	27,659	58,464
Deferred income tax assets	21	577	130
Total non-current assets		**503,167**	**362,354**
Current assets			
Inventories	12	325,895	223,453
Trade and other receivables	13	138,624	104,444
Investment available-for-sale	14		24,573
Cash and cash equivalents	15	12,803	20,702
Total current assets		**477,322**	**373,172**
TOTAL ASSETS		**980,489**	**735,526**

The notes, set out on pages 12 to 46, are an integral part of these financial statements.

Consolidated balance sheet (cont'd)

as at 31 December

In thousand Litas	Note	2007	2006
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	16,000	16,000
Legal reserve	17	1,600	1,600
Fair value reserve	18		3,901
Cumulative translation difference		34	(1,611)
Retained earnings		426,260	367,473
Total equity attributable to equity holders of the Company		**443,894**	**387,363**
Minority interest		3,701	1,366
Total equity		**447,595**	**388,729**
Non-current liabilities			
Interest bearing loans and borrowings	19	329,069	263,470
Bond liabilities	20	36,370	-
Trade and other payables	23	282	2,992
Deferred tax liability	21	43,510	30,832
Total non-current liabilities		**409,231**	**297,294**
Current liabilities			
Interest bearing loans and borrowings	19	32,595	17,372
Trade and other payables	23	76,643	26,013
Provisions	22	7,180	4,528
Corporate income tax payable		7,245	1,590
Total current liabilities		**123,663**	**49,503**
Total liabilities		**532,894**	**346,797**
TOTAL EQUITY AND LIABILITIES		**980,489**	**735,526**

The notes, set out on pages 12 to 46, are an integral part of these financial statements.

Consolidated income statement

for the year ended 31 December

In thousand Litas	Notes	2007	2006
Revenue	25	203,703	152,606
Net valuation gains on investment property	8	32,560	58,952
Impairment of assets			(41)
Direct property operating expenses	26	(9,826)	(9,455)
Cost of coal		(69,266)	(66,083)
Services of sub-contractors		(67,255)	(33,711)
Depreciation of property, plant and equipment	7	(536)	(470)
Employee benefits	27	(9,081)	(6,108)
Associates and joint ventures results	10	5,080	(8,242)
Other expenses	28	(5,494)	(6,272)
Result from operating activities		**79,885**	**81,176**
Finance income	29	28,175	15,607
Finance expenses	30	(38,262)	(19,205)
Profit before tax		**69,798**	**77,578**
Corporate income tax	31	(10,980)	(15,084)
Net profit for the year		**58,818**	**62,494**
Attributable to:			
Equity holders of the Company		58,787	64,283
Minority interest		31	(1,789)
Net profit for the year		**58,818**	**62,494**
Basic earnings/ per share		3.67	4.02
Diluted earnings per share		3.67	4.02

The notes, set out on pages 12 to 46, are an integral part of these financial statements.

Consolidated statement of changes in shareholders' equity

In thousand Litas	Notes	Share capital	Legal reserve	Fair value reserve	Cumulative translation difference	Retained earnings	Total shareholders' equity	Minority interest	Total equity
Capital and reserves at 1 January 2006		**16,000**	**1,600**	**0**	**1,335**	**303,190**	**322,125**	**3,011**	**325,136**
Acquisition of subsidiaries								165	165
Revaluation on available-for-sale investments				3,901			3,901		3,901
Net profit (loss) for the year 2006		-	-	-	-	64,283	64,283	(1,789)	62,494
Currency translation differences		-	-	-	(2,946)	-	(2,946)	(21)	(2,967)
Capital and reserves at 31 December 2006		**16,000**	**1,600**	**3,901**	**(1,611)**	**367,473**	**387,363**	**1,366**	**388,729**
Revaluation on available-for-sale investments				(3,901)			(3,901)		(3,901)
Acquisition of subsidiaries and minority interest								2,666	2,666
Net profit (loss) for the year 2007						58,787	58,787	31	58,818
Currency translation differences					1,645		1,645	(362)	1,283
Capital and reserves at 31 December 2007		**16,000**	**1,600**	**0**	**34**	**426,260**	**443,89**	**3,701**	**447,595**

The notes, set out on pages 12 to 46, are an integral part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December

In thousand Litas	Notes	2007	2006
Net result (profit)		58,818	64,494
Result of corrections of fundamental errors		0	7,931
Adjustments for:			
Depreciation and amortization	7	555	470
Interest expense	30	19,324	9,358
Interest income	29	(6,780)	(10,450)
Loss on discounting of loans and other receivables	29	(337)	-
Loss (gain) on disposal of available for sale assets		(6,160)	-
Loss (gain) on disposal of fixed assets		384	659
Loss (gain) from fair value adjustment on investment property	8	(32,560)	(58,952)
Loss (gain) on disposal of investments	29	(14,222)	(3,642)
Share of (profit) loss of associates and joint ventures		(5,080)	5,663
Change in provisions		12,158	11,671
Income tax expenses		10,980	15,084
Net cash inflow from ordinary activities before any change in working capital		37,080	40,286
Change in inventories		(93,930)	(120,070)
Change in trade and other receivables		(8,096)	(3,166)
Change in trade and other payables		31,801	39,056
Net cash inflow from ordinary activities		(33,145)	(43,894)
Interest paid		(15,325)	(9,358)
Profit tax paid		(5,460)	(17,492)
Net cash inflow from operating activities		**(53,930)**	**(70,744)**

Consolidated statement of cash flows (cont'd)

for the year ended 31 December

In thousand Litas	Note	2007	2006
Interest received		5,798	10,450
Purchase of property, plant and equipment	7	(10,239)	(1,786)
Additions to investment property	8	0	(1,805)
Investments to subsidiaries	9	(62,028)	(59,621)
Investments to associates and joint ventures	10	(38,013)	(7,774)
Proceeds from sale of available-for-sale financial assets		23,949	-
Purchase of short –term investments (AFS)			(20,672)
Disposals of joint ventures		35,475	3,843
Loan repayments received		60,463	14,219
Loans granted		(14,779)	(7,412)
Net cash inflow from investing activities		**(20,374)**	**(70,558)**
Proceeds from issue of bonds	20	34,528	
Proceeds from borrowings		147,735	141,113
Repayment of borrowings		(116,847)	(15,424)
Net cash inflow/(outflow) from financing, net		**65,416**	**125,689**
Net cash inflow/outflow from operating activities, investing activities and financing		**(8,888)**	**(15,613)**
Exchange gains on cash and equivalents		989	(5,600)
Cash and cash equivalents, opening balance		**20,702**	**41,915**
Cash and cash equivalents at 31 December		**12,803**	**20,702**

The notes, set out on pages 12 to 46, are an integral part of these financial statements.

Notes to the consolidated financial statements

1 Reporting entity

AB Hanner (hereinafter the Company) was registered as a closed joint stock company under the laws of the Republic of Lithuania on 27 July 1995. On 8 September 2005 the Company changed its legal status to joint stock company.

Mr. Arvydas Avulis is the 100% owner of AB Hanner.

The Company is domiciled in Lithuania. The address of its registered office is Konstitucijos Ave. 7, Vilnius.

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates and jointly controlled entities.

The Group is a property development group with a major portfolio in Lithuania, Ukraine, Romania and Latvia. It is primarily involved in development of real estate projects and leasing out investment property under operating lease.

The number of employees of the Group as at 31 December 2007 amounted to 598 (31 December 2006: 171).

2 Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

The Management has authorized the financial statements for issue on 19 August 2008 and signed the financial statements on behalf of the Company.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for investment property and available-for-sale financial assets, which are measured at fair value.

Functional and presentation currency

The consolidated financial statements are presented in Litas, being the functional currency of the Company. All financial information presented in Litas has been rounded to the nearest thousand.

Notes to the consolidated financial statements

2 Basis of preparation (cont'd)

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs, as adopted by the European Union, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs, as adopted by the European Union, that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 4.

3 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Company.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control is achieved when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over which activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees).

Notes to the consolidated financial statements

3 Summary of significant accounting policies (cont'd)

Basis of consolidation (cont'd)

Associates and joint ventures (cont'd)

The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the consolidated income statement.

Financial instruments

The Company does not use derivative financial instruments as at 31 December 2007.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Receivables are non-derivative financial assets and are not quoted in an active market. They are included in current assets except for maturities greater than 12 months. Receivables are initially recognized at fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

Notes to the consolidated financial statements

3 Summary of significant accounting policies (cont'd)

Financial instruments (cont'd)

Non-derivative financial instruments (cont'd)

Certain investments in equity securities and debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss.

Borrowings are initially recognized at fair value less direct costs related to the occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortized cost. Short-term liabilities are not discounted.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment

Reclassification to investment property

Property that is being constructed for future use as investment property is accounted for as property, plant and equipment until construction or development is complete, at which time it is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is recognized in profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized directly in equity. Any loss is recognized immediately in the consolidated income statement.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Notes to the consolidated financial statements

3 Summary of significant accounting policies (cont'd)

Property, plant and equipment (cont'd)

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

- Buildings and constructions 8-15 years
- Motor vehicles 6 years
- Other assets 2-6 years

Depreciation methods, residual values and useful lives are reassessed annually.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognized in income statement.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Leased assets

Leases, in terms of which the Company assumes substantially all the risks and rewards of ownership, are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Inventories

Inventories (trading properties) are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of development projects of trading properties comprises construction costs and other direct and cost related to property development, but excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined based on FIFO (First-In, First-Out) principle.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes to the consolidated financial statements

3 Summary of significant accounting policies (cont'd)

Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For the assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated income statement.

Calculation of recoverable amount

The recoverable amount of the Company's receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at the initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of receivables carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

Liabilities

Liabilities are initially recognized at fair value less direct costs related to occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Short-term liabilities are not discounted.

Notes to the consolidated financial statements

3 Summary of significant accounting policies (cont'd)

Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Revenue

Sales of trading properties

Revenue from the sale of trading properties is measured at the fair value of the consideration received or receivable, net of allowances and discounts. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable and there is no continuing management involvement with the properties.

Rental income

Rental income from investment property is recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

Services rendered

Revenue from the services rendered is recognized in the income statement as the services are rendered.

Lease payments

Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Notes to the consolidated financial statements

3 Summary of significant accounting policies (cont'd)

Finance income and expenses

Finance income comprises interest income on loans granted and funds invested, dividend income, gains on the disposal of available-for-sale financial assets and foreign currency gains. Interest income is recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, impairment losses recognized on financial assets and foreign currency losses. All borrowing costs are recognized in the consolidated income statement using the effective interest method.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to the items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of the assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of assets or liabilities that did not affect neither accounting nor taxable profit, and differences relating to the investments in the subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Earnings per share

The Group presents data of basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. During reporting periods there were no any dilutive potential ordinary shares issued by the Group.

Notes to the consolidated financial statements

3 Summary of significant accounting policies (cont'd)

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on geographical segments.

Standards, interpretations and amendments to published standards that are not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these financial statements:

- Revised IFRS 2 Share-based Payment (effective as of 1 January 2009). The revised Standard will clarifies the definition of vesting conditions and non-vesting conditions. Based on the revised Standards failure to meet non-vesting conditions will generally result in treatment as a cancellation. The revised IFRS 2 is not relevant to the Group's operations as the Group does not have any share-based compensation plans.
- Revised IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 July 2009). The scope of the revised Standard has been amended and the definition of a business has been expanded. Revised IFRS 3 is relevant to the Group. However, the Group has not yet completed its analysis of the impact of the revised Standard.
- IFRS 8 Operating Segments (effective as of 1 January 2009). The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Group has not yet completed its analysis of the impact of the new Standard.
- The revised IAS 1 Presentation of Financial Statements (effective as of 1 January 2009). The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The Group is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 Borrowing Costs (effective as of 1 January 2009). The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Group has not yet completed its analysis of the impact of the revised Standard.

Notes to the consolidated financial statements

3 Summary of significant accounting policies (cont'd)

Standards, interpretations and amendments to published standards that are not yet effective (cont'd)

- Revised IAS 27 Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009). In the revised Standard the term minority interest has been replaced by non-controlling interest, and is defined as "the equity in a subsidiary not attributable, directly or indirectly, to a parent". The revised Standard also amends the accounting for non-controlling interest, the loss of control of a subsidiary, and the allocation of profit or loss and other comprehensive income between the controlling and non-controlling interest. The Group has not yet completed its analysis of the impact of the revised Standard.
- IFRIC 11 IFRS 2 – Company and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The Interpretation requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity-instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments needed are obtained. It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the entity's parent, should be accounted for as cash-settled or equity-settled in the entity's financial statements. IFRIC 11 is not relevant to the Group's operations as the Group has not entered into any share-based payments arrangements.
- IFRIC 12 Service Concession Arrangements (effective from 1 January 2008). The Interpretation provides guidance to private sector entities on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12 is not relevant to the Group's operations.
- IFRIC 13 Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. The Group does not expect the Interpretation to have any impact on the financial statements.
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements (hereinafter MFR) and their interactions (effective for annual periods beginning on or after 1 January 2008). The interpretation addresses:
  1) when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19;
  2) how a MFR might affect the availability of reductions in future contributions; and
  3) when a MFR might give rise to the liability. No additional liability need be recognised by the employer under IFRIC 14 unless the contributions that are payable under the minimum funding requirement cannot be returned to the company. The Group has not yet completed its analysis of the impact of the new interpretation.

Notes to the consolidated financial statements

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

Estimate of fair value of investment properties

An external, independent valuation company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, values the Group's investment property portfolio on an annual basis. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation.

Valuations reflect, where appropriate: the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, and the market's general perception of their creditworthiness; the allocation of maintenance and insurance responsibilities between the company and the lessee; and the remaining economic life of the property.

Impairment losses on receivables

The Company reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, national or local economic conditions that influence the Company of the receivables.

The management evaluates probable cash flows from the debtors based on historical loss experience related to the debtors with a similar credit risk. Methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the consolidated financial statements

5 Financial risk management

Company has exposure to the following risks:

- credit,
- liquidity,
- market,
- operational,
- capital management.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these annual accounts.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The risk is reduced by the fact that related parties are partially or fully controlled by the Group.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance for impairment includes only specific loss, related to individually significant trade and other receivables. The balances of trade and other receivables are not significant, and the actual loss during 2007 was not significant as well.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at 31 December 2007 was:

In thousand Litas	2007	2006
Cash and cash equivalents, net	12,803	20,702
Trade and other receivables	166,283	162,908
Total	**246,566**	**183,610**

Notes to the consolidated financial statements

5 Financial risk management (cont'd)

Credit risk (cont'd)

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region could be specified as follows:

In thousand Litas	2007	2006
Local market	59,854	47,151
Euro-zone countries	41,670	22,728
Russia	7,241	-
Belarus	385	-
Ukraine	57,133	93,029
Total	**166,283**	**162,908**

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group's borrowings are subject to variable interest rates related to LIBOR. As at 31 December 2007, the Group did not use financial instruments to hedge its exposure to the cash flow risk related to debt instruments with variable interest rates or price risk related to debt instruments with fixed interest rates.

A change in average annual interest rate for the Company's borrowings by 1 percentage point would have increased (decreased) the interest expenses and the profit for the year ended 31 December 2007 by approximately 3,211 thousand Litas.

Notes to the consolidated financial statements

5 Financial risk management (cont'd)

Currency risk

The functional currency of the Company is Litas (LTL). The Group faces foreign currency risk on purchases and borrowings that are denominated in currencies other than Litas and EUR. The risk related to transactions in EUR is considered to be insignificant as the Lithuanian Litas is pegged to EUR at a fixed rate. The most significant currency exchange risks as at 31 December 2006 and 31 December 2007 are related to the loans granted to the related parties in USD.

The Group' foreign currency exchange risk has been concentrated in the below provided items of the balance sheet:

31/12/2006

In thousand Litas	USD	EUR	LTL	LVL	Other (UAH)
Receivables	76,421	16,571	47,151		22,765
Cash and cash equivalents	984	7,253	10,751		1,714
Financial liabilities		(273,842)	(7,000)		
Payables			(26,980)		-3615
Total currency exchange risk in the balance sheet	77,405	(257,271)	23,922		20,864

31/12/2007

In thousand Litas	USD	EUR	LTL	LVL	Other (UAH, RON, BYR)
Receivables	35,921	50,173	49,698	2,473	28,018
Cash and cash equivalents	143	365	9,433	664	2,198
Financial and bond liabilities	(17,269)	(373,764)	(7,000)		
Payables		(3,446)	(65,716)	(7,261)	(7,746)
Total currency exchange risk in the balance sheet	18,795	(326,672)	(13,585)	(4,124)	22,470

Notes to the consolidated financial statements

5 Financial risk management (cont'd)

Currency risk (cont'd)

Below the significant currency exchange rates applied during the period (in respect of functional currency) are presented:

	Average rates of 2007	Average rates of 2006
EUR	3,4528	3,4528
LVL	4,9324	4,9594
USD	2,5230	2,7513

Capital management

The Board's policy is to maintain a strong capital base, in comparison with the borrowed means, so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties on an arm's length transaction, other than in forced or liquidation sale.

Fair values are obtained from quoted market prices, discounted cash flow models as appropriate.

Carrying amount of trade amounts receivable, amounts payable and short-term credit lines is close to their fair value. The fair value of the long-term debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current loans, borrowings and other payables with variable interest rates approximates their carrying amounts.

Notes to the consolidated financial statements

6 Segment information

Primary reporting format – geographical segments

The home-country of the Company – which is also the main operating company – is Lithuania. The Group has four reportable segments: Lithuania, Ukraine, Latvia and Romania.

The segment results for the year ended 31 December 2007 are as follows:

In thousand Litas	Lithuania	Ukraine	Latvia	Romania	Other	Group
Total revenue	**202,610**	**108**	**88**	**897**		**203,703**
Result of associates and joint ventures	9	(1,558)	3,056	3,951	-,379	5,079
Result from operating activities	**76,011**	**(3,156)**	**3,367**	**4,046**	**(383)**	**79,885**
Finance income	16,925	14,222				31,147
Finance expenses	(36,347)	(1,205)	(947)	(2,735)		(41,234)
Profit before tax	**56,589**	**9,861**	**2,420**	**1,311**	**(383)**	**69,798**
Corporate income tax	(11,465)			485		(10,980)
Net profit for the year	**45,124**	**9,861**	**2,420**	**1,796**	**(383)**	**58,818**

Segments' assets and liabilities at 31 December 2007

In thousand Litas	Lithuania	Ukraine	Latvia	Romania	Other	Group
Assets	686,666	124,468	82,306	26,555	98	920,093
Joint ventures	36,469	9,330	7,365	6,313	342	59,819
Total segments' assets	**723,135**	**133,798**	**89,671**	**32,868**	**440**	**979,912**
Deferred income tax assets	16			561		577
Total assets	**723,151**	**133,798**	**89,671**	**33 429**	**440**	**980,489**
Liabilities	48,566	18,584	7,321	2,342	112	76,925
Provisions		3,533		3,647		7,180
Total segments' liabilities	48,566	22,117	7,321	5,989	112	84,105
Loans and bonds	303,079	17,269	77,686			398,034
Deferred tax liability	43,510					43,510
Corporate income tax payable	7,245					7,245
Total liabilities	**402,400**	**39,386**	**85,007**	**5,989**	**112**	**532,894**
Other information						
Investment into fixed assets	9,668	197	302	59	13	10,239
Depreciation	405	51	84	15		555

Notes to the consolidated financial statements

6 Segment information (cont'd)

Primary reporting format – geographical segments (cont'd)

The segment results for the year ended 31 December 2006 are as follows:

In thousand Litas	Lithuania	Ukraine	Latvia	Romania	Group
Total revenue	**150,749**	**1,530**	-	**327**	**152,606**
Associates and joint ventures losses	(158)	(6,382)	(831)	(871)	(8,242)
Result from operating activities	**94,273**	**(11,426)**	**(814)**	**(858)**	**81,175**
Finance income	15,584	23	-	-	15,607
Finance expenses	(19,782)	(192)	(55)	824	(19,205)
Profit before tax	**90,075**	**(11,595)**	-	**-(34)**	**77,577**
Corporate income tax	(15,054)	-	-	(30)	(15,084)
Net profit for the year	**75,021**	**(11,595)**	**(869)**	**(64)**	**62,493**
Other sergment information					
Depreciation	417	27	25	1	470

Segments' assets and liabilities In thousand Litas	Lithuania	Ukraine	Latvia	Romania	Group
Assets	558,870	64,895	53,869	24,270	701,904
Joint ventures	4,974	23,461	4,951	106	33,492
Total segments' assets	**563,844**	**88,356**	**58,820**	**24,376**	**735,396**
Deferred income tax assets	15	-	-	115	130
Total assets	**563,859**	**88,356**	**58,820**	**24,491**	**735,526**
Liabilities	20,725	8,120	104	57	29,006
Provisions	18	2,388	649	1,473	4,528
Total segments' liabilities	20,743	10,508	753	1,530	33,534
Loans	280,841	-	-	-	280,841
Deferred tax liability	30,832	-	-	-	30,832
Corporate income tax payable	1,443	-	-	147	1,590
Total liabilities	**333,859**	**10,508**	**753**	**1,677**	**346,797**
Other segment information					
Investment property	1,805	-	-	-	1,805
Depreciation	417	27	25	1	470

Notes to the consolidated financial statements

6 Segment information (cont'd)

Secondary reporting format – business segments

The Group has three business segments – property development, trading coal and cardboard production. Property development includes building residential areas, office sets, buildings for other commercial purposes as well rent of offices and buildings for commercial purposes, and private capital investments.

The segment results for the year ended 31 December 2007 are as follows:

In thousand Litas

	Property development	Trading coal	Cardboard production	Group
Segments' assets	796,831	23,283	99,979	920,093
Associates and joint ventures losses	59,819			59,819
Total segments' assets	**856,650**	**23,283**	**99,979**	**979,912**
Deferred income tax assets	577			577
Total assets	**857,227**	**23,283**	**99,979**	**980,489**
Liabilities	54,201	2,068	20,655	76,924
Provisions	7,179			7,179
Total segments' liabilities	61,382	2,068	20,655	84,105
Loans and bonds	350,951	7,000	40,083	398,034
Deferred tax liability	36,794	6,716		43,510
Corporate income tax payable	4,601		2,644	7,245
Total liabilities	**453,728**	**15,784**	**63,382**	**532,894**
External revenue	**131,314**	**72,389**		**203,703**
Other information				
Investment into fixed assets	10,095	144		10,239

Notes to the consolidated financial statements

6 Segment information (cont'd)

Secondary reporting format – business segments (cont'd)

The segment results for the year ended 31 December 2007 are as follows:

In thousand Litas	Property development	Trading coal	Group
Segments' assets	675,319	26,585	701,904
Associates and joint ventures losses	33,492	-	33,492
Total segments' assets	**708,811**	**26,585**	**735,396**
Deferred income tax assets	130	-	130
Total assets	**708,941**	**26,585**	**735,526**
Liabilities	28,475	531	29,006
Provisions	4,528	-	4,528
Total segments' liabilities	33,003	531	33,534
Loans	273,841	7,000	280,841
Deferred tax liability	30,832	-	30,832
Corporate income tax payable	1,498	92	1,590
Total liabilities	**339,174**	**7,623**	**346,797**
External revenue	**84,667**	**67,939**	**152,606**
Other information			
Real estate	718	1	719
Investment property	1,805	-	1,805

Notes to the consolidated financial statements

7 Property, plant and equipment

In thousand Litas	Buildings and other constructions	Vehicles	Other fixed assets	Total
1 January 2006				
Acquisition cost	1,249	1,085	817	3,151
Accumulated depreciation	(251)	(452)	(237)	(940)
Closing net book amount	998	633	580	2,211
Year ended 31 December 2006				
Opening net book amount	998	633	580	2,211
Additions	1,147	76	563	1,786
Disposals / Write-offs	(75)	(79)	(13)	(167)
Transfers	109		(201)	(92)
Depreciation charge	(89)	(138)	(243)	(470)
Closing net book amount	**2,090**	**492**	**686**	**3,268**
31 December 2006				
Acquisition cost	2,430	839	1,522	4,791
Accumulated depreciation	(340)	(347)	(836)	(1,523)
Net book amount	**2,090**	**492**	**686**	**3,268**
Year ended 31 December 2007				
Opening net book amount	2,090	492	686	3,268
Additions	9,160	437	642	10,239
Additions from jodint ventures	58,634	1,220	43,141	102,995
Disposals / Write-offs	(192)	(170)	(22)	(384)
Reclassifications				
Depreciation charge	(93)	(199)	(263)	(555)
Currency exchange loss (gain)			(11)	(11)
Closing net book amount	**69,599**	**1,780**	**44,115**	**115,552**
31 December 2007				
Acquisition cost	70,224	2,496	45,247	118,025
Accumulated depreciation	(625)	(716)	(1,132)	(2,473)
Net book amount	**69,599**	**1,780**	**44,115**	**115,552**

In accordance with the bank loan agreements, as at 31 December 2007 the Group has pledged its property, land and equipment, the balance value of which amounts to 52,413 tLitas. As at 31 December 2006 there were no assets pledged.

Notes to the consolidated financial statements

In thousand Litas	2007	2006
8 Investment property		
At beginning of the year	267,000	206,643
Subsequent expenditure - additions		1,805
Transfer from property, plant and equipments		-
Net gain from fair value adjustments on investment property	32,560	58,952
Disposal		(400)
Total	**299,560**	**267,000**

As at 31 December 2007 all the investment properties have been pledged as security for bank borrowings (Note 19).

The investment properties as at 31 December 2007 were valued by independent qualified valuators UAB Ober-Haus based on prices that existed in an active market as at 31 December 2007.

9 Acquisition of subsidiaries

30 November 2007 AB Hanner (by acquiring 100% of shares of the controlling company UAB Avesko) indirectly acquired 95.6% of shares of AB Klaipėdos kartonas. The main activity of AB Klaipėdos kartonas is the production of recycled boardcard. The main production of the company includes testliner and fluting – raw materials for the production of corrugated cardboard.

The impact of the acquisition on AB Hanner consolidated assets and liabilities is as follows:

Klaipėdos kartonas	Balance value before acquisition	Adjustments to the fair value	Recognized acquisition value
In thousand Litas			
Property, plant and equipment	70,393	32,602	102,995
Non-tangible assets	(951)	951	
Non-current financial assets	1,844		1,844
Inventories	8,512		8,512
Trade and other receivables	17,110		17,110
Cash and cash equivalents	3,070		3,070
Loans	(39,892)		(39,892)
Deferred tax liabilities	(1,826)	(4,890)	(6,716)
Trade and other payables	(18,829)		(18,829)
Recognized assets and liabilities, net	**39,432**	**28,663**	**68,094**
Acquired share			**95.6%**
Acquired assets, net			**65,098**
Goodwill accumulated on the acquisition			0
Acquisition cost paid in cash			65,098
Acquired cash			(3,070)
Cash expenses during the acquisition			62,028

Notes to the consolidated financial statements

9 Acquisition of subsidiaries (cont'd)

Balance values before the acquisition were determined just after the acquisition. The Company carried out an independent valuation of property, plant and equipment, and accordingly adjusted the fair values of these asset groups. The values of assets and liabilities recognized on acquisition are their calculated fair values.

If the Group had acquired shares of UAB Avesko, controlling AB Klaipėdos Kartonas, as of 1 January 2007, the profit would have been increased by 15,582 tLitas.

In thousand Litas	2007	2006
10 Investment in associates and joint ventures		
At the beginning of the year	33,492	31,105
Establishment of joint ventures	787	36
Acquisitions of share of joint ventures	8,991	7,316
Contribution to share capital of joint ventures	28,235	422
Share of loss - net*	5,080	(5,663)
Reclassification to associates ir joint ventures	6,501	
Disposals	(26,220)	(201)
Translation differences	398	(1,973)
Provision for net liabilities of associates (Note 22)	2,652	2,450
At the end of the year	**59,819**	**33,492**

* Share of the loss after tax of the joint ventures

On 27 February 2007, the Company together with the partner UAB Girteka established OOO Shusary Logistik in the Russian Federation. The Company holds 50% of the authorised capital.

On 2 May 2007, the Company together with the partner Kęstutis Mickus, established OOO Hanner SPB Development in the Russian Federation The Company holds 50% of the authorised capital.

On 9 November 2007, UAB H5 Development was established and registered, in which AB Hanner holds 50 per cent of the parts in the authorised capital of the established company.

On 1 June 2007, an agreement re purchase-sales of parts was signed. According to the agreement signed, AB Hanner acquired 50% of the parts of the limited liability company Pidpriemstvo Vaizbunas established in the Republic of Ukraine. The authorised capital of the limited liability company Pidpriemstvo Vaizbunas amounts to 27,000 UAH.

On 2 May 2007, AB Hanner acquired shares of UAB Santariškių Namai owned by UAB Hanner Development. On 22 May 2007, AB Hanner and UAB Eika decided to increase the authorised capital of UAB Santariškių Namai by 4,990,000.00 Litas up to 5,000,000.00 Litas. AB Hanner and UAB Eika hold 50 per cent (each) of the shares of the mentioned company.

On 22 March 2007, the Company signed an agreement on sales of parts related to ZAO Nest Hanner 17,535,000 ordinary intangible shares, making 50% of the authorised capital.

On 11 May 2007, agreement No. 11/05 re purchase-sales of parts in the authorised capital was signed. According to the agreement mentioned, AB Hanner sold 39.99999% of parts in the authorised capital of the limited liability company established in the Republic of Ukraine Judžin (in Russian - OOO Юджин), company code 31303824, address – Generolo Naumovo Str. 23B, Kiev, Ukraine (hereinafter - OOO Judžin).

Notes to the consolidated financial statements

10 Investment in associates and joint ventures (cont'd)

On 4 September 2007, an agreement of purchase-sales of shares was signed. As to the mentioned agreement, AB Hanner sold 533 units of the shares of UAB Gudelių Šilas established in Lithuania, comprising 9.892 per cent from the total shares of the company UAB Gudelių Šilas. Currently AB Hanner holds 2,161 shares of UAB Gudelių Šilas, comprising 40.1076 per cent from the total shares. The authorised capital of UAB Gudelių Šilas amounts to 5,388,000.00 Litas and is divided into 5,388 shares. The nominal value per share is 1,000 Litas.

Results, assets and liabilities of the joint ventures, all of which are unlisted, are as follows:

Name	Country of incorporation	Assets	Liabilities	Revenue	Profit/ (loss)	% Interest held
UAB Gudelių šilas	Lithuania	35,630	30,752	0	(499)	40.2%
UAB Avestis Capital *	Lithuania	33,874	701	67	1,016	99%
UAB Santariškių namai	Lithuania	48,853	45,546	0	(1,591)	50%
UAB H5 Development	Lithuania	9	1	0	(3)	50%
Puces Birzs	Latvia	73,631	71,372	16,872	3,494	50%
SIA Equilibrium	Latvia	12,979	467	4,578	2,592	50%
Carol Park Residence SRL	Romania	86,161	93,455	0	(8,015)	50%
Europe Group Hanner SRL	Romania	61,857	49,231	53,749	16,466	50%
OOO Predprijatie Vaizbunas	Ukraine	22	10	21	1	50%
OOO Šušary Logistik	Russia	27,636	26,952	0	(778)	50%
OOO SPB Development Logistik	Russia	603	604	378	(2)	50%

* In accordance with the shareholders' agreement, the decisions concerning UAB Avestis Capital are adopted only with the approval of all the parties. Therefore, this company is not under control of the Group and the investment is classified as investment to associates and joint ventures.

In thousand Litas	2007	2006
11 Other receivables		
Long-term loans to associates and joint ventures (Note 32)	10,600	43,845
Less: provision for impairment of long-term loans to associates and joint ventures	(220)	(1,325)
Long-term loans to associates and joint ventures, net (Note 32)	10,380	42,520
Long-term loans to other related parties (Note 32)	1,397	10,686
Long-term loans to third parties	1,490	4,184
Long-term loans to Mr. Avulis	2,223	137
Other receivables	12,169	937
Less: provision for impairment of other receivables		
Total	**27,659**	**58,464**

Loans to associates and joint ventures were granted with repayment terms ranging from 2 to 5 years. The annual interest rate ranges from 2.5 to 14 per cent. The average interest rate as at 31 December 2006 was 7 per cent. In the opinion of the Company's management, the carrying amounts of the long-term receivables approximate their fair value.

Notes to the consolidated financial statements

In thousand Litas	2007	2006
12 Inventories		
Development projects of trading properties	315,265	220,938
Coal	1,358	2,515
Finished goods and raw materials for the production of paper	8,071	
Other inventory	1,201	
Total	**325,895**	**223,453**

The majority of the development projects are expected to be completed during the 24 month period.

In thousand Litas	2007	2006
13 Trade and other receivables		
Trade receivables:		
- receivables for development projects	12,139	6,366
- receivables for coal	18,018	20,214
- receivables for rent	1,569	1,221
- cardboard for goods	16,349	
Total trade receivables	48,075	27,801
Less: provision for impairment of doubtful trade receivables	(19)	(2)
Trade receivables, net	**48,056**	**27,799**
Short-term loans:		
- loans to associates and joint ventures (Note 32)	59,026	44,070
Less: provision for impairment for loans to associates and joint ventures	(896)	(128)
- loans to associates and joint venture, net (Note 32)	58,130	43,942
- loans to other related parties	6,434	202
- loans to other parties	3,300	5,358
Receivables loans, net	**67,864**	**49,502**
Receivables from associates	1,163	
Prepayments, deferred charges and accrued income	4,928	20,437
Receivables from the State budget	3,855	4,365
Other receivables	12,758	2,341
Other receivables	**22,704**	**27,143**
Total	**138,624**	**104,444**

Notes to the consolidated financial statements

In thousand Litas	2007	2006
14 Investments available-for-sale		
At beginning of the year	24,573	
Additions		19,983
Net gain from fair value adjustments		4,590
Sales	(24,573)	
Total	**0**	**24,573**

In thousand Litas	2007	2006
15 Cash and cash equivalents		
Cash at bank	12,751	20,626
Cash in hand	52	75
Total cash and cash equivalents	**12,803**	**20,701**

16 Share capital

As at 31 December 2007, the share capital comprised of 16,000 ordinary registered shares with par value of 1,000 Litas each. All the shares are fully paid. There were no changes in the share capital during the year.

17 Legal reserve

Legal reserve amounting 1,600 thousand Litas represents non-distributable reserve, which can only be used for offsetting future operating losses, if any.

18 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognized.

In thousand Litas	2007	2006
19 Borrowings		
Current liabilities		
Current portion of long-term bank borrowings	32,595	17,372
Total current liabilities	**32,595**	**17,372**
Non-current liabilities		
Long-term bank borrowings	329,069	263,470
Total non-current liabilities	**329,069**	**263,470**
Total	**361,664**	**280,842**

Notes to the consolidated financial statements

19 Borrowings (cont'd)

Borrowings are secured with the investment property, amounting to 299,650 tLitas (Note 8), property, plant and equipment, amounting 52,413 tLitas (Note7), coal invetories and a part of projects under development, amounting 316,623 tLitas (Note 12) and the shares of UAB Avesko and AB Klaipėdos Kartonas.

Weighted average interest rates effective as at 31 December (per cent) were as follows:

In thousand Litas	2007	2006
Long-term bank borrowings	5.31	4.79

Maturity of long-term borrowings:

In thousand Litas	2007	2006
Within 1 year	32,595	17,372
Between 1 and 2 years	81,550	17,346
Between 2 and 5 years	149,705	46,706
Over 5 years	97,814	199,417
Total	**361,664**	**280,842**

Fair value of the borrowings approximates to their carrying values.

20 Bonds

On 19 February 2007, the public emission of the Company's bonds amounting to 10 million EUR and with a term of 2 years was successfully issued. The interest rate was set on the last day of the issue of bonds' emission, i.e. on 19 February 2007 and is by 2 per cent higher than the interest rates of the standard swap agreement with a term of 2 years (4.2 per cent) (Interest Rate Swap - IRS). As at 31 December 2007, the costs of the accrued interest amounted to 1,842 thousand Litas.

21 Deferred income tax

The gross movement on the deferred income tax account is as follows:

In thousand Litas	2007	2006
At the beginning of the year	(30,705)	(19,625)
Change in deferred tax recognized in the income statement	(8,027)	(10,379)
Change in deferred tax recognized in equity	689	(689)
Acquired from joint ventures	(4,890)	
At the end of the year	**(42,933)**	**(30,702)**

Deferred income tax to be recovered after more than 12 months	(42,949)	(30,705)
Deferred income tax to be recovered within 12 months	16	3

Notes to the consolidated financial statements

21 Deferred income tax (cont'd)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

In thousand Litas	2007	2006
Deferred tax assets	0	51
Deferred tax liabilities	(43,510)	(30,883)
Total	**(43,510)**	**(30,832)**

The gross movement on the deferred income tax account is as follows:

In thousand Litas	Tangible non-current assets	Investment property	Investments available for sale	Total
Deferred tax liabilities				
At 1 January 2006	(599)	(19,062)	0	(19,661)
Credited/(charged) to the income statement	146	(10,679)		(10,533)
Credited/(charged) to equity			(689)	(689)
At 31 December 2006	**(453)**	**(29,741)**	**(689)**	**(30,883)**
Credited/(charged) to the income statement	97	(8,523)		(8,426)
Credited/(charged) to equity			689	689
Acquired from joint ventures	(4,890)			(4,890)
At 31 December 2007	**(5,246)**	**(38,264)**	**0**	**(43,510)**

In thousand Litas	Vacation reserve	Off set against liabilities	Net asset
Deferred tax assets			
At 1 January 2006	36	(20)	16
Credited/(charged) to the income statement	145	(31)	114
At 31 December 2006	**181**	**(51)**	**130**
Credited/(charged) to the income statement	396	51	447
At 31 December 2007	**577**	**0**	**577**

Notes to the consolidated financial statements

22 Provisions

In thousand Litas	2007	2006
At 1 January	4,528	2,078
Provision for share of cumulative losses in associates and joint ventures attributable to the Group (Note 10)	2,652	2,450
Total	**7,180**	**4,528**

23 Trade payables and other amounts payable

In thousand Litas	2007	2006
Non-current trade and other amounts payable		
Trade payables for construction works	0	438
Other payables	282	2,554
Total non-current payables	**282**	**2,992**
Current trade and other amounts payable		
Taxes	2,850	886
Trade payables relating to development projects	17,359	15,559
Advances	22,901	6,995
Payables for coal	1,711	197
Other payables	31,822	2,376
Total current payables	**76,643**	**26,013**
Total	**76,925**	**29,005**

24 Commitments and contingent liabilities

Contingent liabilities – tax audits

The Tax Authorities have carried out a full-scope tax audit at the Company for the year 2001. The tax authorities may at any time inspect and record within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances which may give rise to a potential liability to the Group in this respect.

Notes to the consolidated financial statements

25 Revenue

In thousand Litas	2007	2006
Coal	96,833	52,404
Development projects	71,172	66,772
Rental income	22,385	21,003
Service charges	9,799	8,152
Other services	3,514	4,275
Total	**203,703**	**152,606**

The period of leases whereby the Group leases out its investment property under operating leases ranges from 2 to 10 years.

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

In thousand Litas	2007	2006
No later than 1 year	22,670	24,788
Later than 1 year and no later than 5 years	106,036	97,878
Later than 5 years	51,224	18,968
Total	**179,930**	**141,634**

26 Direct property operating expenses

In thousand Litas	2007	2006
Utilities and exploitation expenses	7,076	7,336
Repair and maintenance	1,064	565
Land and real estate taxes	1,018	872
Other	668	682
Total	**9,826**	**9,455**

27 Employee benefit expenses

In thousand Litas	2007	2006
Wages and salaries	6,590	4,381
Social security costs	2,092	1,411
Vacation reserve	118	196
Other costs	281	120
Total	**9,081**	**6,108**

Notes to the consolidated financial statements

28 Other expenses

In thousand Litas	2007	2006
Mediation and transportation expenses	466	436
Charity, support	629	117
Consulting, audit and legal expenses	983	593
Marketing and advertising expenses	818	562
Telecommunication and IT maintenance expenses	209	184
Business trip expenses	151	152
Taxes (other than income tax)	185	484
Office supplies and utilities	409	359
Office rent	374	218
Impairment provision for trade receivables	1,058	-
Bank charges	189	408
Other expenses	23	2,759
Total	**5,494**	**6,272**

29 Finance income

In thousand Litas	2007	2006
Interest income		
- interest income from related parties (Note 30)	6,383	6,470
- interest income from third parties	383	3,760
- interest income on bank/deposit balances	14	214
Income on disposal of joint ventures	14,222	3,843
Profit on disposal of investments	6,160	
Reversed impairment of loans and other receivables	337	1,320
Gain from currency exchange	676	0
Total	**28,175**	**15,607**

30 Finance costs

In thousand Litas	2007	2006
Interest expense		
- bank borrowings	16,882	8,938
- borrowings from related parties	2,255	
- other borrowings	187	420
Losses from currency exchange	16,435	9,847
Other losses	2,503	
Total	**38,262**	**19,205**

Notes to the consolidated financial statements

31 Income tax

In thousand Litas	2007	2006
Current tax	3,001	4,665
Change in deferred tax (Note 21)	7,979	10,419
Total	**10,980**	**15,084**

The tax on the Group's profit before taxes differs from the theoretical amount that would arise using the basic tax rate as follows.

In thousand Litas	2007		2006	
Result before tax		69,798		77,740
Income tax using the standard tax rate	18.0%	12,564	19.0%	14,740
Non-taxable income / non-deductible expenses	(2.0%)	(1,378)	2.8%	2,183
Charity expenses deductible twice for tax purposes	(0.3%)	(214)	0.0%	(22)
Under provided in previous years	0.6%	428	0.5%	413
Impact of change of tax rates on temporary differences	(0.6%)	(420)	(2.9%)	(2,230)
Total charge as to accounts	**15.7%**	**10,980**	**18.8%**	**15,084**

Notes to the consolidated financial statements

32 Related party transactions

Joint ventures and associates of the Group, members of the Board and Senior Personnel and their close family members are treated as related parties.

The Group is controlled by Mr. A. Avulis who owns 100.0 per cent of the Company's share capital. Companies controlled or significantly influenced by Mr. A. Avulis are treated as other related parties.

(i) the following transactions were carried out with related parties:

In thousand Litas	2007	2006
Interest income		
Interest income from loans to associates and joint ventures	7,739	6,442
Interest income from loans to other related parties	267	23
Interest income from loans to Mr. A. Avulis	6	5
Total	**8,012**	**6,470**

(ii) year end balances arising from transactions with related parties:

In thousand Litas	2007	2006
Long-term loans		
Loans to associates and joint ventures	10,600	43,845
Less: provision for impairment of long-term loans to joint ventures	(220)	(1,325)
Long-term loans to associates and joint ventures, net	10,380	42,520
Loans to other related parties	1,397	10,686
Loans to Mr. A. Avulis	2,223	137
	14,000	53,343
Short-term loans		
Loans to associates and joint ventures	59,026	44,070
Less: provision for impairment of short-term loans to joint ventures	(896)	(128)
Loans to joint ventures, net	58,130	43,942
Loans to other related parties	6,434	-
Loans to a member of Senior Management		84
Total	**64,564**	**44,026**

(iii) compensations to the Senior Management:

In thousand Litas	2007	2006
Salaries	531	623

Senior Management includes 3 (2006: 5) members of the Board and Senior Personnel.

Notes to the consolidated financial statements

33 Subsidiaries and joint ventures

Subsidiary/ joint venture	Country of incorporation	Direct ownership interest in % 2007	2006	Activity of the enterprise
Subsidiaries				
UAB Hanner Property	Lithuania	100%	100%	The main activity is development of real estate projects in Lithuania.
UAB „Hanner Development"	Lithuania	100%	100%	Subsidiary managing real estate projects and construction works.
UAB Hanner AG	Lithuania	90%	90%	The main activity is the wholesale of coal
UAB Bajorų kalvos	Lithuania	100%	100%	Subsidiary developing the residential project Bajorų Kalvos at Bajorų road and Mokslininkų street in Vilnius.
UAB Verkių slėnis	Lithuania	100%	100%	Subsidiary is developing a luxury residential project Verkių Slėnis in Verkiai regional park, Vilnius.
UAB HD statyba	Lithuania	-	100%	Construction work..
VšĮ Hanner Up	Lithuania	100%	100%	The subsidiary is engaged in organisation and coordination of the event „Running to the skyscraper „Europa".
UAB Avesko	Lithuania	100%	-	The main activity of the subsidiary is investment management. UAB Avesko owns 95.6 of shares of AB Klaipėdos Kartonas.
UAB TVD statyba	Lithuania	51%	-	Joint venture is engaged in construction works.
SIA Hanner Real Estate	Latvia	100%	100%	Subsidiary coordinating activity of Hanner and investment in Latvia.
SIA Dentava	Latvia	100%	100%	Company in Latvia is developing multifunctional real estate project Ropazu at Ropazu street, Riga.
SRL Hanner RD	Romania	100%	100%	Enterprise is coordinating Hanner activities and investments in Romania; at the moment it is developing a residential Tineretului project in Bucharest, Romania.
ZAO Hanner Invest	Ukraine	99,9%	99,9%	Subsidiary is coordinating Hanner activities and investments in Ukraine, besides it owns interest in indirect subsidiaries Prioritet OOO, Olimpeks Trans OOO, Budmarin OOO, Hanber OOO, Mir Atrakcionov OOO and associate Jugstroi Invest OOO of the Company.
OOO Hanner Management	Ukraine	100%	100%	Subsidiary is engaged in real estate project management and construction in Ukraine.
ZAO JBK Invest	Ukraine	99%	99%	Enterprise which main activity is implementation of OOO Prioritet developed real estate projects.
ZAO Palmyra Invest	Ukraine	70%	70%	Enterprise, which main activity is implementation of OOO Hanber developed real estate project.
ZAO Ploshad				Enterprise, which main activity is implementation of OOO Jugstroj Invest

Notes to the consolidated financial statements

Tolbuchina	Ukraine	80%	80%	developed real estate project.
ZAO Stroitelnyje Technologii Budusevo	Ukraine	75%	75%	Subsidiary is developing implementation of the real estate project Fontanka in Odessa
ZAO Zakrytyj Nediversifikovanyj Investicionyj Fond Hanner-Vostok	Ukraine	90%	90%	Subsidiary which main activity is sales of real estate developed in Ukraine
ZATT Hanner Bel Invest	Belorus	51%	-	Joint venture with AKOOO Salner Kompanija Limited is engaged in reconstruction of cinema studio buildings as well as development of residential project in Minsk, Belarus. The company was established in 2007.
Joint ventures				
UAB Avestis Capital	Lithuania	99%	99%	The main activity of the company is investment, purchase of companies. The company owns 40% of shares of UAB General Financing and 70.27% of shares of UAB of Avesko Keliai.
UAB Gudelių šilas	Lithuania	40 %	50%	Join venture with Faulana is developing implementation of residential project Gudelių Šilas in Lazdynai district, Vilnius.
UAB Santariškių namai	Lithuania	50%	50%	Joint venture with UAB Eika is engaged in development of residential project Santariškių Namai in Vilnius.
UAB H5 Development	Lithuania	50%		Joint venture with UAB Penki Kontinentai, UAB Trinapolis is engaged in development of the block of buildings of commercial (administrative) offices.
SIA Puces Birzs	Latvia	50%	50%	Joint venture with I un MC is developing a residential block district project Purvciems in Purvciems district, Riga.
SIA Equilibrium	Latvia	50%	50%	Joint venture is developing residential project in Purvciems district, Riga. Joint venture shares were acquired in 2006.
SRL S. C. Carol Park Residence	Romania	50%	50%	Joint venture with Bellerive Holdings Ltd. Is developing the residential block district project in Bucharest, Romania.
SRL Europa Group Hanner	Romania	50%	50%	Joint venture with UAB Group Europa Investment is developing the residential block district project City Center Residence in Bucharest, Romania.
ZAO Nest Hanner	Ukraine	---	50%	Joint venture with ZAO Nest is developing a multifunctional complex project at the territory of the former tobacco factory in Kiev, Ukraine, besides it owns interest in the indirect subsidiary of the Company Ippon Ltd. The company was sold in 2007.
OOO Yudgin	Ukraine	-	40 %	Joint venture with ZAO Nest is developing the shopping center Olympic Plaza project in Kiev, Ukraine. The company was sold in 2007.

Notes to the consolidated financial statements

OOO Predprijatie Vaizbunas	Ukraine	50%	-	Joint venture with UAB Progresyvios Investicijos is engaged in construction of residential buildings. The company was acquired in 2007.
OOO Šušary Logistik	Russia	50%	-	Joint venture with UAB Girteka is engaged in development of the Logistics Center project in St. Petersburg, Russia. The company was established in 2007.
OOO SPB Development Logistik	Russia	50%	-	Joint venture with UAB Girteka is engaged in management of the Logistics Center project and construction. The company was established in 2007.

34 Legal claims

The Company is not involved in any litigation where it acts as a defendant.

35 Fair value of financial instruments

The Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, borrowings.

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

In the opinion of the Company's management, the carrying amounts of trade and other receivables, trade and other payables and borrowings approximate their fair values.

36 Subsequent events

1. In 2008, while implementing decisions, dated 11 December 2007, of the sole shareholder of AB Hanner, the actions re end of the activity of the subsidiaries of AB Hanner ZAO Ploshad Tolbuchina and ZAO Palmira Invest established in the Republic of Ukraine were started.

2. On 12 February 2008, new Articles of Association of AB Hanner were registered with the Register of Legal Entities. According to the new Articles of Association, the number of the Board members of the Company was decreased from 5 (five) to 3 (three). Mr. Arvydas Avulis, Mr. Vladas Kojala and Mr. Robertas Kisielius were elected as new members of the Board for a period of four years.

3. On 7 May 2008, AB Hanner signed an agreement of purchase-sales of parts with UAB Progresyvios Investicijos. As to the agreement mentioned, UAB Progresyvios Investicijos, having carried out the terms of the agreement mentioned above, shall acquire 50% of the parts (held by AB Hanner) of the limited liability company Pidpriemstvo Vaizbunas established in the Republic of Ukraine.

4. On 1 July 2008, Robertas Kisielius was appointed as Chief Executive Officer of AB Hanner.

Annual report for 2007

AB Hanner was registered on 27 July 1995.

The authorised capital of the Company, registered with the Company Register, amounts to 16,000,000 Litas as at 31 December 2007 and consists of 16,000 ordinary registered shares with a nominal value of 1 thousand Litas each. All the shares are fully paid in.

There are no debt or derivative securities issued and the increase of the authorised capital on the securities' basis is not foreseen.

As at 31 December 2007, the number of AB Hanner shareholders amounted to 1. The sole shareholder of the Company was:

Shareholder	Registered address	Number of shares	Share of authorised capital and votes %
Arvydas Avulis	Nugalėtojų Str. 6, Vilnius	16,000	100

Members of the management bodies and their participation in the Company's authorised capital

Position	Name, surname	Participation in the authorised capital
Chairman of the Board	Arvydas Avulis	Holds 100% of the Company's shares
Member of the Board and General Director of the Company	Vladas Kojala	Does not participate
Member of the Board	Robertas Kisielius	Does not participate

AB Hanner performs its activities in accordance with the Law of the Republic of Lithuania on Companies and other legal acts effective in the Republic of Lithuania.

The main activities of the Group are the management of real estate development projects and lease of real estate; trade in coal; production of cardboard and investments of private capital. Investments in development of real estate, construction as well as investments of private capital are performed both from own and borrowed funds.

At the end of 2007, the companies of the Group own property, plant and equipment, and investment property of 415,112 thousand Litas, which include:

Investment property	299,560 thousand Litas;
Buildings and plant	69,599 thousand Litas;
Vehicles	1,780 thousand Litas;
Other assets	44,115 thousand Litas.

The Group's liability to the credit institutions amounted to 398,088 thousand Litas.

The assets of the Group are insured by Lithuanian and foreign insurance companies.

At the end of 2007, AB Hanner Group employed 598 employees. The remuneration fund amounts to 9,081 thousand Litas.

All assets of the Group of the companies amount to 980,488 thousand Litas as at 31 December 2007 and increased by 244,962 thousand Litas if to compare with the corresponding period of previous year. The most significant increase was in the value of non-current tangible assets: from 3,268 thousand Litas at the end of 2006 to 115,552 thousand Litas at the end of 2007. This increase was influenced by the acquisition of cardboard production company AB Klaipėdos Kartonas at the end of 2007.

In 2007, revenue of the Group companies, if to compare with the year 2006, increased from 152,606 thousand Litas to 203,703 thousand Litas, i.e. by 51,907 thousand Litas (33%). Sales of the coal increased respectively from 66,772 thousand Litas to 71,172 thousand Litas. Revenue from sales of real estate increased respectively from 52,404 thousand Litas to 96,833 thousand Litas.

As at 19 February 2007, the public emission of the Company's bonds amounting to 10 million EUR and with a term of 2 years was successfully issued. The interest rate was set on the last day of the issue of bonds' emission, i.e. on 19 February 2007 and is by 2 per cent higher than the interest rates of the standard swap agreement with a term of 2 years (4.2 per cent) (*Interest Rate Swap* – IRS).

In 2007, the companies of AB Hanner Group did not participate and currently are not participating in any lawsuits or arbitral procedures that could influence financial position of the Company.

Titles of the Company's subsidiaries
Subsidiaries, joint ventures and associated companies

Subsidiary/ joint venture	Country of incorpora-tion	Direct ownership interest in % 2007	2006	Activity of the enterprise
Subsidiaries				
UAB Hanner Property	Lithuania	100%	100%	The main activity is development of real estate projects.
UAB Hanner Development	Lithuania	100%	100%	Subsidiary is managing real estate projects and construction works.
UAB Hanner AG	Lithuania	90%	90%	The main activity is wholesale in coal.
UAB Bajorų Kalvos	Lithuania	100%	100%	Subsidiary is developing the residential project Bajorų Kalvos at Bajorų street and Mokslininkų street in Vilnius.
UAB Verkių Slėnis	Lithuania	100%	100%	Subsidiary is developing a luxury residential project Verkių Slėnis in Verkiai regional park, Vilnius.
UAB HD Statyba	Lithuania	-	100%	Construction works.
VšĮ Hanner Up	Lithuania	100%	100%	The subsidiary is engaged in organisation and coordination of the show „Running up the skyscraper „Europa".
UAB Avesko	Lithuania	100%	-	The main activity of the subsidiary is managing of investments. UAB Avesko owns 95.6 shares of AB Klaipėdos Kartonas.
UAB TVD Statyba	Lithuania	51%	-	Joint venture engaged in construction works.
SIA Hanner Real Estate	Latvia	100%	100%	Subsidiary, coordinating activity of Hanner and investment in Latvia.
SIA Dentava	Latvia	100%	100%	Company in Latvia is developing multifunctional real estate project „Ropazu" at Ropazu street, Riga.
SIA Hanner Olympia Centrs	Latvia	100%	100%	The company engaged in multifunctional project development in Latvia.
SRL Hanner RD	Romania	100%	100%	Coordinates investments into real estate in Romania and implementation of project Tineretului in Bucharest, Romania.
ZAO Hanner Invest	Ukraine	99.9%	99.9%	Coordinates investments and activities of Hanner in Ukraine, besides it owns interest in indirect subsidiaries Prioritet OOO, Olimpeks Trans OOO, Budmarin OOO, Hanber OOO, Mir Atrakcionov OOO and associate Jugstroi Invest OOO of the Company.

OOO Hanner Management	Ukraine	100%	100%	Subsidiary is engaged in real estate project management and construction in Ukraine.
ZAO JBK Invest	Ukraine	99%	99%	Enterprise which main activity is implementation of OOO Prioritet developed real estate project.
ZAO Palmyra Invest	Ukraine	70%	70%	Enterprise, which main activity is implementation of OOO Hanber developed real estate project.
ZAO Ploshad Tolbuchina	Ukraine	80%	80%	Enterprise, which main activity is implementation of OOO Jugstroj Invest developed real estate project.
ZAO Stroitelnyje Technologii Budusevo	Ukraine	75%	75%	Subsidiary is developing implementation of the real estate project Fontanka in Odessa.
ZAO Zakrytyj Nediversifikovanyj Investicionyj Fond Hanner-Vostok	Ukraine	90%	90%	Subsidiary which main activity is sales of real estate developed in Ukraine.
ZATT Hanner Bel Invest	Belarus	51%	-	Joint venture with AKOOO Salner Kompanija Limited is engaged in reconstruction of cinema studio buildings as well as development of residential project in Minsk, Belarus. The company was established in 2007.
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UAB Gudelių Šilas	Lithuania	40%	50%	Join venture with Faulana is developing implementation of residential project Gudelių Šilas in Lazdynai district, Vilnius.
UAB Santariškių Namai	Lithuania	50%	50%	Joint venture with UAB Eika is engaged in development of residential project Santariškių Namai in Vilnius.
UAB H5 Development	Lithuania	50%		Joint venture with UAB Penki Kontinentai, UAB Trinapolis is engaged in development of the block of buildings of commercial (administrative) offices.
SIA Puces Birzs	Latvia	50%	50%	Joint venture with I un MC is developing a residential block district project Purvciems in Purvciems district, Riga.
SIA Equilibrium	Latvia	50%	50%	Joint venture is developing a residential project in Purvciems district, Riga. Joint venture shares were acquired in 2006.
SRL S. C. Carol Park Residence	Romania	50%	50%	Joint venture with Bellerive Holdings Ltd. Is developing residential block district project in Bucharest, Romania.

SRL Europa Group Hanner	Romania	50%	50%	Joint venture with UAB Group Europa Investment is developing the residential block district project City Center Residence in Bucharest, Romania.
ZAO Nest Hanner	Ukraine	---	50%	Joint venture with ZAO Nest is developing a multifunctional complex project at the territory of the former tobacco factory in Kiev, Ukraine, besides it owns interest in indirect subsidiary of the Company Ippon Ltd. The company was sold in 2007.
OOO Yudgin	Ukraine	-	40%	Joint venture with ZAO Nest is developing the shopping center Olympic Plaza project in Kiev, Ukraine. The company was sold in 2007.
OOO Predprijatie Vaizbunas	Ukraine	50%	-	Joint venture with UAB Progresyvios Investicijos is engaged in construction of residential buildings. The company was acquired in 2007.
OOO Šušary Logistik	Russia	50%	-	Joint venture with UAB Girteka is engaged in development of the Logistics Center project in St. Petersburg, Russia. The company was established in 2007.
OOO SPB Development Logistik	Russia	50%	-	Joint venture with UAB Girteka is engaged in management of the Logistics Center project and construction. The company was established in 2007.

Major events during 2007

Major events in the Company during the current financial year until Annual General Meeting:

On 31 January 2007, the Company signed an agreement with AB Bankas Hansabankas regarding additional credit amount of 8,688,600 EUR (29,999,998 Litas).

On 19 February 2007, the public issue of the Company's bonds amounting to 10 million EUR and with a term of 2 years was successfully issued. The interest rate was set on the last day of the issue of bonds' emission, i.e. on 19 February 2007 and is by 2 per cent higher than the interest rates of the standard swap agreement with a term of 2 years (4.2 per cent) (*Interest Rate Swap* – IRS).

On 14 February 2007, the Company sold 100 ordinary intangible shares (100% of the authorised capital) to UAB HD Statyba.

On 22 March 2007, the Company sold 17,535,000 intangible shares (50% of the authorised capital) to ZAO Nest Hanner.

On 27 February 2007, the Company, together with its partner UAB Girteka, established a company OOO Shusary Logistik, which is located in the Russian Federation. The Company holds 50% of the authorised capital.

On 2 May 2007, the Company, together with its partner Kęstutis Mickus, established a company OOO Hanner SPB Development, which is located in the Russian Federation. The Company holds 99% of the authorised capital.

On 2 May 2007, AB Hanner acquired shares of UAB Santariškių Namai owned by UAB Hanner Development. On 22 May 2007, AB Hanner and UAB Eika decided to increase the authorised capital of UAB Santariškių Namai by 4,990,000.00 Litas up to 5,000,000.00 Litas. AB Hanner and UAB Eika hold 50 per cent (each) of the shares of the mentioned company.

On 11 May 2007, agreement No. 11/05 re purchase-sales of parts in the authorised capital was signed. According to the agreement mentioned, AB Hanner sold 39.99999% of parts in the authorised capital of the limited liability company established in the Republic of Ukraine Judžin (in Russian - OOO Юджин), company code 31303824, address – Generolo Naumovo Str. 23B, Kiev, Ukraine (hereinafter - OOO Judžin).

On 1 June 2007, an agreement re purchase-sales of parts was signed. According to the agreement signed, AB Hanner acquired 50% of parts of the limited liability company Pidpriemstvo Vaizbunas established in the Republic of Ukraine. The authorised capital of the limited liability company Pidpriemstvo Vaizbunas amounts to 27,000 UAH.

On 9 November 2007, UAB H5 Development was established and registered in which AB Hanner holds 50 per cent parts in the authoried capital of the company established.

On 5 May 2007, the increase of 32,250,000 Litas of the secondary company of the Company UAB Avestis Capital, in which the Company holds 99% of the authorised capital, was registered at PE Registrų Centras.

On 29 October 2007, AB Hanner signed a purchase-sales of shares agreement with a joint venture of Lithuania and USA UAB Sanitex and UAB Avestis, according to which AB Hanner, having carried out the terms of the agreement, shall acquire 100 per cent of the shares of UAB Avesko, company code 300145810, registered address - Konstitucijos Ave. 7, Vilnius. UAB Avesko holds 95.6 per cent of the shares of AB Klaipėdos Kartonas, company code 1410 11268, registered address - Nemuno Str. 2, Klaipėda.

On 30 November 2007, transactions of purchase-sales of shares with the joint venture of Lithuania and USA UAB Sanitex and UAN Avestis were concluded, following which AB Hanner acquired 100% of the shares of UAB Avesko, company code 300145810, registration address – Konstitucijos Ave. 7, Vilnius. UAB Avesko holds 95.6% of the shares of AB Klaipėdos Kartonas.

On 4 September 2007, an agreement of purchase-sales of shares was signed. As to the mentioned agreement, AB Hanner sold 533 units of the shares of UAB Gudelių Šilas established in Lithuania, comprising 9.892 per cent from the total shares of the company UAB Gudelių Šilas. Currently AB Hanner holds 2,161 shares of UAB Gudelių Šilas, comprising 40.1076 per cent from the total shares. The authorised capital of UAB Gudelių Šilas amounts to 5,388,000.00 Litas and is divided into 5,388 shares. The nominal value per share is 1,000 Litas.

On 17 December 2006, the sole shareholder of AB Hanner accepts a decision to authorise Lionginas Šepetys, the former general director of AB Hanner, to vote at the general shareholders' meeting of the limited liability company Hanner Vostok re issue of 400,000,000 shares. On 2 August 2007, AB Hanner acquired 249,445,126 shares for 62,361,281.50 UAH (28,443,994 Litas). On 22 November 2007, the authorised capital of the limited liability company Hanner Vostok is increased by 100,000,000, i.e. from 1,000,000 UAH to 101,000,000 UAH. The capital is divided into 404,000,000 ordinary shares with a nominal value of 25 kopecks each. AB Hanner owns 99.8% of the shares of Hanner Vostok.

On 14 December 2007 AB Hanner, the sole shareholder of the limited liability company Hanner Real Estate, accepted a decision to increase the authorised capital of the limited liability company Hanner Real Estate from 2,000 LVL to 95,000 LVL and to pay for the newly issued shares on 1 February 2008. The authorised capital of the limited liability company Hanner Real Estate is divided into 4,750 shares with a nominal value of 20 LVL each.

Plans and forecasts for the activities

In 2008, the companies of AB Hanner Group plan to continue already started and new projects of the real estate development in Lithuania and abroad. In Lithuania it is planned to finish the second stage of the developed project performed by the subsidiary UAB Bajorų Kalvos and to start developing the third and the fourth stages, besides, the project of the residential construction being developed by the subsidiary UAB Verkių Slėnis will be finished. UAB Gudelių Šilas, the joint venture of AB Hanner, is planning to finish the residential construction project, and UAB Santariškių Namai expects to finish the first stage of the project. It is foreseen to finish projects abroad: one project in Ukraine and two projects in Romania. In 2008, the Company will continue the development of the real estate project in the Russian Federation and a real estate project will be started to be developed in the Republic of Belarus.

Chief Executive Officer Robertas Kisielius