AB Hanner

Consolidated financial statements for the year ended 31 December 2006

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Company details

AB Hanner

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Registered office:	Konstitucijos ave. 7, Vilnius, Lithuania LT 09308

Management

Vladas Kojala (Chief Executive Officer)
Tomas Pauliukonis (Chief Financial Officer)

The Board

Arvydas Avulis (Chairman)
Vladas Kojala
Robertas Kisielius
Lionginas Šepetys

Auditor

KPMG Baltics, UAB

Banks
AB bankas Hansabankas
AB SEB Vilniaus 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 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, 30 May 2007

The Management:

Vladas Kojala	Tomas Pauliukonis
Chief Executive Officer	Chief Financial Officer

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Independent auditor's report to the shareholders of AB Hanner

We have audited the accompanying consolidated financial statements of AB Hanner and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2006, 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 6-40. The corresponding figures presented are based on consolidated financial statements of the Company as at and for the year ended 31 December 2005, which were audited by another auditor whose report dated 19 June 2006, expressed a qualified opinion on those statements and included qualification regarding the investment in Ippon Ltd. having carrying value of 10,821 thousand Litas at 31 December 2005.

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. 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.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AB Hanner and its subsidiaries as at 31 December 2006, 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 2006 set out on pages 41-46 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 2006.

Vilnius, 30 May 2007
KPMG Baltics, UAB

Leif Rene Hansen
Danish State Authorised
Public Accountant

Domantas Dabulis
Certified Auditor

Consolidated balance sheet

as at 31 December

In thousands of Litas	Notes	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,268	2,211
Investments property	7	267,000	206,643
Investments in joint ventures	8	33,492	26,478
Other receivables	9	58,464	53,005
Deferred income tax assets	18	130	16
Total non-current assets		**362,354**	**288,353**
Current assets			
Inventories	10	223,453	98,174
Trade and other receivables	11	104,444	113,489
Income tax prepayment		-	440
Investment available-for-sale	12	24,573	-
Cash and cash equivalents	13	20,702	41,915
Total current assets		**373,172**	**254,018**
TOTAL ASSETS		**735,526**	**542,371**

The notes, set out on pages 12 to 41, are an integral part of these financial statements.

Consolidated balance sheet (cont'd)

as at 31 December

In thousands of Litas	Notes	2006	2005
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	16,000	16,000
Legal reserve	15	1,600	1,600
Fair value reserve	16	3,901	-
Cumulative translation difference		-1,611	1,335
Retained earnings		367,473	295,259
Total equity attributable to equity holders of the Company		**387,363**	**314,194**
Minority interest		1,366	2,561
Total equity		**388,729**	**316,755**
Non-current liabilities			
Interest bearing loans and borrowings	17	263,470	146,828
Advances received		-	294
Trade and other payables	20	2,992	-
Deferred tax liability	18	30,832	19,641
Total non-current liabilities		**297,294**	**166,763**
Current liabilities			
Interest bearing loans and borrowings	17	17,372	8,325
Trade and other payables	20	26,013	44,012
Provisions	19	4,528	2,078
Corporate income tax payable		1,590	4,438
Total current liabilities		**49,503**	**58,853**
Total liabilities		**346,797**	**225,616**
TOTAL EQUITY AND LIABILITIES		**735,526**	**542,371**

The notes, set out on pages 12 to 41, are an integral part of these financial statements.

Consolidated income statement

for the year ended 31 December

In thousands of Litas	Notes	2006	2005
Revenue	22	152,606	153,931
Net valuation gains on investment property	7	58,952	20,732
Impairment of assets		(41)	
Direct property operating expenses	23	(9,455)	(8,449)
Cost of coal		(66,083)	(39,743)
Services of sub-contractors		(33,711)	(48,654)
Depreciation of property, plant and equipment		(470)	(301)
Employee benefits	24	(6,108)	(3,551)
Associate and joint ventures results		(8,242)	(2,992)
Other expenses	25	(6,272)	(9,696)
Result from operating activities		**81,176**	**61,277**
Finance income	26	15,607	6,818
Finance expenses	27	(19,205)	(8,720)
Profit before tax		**77,578**	**59,375**
Corporate income tax	28	(15,084)	(10,066)
Net profit for the year		**62,494**	**49,309**
Attributable to:			
Equity holders of the Company		64,283	49,406
Minority interest		(1,789)	(97)
Net profit for the year		**62,494**	**49,309**
Basic earnings/ per share		4,02	3,08
Diluted earnings per share		4,02	3,08

The notes, set out on pages 12 to 41, are an integral part of these financial statements.

Consolidated statement of changes in shareholders' equity

In thousands of 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 2005		**16,000**	**1,600**	-	**(46)**	**245,853**	**263,407**	-	**263,407**
Acquisition of subsidiaries		-	-	-	-	-	-	2,621	2,621
Net profit (loss) for the year 2005		-	-	-	-	49,406	49,406	(97)	49,309
Currency translation differences		-	-	-	1,381	-	1,381	37	1,418
Capital and reserves at 31 December 2005		**16,000**	**1,600**	-	**1,335**	**295,259**	**314,194**	**2,561**	**316,755**
Result of corrections of fundamental errors		-	-	-	-	7,931	7,931	450	8,381
Adjusted Capital and reserves at 31 December 2005		**16,000**	**1,600**	-	**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**

The notes, set out on pages 12 to 41, are an integral part of these financial statements.

Consolidated statement of cash flows

for the year ended 31 December

In thousands of Litas	Notes	2006	2005
Net result (profit)		64,283	49,406
Minority shares		(1,195)	(97)
Result of corrections of fundamental errors		7,931	-
Adjustments for:			
Depreciation and amortisation	6	470	301
Interest expense		9,358	3,179
Interest income		(10,450)	(5,605)
Loss on discounting of loans and other receivables		-	3,066
Loss (gain) on disposal of available for sale assets		-	1,685
Loss (gain) on disposal of fixed assets		659	-
Loss (gain) from fair value adjustment on investment property	7	(58,952)	(20,732)
Loss (gain) on disposal of investments		(3,642)	-
Write offs of property, plants and equipments		-	4
Share of loss of associates and joint ventures		5,663	2,992
Provision for net liabilities of associates		(2,450)	-
Income tax expenses		15,084	10,066
Net cash inflow from ordinary activities before any change in working capital		26,759	44,265
Change in inventories		(120,070)	(68,930)
Change in trade and other receivables		(3,166)	(34,067)
Change in trade and other payables		39,056	32,638
Change in provisions		13,527	-
Net cash inflow from ordinary activities		(43,894)	(26,094)
Interest paid		(9,358)	(3,179)
Profit tax paid		(17,492)	(15,118)
Net cash inflow from operating activities		**(70,744)**	**(44,391)**

Consolidated statement of cash flows (cont'd)

for the year ended 31 December

In thousands of Litas	Notes	2006	2005
Interest received	26	10,450	3,618
Purchase of property, plant and equipment	6	(1,786)	(719)
Additions to investment property	7	(1,805)	(2,275)
Investments to subsidiaries		(59,621)	(8,806)
Investments to associates and joint ventures	9	(7,774)	(25,022)
Proceeds from sale of available-for-sale financial assets		-	13,811
Proceeds from sale of financial assets held to maturity		-	14,778
Purchase of short –term investments (AFS)		(20,672)	-
Disposals of joint ventures	9	3,843	-
Loan repayments received		14,219	35,935
Loan granted		(7,412)	(134,937)
Net cash inflow from investing activities		**(70,558)**	**(103,617)**
Proceeds from borrowings		141,113	165,379
Repayment of borrowings		(15,424)	(14,811)
Net cash inflow/(outflow) from financing, net		**125,689**	**150,568**
Net cash inflow/outflow from operating activities, investing activities and financing		**(15,613)**	**2,560**
Exchange gains on cash and equivalents		(5,600)	(1,555)
Cash and cash equivalents, opening balance		**41,915**	**40,910**
Cash and cash equivalents at 31 December		**20,702**	**41,915**

The notes, set out on pages 12 to 41, 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 2006 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 2006 amounted to 171 (31 December 2005: 142).

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 30 May 2007 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 Group.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

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 whose 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). The consolidated financial statements include the Group's share of the income and expenses of

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)

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 recognised in the consolidated income statement.

Financial instruments

The Company does not use derivative financial instruments as at 31 December 2006.

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 recognised initially at fair value plus, for instruments not at fair value through profit and loss, 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.

All borrowing costs are expensed when incurred.

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 profit or loss.

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 Company'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 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 Company'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 profit or loss 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 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 2006, and have not been applied in preparing these financial statements:

- IFRS 7 Financial Instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Company's 2007 financial statements, will require extensive additional disclosures with respect to Company's financial instruments and share capital. The standards are not expected to have any impact on the financial statements.

- IFRS 8 Operating Segments (effective from 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 Company has not yet completed its analysis of the impact of the new Standard.

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Company's 2007 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Company's 2007 financial statements, with retrospective application required. IFRIC 8 is not relevant to the Company's operations as the Company has not entered into any share-based payments arrangements.

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)

- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Company's 2007 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Company's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Company first applied the measurement criteria of IAS 36 and IAS 39 respectively (i.e., 1 January 2004). IFRIC 10 is not relevant to the Company's operations as the Company has not any investments in equity instruments.

- 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 Company's operations as the Company 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 Company's operations.

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.

Notes to the consolidated financial statements

5 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 2006 are as follows:

In thousand of 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 segment information					
Depreciation	417	27	25	1	470

Segments' assets and liabilities

In thousand of 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**
Investments					
Investment property	1,805	-	-	-	1,805

Notes to the consolidated financial statements

Secondary reporting format – business segments

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

In thousand of 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**
Investments			
Fixed assets	718	1	719
Investment property	1,805	-	1,805

Notes to the consolidated financial statements

6 Property, plant and equipment

In thousand of Litas	Buildings and other constructions	Vehicles	Other fixed assets	Total
At 1 January 2005				
Costs	1,249	891	482	2,622
Accumulated depreciation	(163)	(434)	(169)	(766)
Net book amount	1,086	457	313	1,856
Year ended 31 December 2005				
Opening net book amount	1,086	457	313	1,856
Transfer to investment property	-	-	(62)	(62)
Exchange differences			8	8
Additions	-	280	439	719
Disposals	-	-	(5)	(5)
Write-offs	-	-	(4)	(4)
Depreciation charge	(88)	(104)	(109)	(301)
Closing net book amount	**998**	**633**	**580**	**2,211**
At 31 December 2005				
Costs	1,249	1,085	817	3,151
Accumulated depreciation	(251)	(452)	(237)	(940)
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**
At 31 December 2006				
Costs	2,430	839	1,522	4,791
Accumulated depreciation	(340)	(347)	(836)	(1,523)
Net book amount	2,090	492	686	3,268

Notes to the consolidated financial statements

7 Investment property

In thousand of Litas	2006	2005
At beginning of year	206,643	183,573
Subsequent expenditure - additions	1,805	2,276
Transfer from property, plant and equipments	-	62
Net gain from fair value adjustments on investment property	58,952	20,732
Disposal	(400)	-
Total	**267,000**	**206,643**

As at 31 December 2006 all investment properties have been pledged as security for bank borrowings (Note 17).

The investment properties as at 31 December 2006 were valued by independent qualified valuators UAB Ober-Haus based on prices that existed in an active market as at 31 December 2006.

8 Investment in joint ventures

In thousand of Litas	2006	2005
Beginning of the year	26,478	50
Result of corrections of fundamental errors	4,627	-
Establishment of joint ventures	36	281
Acquisitions of share of joint ventures	7,316	10,371
Contribution to share capital of joint ventures	422	17,088
Share of loss - net*	(5,663)	(2,992)
Effect of acquisition of controlling interest	-	(1,769)
Disposals	(201)	-
Translation differences	(1,973)	1,371
Provision for net liabilities of associates (Note 19)	2,450	2,078
End of the year	**33,492**	**26,478**

* Share of loss is after tax of joint ventures

On 28 February 2006 AB Hanner bought 50% of shares of SIA Equilibrium from I un MC for 4,912 thousand Litas.

On 22 August 2006 AB Hanner was signed new shares emission of UAB Avestis Capital. UAB Avestis Capital had an associated entity, which investments amounts to 2,403 tLitas.

On 18 October 2006 AB Hanner established SIA Hanner Olympia Centrs in Latvia. Share capital amounts to 10 thousand Litas.

Notes to the consolidated financial statements

On 03 November 2006 AB Hanner paid 15 thousand Litas for establishing OOO Hanner Management in Ukraine. The entity was registered on Jan, 2007.

On 08 December 2006 AB Hanner established VŠĮ Hanner Up. Investment amounts 1 thousand litas.

AB Hanner owned 50% of shares of SIA Pils 23. On 20 February 2006 the share capital was increased by 422 thousand Litas, part of equity did not change. On 17 August 2006 investment into SIA Pils was sold to SIA I un MC for 1,171 thousand EUR.

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

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/ (Loss)	% interest held
Gudelių Šilas	Lithuania	5,709	331,534	8	(9)	50%
Puces Birzs	Latvia	56,264	57,562	-	(1,640)	50%
SIA Equilibrium	Latvia	5	-	15	-5	50%
Carol Park Residence SRL	Romania	48,761	48,549	-	240	50%
Europe Group Hanner SRL	Romania	34,662	37,608	-	34	50%
ZAO Nest Hanner	Ukraine	19,998	20,499	156	(1,735)	50%
Yudgin OOO	Ukraine	84,080	80,782	-	(5,514)	50%*
OOO Jugstroi Invest	Ukraine	32,610	35,400	-	(2,459)	50%

* 40% held directly and 10% held indirectly thought joint venture Nest Hanner

Notes to the consolidated financial statements

9 Other receivables

In thousand of Litas	2006	2005
Long-term loans to associates and joint ventures (Note 29)	43,845	42,208
Less: provision for impairment of long-term loans to associates and joint ventures	(1,325)	(2,420)
Long-term loans to associates and joint ventures - net (Note 29)	42,520	39,788
Long-term loans to other related parties (Note 29)	10,686	10,137
Long-term loans to third parties	4,184	190
Long-term loans to Mr. Avulis	137	-
Other receivables	1,055	3,330
Less: provision for impairment of other receivables	-	(293)
Other receivables - net	1,055	3,037
Total	**58,582**	**53,152**
Less current portion		
- other receivable (Note 11)	(118)	(147)
Total	**58,464**	**53,005**

Loans to associates and joint ventures were granted with repayment terms ranging from 2 to 3 years. The annual interest rate ranges from 2,5 to 14 per cent. Average interest rate as at 31 December 2006 was 7 per cent.

Loans to other related parties were granted with repayment terms ranging from 2 to 5 years. The annual interest rate ranges from 2,5 to 14 per cent. Average interest rate as at 31 December 2006 was 7 per cent.

In the opinion of the Company's management, the carrying amounts of long-term receivables approximate their fair value.

10 Inventories

In thousand of Litas	2006	2005
Development projects of trading properties	220,938	96,525
Coal	2,515	1,626
Other inventory	-	23
Total	**223,453**	**98,174**

Majority of development projects are expected to be completed during 24 month period.

Notes to the consolidated financial statements

11 Trade and other receivables

In thousand of Litas	2006	2005
Trade receivables:		
- receivables for development projects	6,366	20,815
- receivables for coal	20,214	13,189
- receivables for rent	1,221	907
Total trade receivables	27,801	34,911
Less: provision for impairment for trade receivables	(2)	(96)
Trade receivables - net	**27,799**	**34,815**
Short-term loans:		
- loans to associates and joint ventures (Note 29)	44,070	39,234
Less: provision for impairment for loans to associates and joint ventures	(128)	(353)
- loans to associates and joint ventures – net (Note 29)	43,942	36,519
- loans to other related parties	84	22,101
- loans to other parties	5,358	2,621
Receivables loans - net	**49,384**	**63,603**
Current portion of other receivables	118	147
Prepayments, deferred charges and accrued income	20,437	14,008
Receivables from State budget	4,365	13
Other receivables	2,341	903
Other receivables	**27,261**	**15,071**
Total	**104,444**	**113,489**

Within prepayments, deferred charges and accrued income the Group accounts for prepayment of 9,790 thousand Litas to Ukraine Ministry of Defense for a right to develop certain projects in Ukraine.

12 Investments available-for-sale

In thousand of Litas	2006
At beginning of year	0
Additions	19,983
Net gain from fair value adjustments	4,590
Total	**24,573**

Notes to the consolidated financial statements

In thousand of Litas	2006	2005
13 Cash and cash equivalents		
Cash at bank	20,626	41,767
Cash in hand	76	148
Total cash and cash equivalents	**20,702**	**41,915**

14 Share capital

As at 31 December 2006 the share capital was comprised of 16,000 ordinary registered shares with par value of LTL 1,000 each. All the chares are fully paid. There were no changes in share capital during the year.

15 Legal reserve

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

16 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 of Litas	2006	2005
17 Borrowings		
Current liabilities		
Current portion of long-term bank borrowings	17,372	8,325
Total current	**17,372**	**8,325**
Non-current liabilities		
Long-term bank borrowings	263,470	146,828
Total non-current	**263,470**	**146,828**
Grand total	**280,842**	**155,153**

The borrowing and undrawn borrowing facilities include amounts secured on investment property to the value of 267,000 thousand Litas (Note 7), inventory of coal and part of development projects for trading properties, having value of 152,089 tLitas (Note 10).

Notes to the consolidated financial statements

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

	2006	2005
Long-term bank borrowings	4,79	3,84

Maturity of non-current borrowings:

	2006	2005
Within 1 year	17,372	8,325
Between 1 and 2 years	17,346	35,250
Between 2 and 5 years	46,706	24,975
Over 5 years	199,417	86,603
	280,842	**155,153**

Group's borrowings are denominated in Euro.

Fair value of borrowings approximates to their carrying values.

18 Deferred income tax

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

In thousand of Litas	2006	2005
At the beginning of the year	(19,625)	(14,916)
Change in deferred tax recognized in income statement	(10,379)	(4,709)
Change in deferred tax recognized in equity	(689)	-
At the end of the year	**(30,702)**	**(19,625)**

Deferred income tax to be recovered after more than 12 months	(30,705)	(19,641)
Deferred income tax to be recovered within 12 months	3	16

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 of Litas	2006	2005
Deferred tax assets	51	20
Deferred tax liabilities	(30,883)	(19,661)
Total	**(30,832)**	**(19,641)**

Notes to the consolidated financial statements

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

In thousand of Litas	Investment relief	Increases in fair value of investment properties	Increase in fair value of AFS investments	Total
Deferred tax liabilities				
At 1 January 2005	693	14,243	-	14,936
Credited/(charged) to income statement	(94)	4,819	-	4,725
At 31 December 2005	599	19,062	-	19,661
Credited/(charged) to income statement	(146)	10,679	-	10,533
Credited/(charged) to equity	-	-	689	689
At 31 December 2006	**453**	**29,746**	**689**	**30,883**

In thousand of Litas	Vacation reserve	Off set against liabilities	Net asset
Deferred tax assets			
At 1 January 2005	20	(20)	0
Credited/(charged) to income statement	16	-	16
At 31 December 2005	36	(20)	16
Credited/(charged) to income statement	145	(31)	114
At 31 December 2006	**181**	**(51)**	**130**

19 Provisions

	2006	2005
At 1 January	2,078	-
Provision for share of cumulative losses in associates and joint ventures attributable to Group (Note 8)	2,450	2,078
	4,528	**2,078**

Notes to the consolidated financial statements

In thousand of Litas	2006	2005
20 Trade payables and other amounts payables		
Non-current trade and other amounts payables		
Trade payables for construction works	438	
Other payables	2,554	
Total non-current payables	**2,992**	
Current trade and other amounts payables		
Taxes	886	15,169
Trade payables relating to development projects	15,559	19,228
Advances	6,995	3,054
Payables for coal	197	1,747
Other payables	2,376	4,814
Total current payables	**26,013**	**44,012**
Total	**29,005**	**44,012**

21 Commitments and contingent liabilities

Contingent liabilities – tax audits

The tax authorities have carried out full-scope tax audit at the Company for the year 2001. In 2005, full-scope tax audits were also performed in certain associates, joint ventures and subsidiaries. The tax authorities may at any time inspect and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The company's management is not aware of any circumstances which may give rise to a potential liability to the Group in this respect.

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognized in the financial statements is as follows:

Liabilities for subscribed shares (in thousands of Litas):

UAB Avestis (for UAB Avestis Capital shares)	18,562
Total	**18,562**

Notes to the consolidated financial statements

22 Revenues

In thousands of Litas	2006	2005
Coal	66,772	46,632
Development projects	52,404	78,209
Rental income	21,003	17,954
Service charges	8,152	7,142
Other services	4,275	3,994
Total	**152,606**	**153,931**

The period of leases whereby the Company 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 thousands of Litas	2006	2005
No later than 1 year	24,788	20,355
Later than 1 year and no later than 5 years	97,878	56,356
Later than 5 years	18,968	8,234
Total	**141,634**	**84,945**

23 Direct property operating expenses

In thousands of Litas	2006	2005
Utilities and exploitation expenses	464	6,937
Repair and maintenance	7,923	558
Land and real estate taxes	751	842
Other	224	112
Total	**9,455**	**8,449**

Direct property operating expenses relate to investment property which was let.

Notes to the consolidated financial statements

24 Employee benefit expenses

In thousands of Litas	2006	2005
Wages and salaries	4,381	2,571
Social security costs	1,411	804
Vacation reserve	196	108
Other costs	120	68
Total	**6,108**	**3,551**

25 Other expenses

In thousands of Litas	2006	2005
Mediation and transportation expenses	436	6,326
Charity, support	117	668
Consulting, audit and legal expenses	593	497
Marketing and advertising expenses	562	453
Telecommunication and IT maintenance expenses	184	260
Business trip expenses	152	255
Taxes (other than income tax)	484	222
Office supplies and utilities	359	-
Office rent	218	-
Impairment provision for trade receivables	-	96
Bank charges	408	-
Other expenses	2,759	919
Total	**6,272**	**9,696**

26 Finance income

In thousands of Litas	2006	2005
Interest income		
- interest income from related parties (Note 29)	6,470	2,417
- interest income from third parties	3,760	3,188
-interest income on bank/deposit balances	214	-
Reversed impairment of loans and other receivables	1,320	-
Gain from currency exchange	-	1,012
Profit on disposal of investments	3,843	99
Dividends	-	102
Total	**15,607**	**6,818**

Notes to the consolidated financial statements

27 Finance costs

In thousands of Litas	2006	2005
Interest expense		
- bank borrowings	8,938	3,179
- other borrowings	420	-
Losses from currency exchange	9,847	-
Impairment of loans and other receivables	-	3,066
Loss on disposal of investments	-	1,685
Other losses	-	790
Total	**19,205**	**8,720**

28 Income tax

In thousands of Litas	2006	2005
Current tax	4,665	5,357
Change in deferred tax (Note 18)	10,419	4,709
Total	**15,084**	**10,066**

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

Litas	2006		2005	
Result before tax		80,050		59,375
Income tax using standard tax rate	19.0%	15,210	15.0%	8,906
Non taxable income / non-deductable expenses	2.7%	2,183	2.0%	1,213
Charity expenses deductible twice for tax purposes	0.0%	(22)	(0.2%)	(96)
Under provided in previous years	0.5%	413	0.0%	-
Impact of change of tax rates on temporary differences	(3.4%)	(2,700)	0.1%	43
Total charge as to accounts	**18.8%**	**15,084**	**16.9%**	**10,066**

Notes to the consolidated financial statements

29 Related party transactions

Subsidiaries, joint ventures and associates of the Company, members of the Board and Senior Management and their close family members are treated as related parties.

The Company 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 thousands of Litas	2006	2005
Interest income		
Interest income from loans to associates and joint ventures	6,442	1,718
Interest income from loans to other related parties	23	697
Interest income from loans to Mr. A. Avulis	5	2
Total	**6,470**	**2,417**

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

In thousands of Litas	2006	2005
Long-term loans		
Loans to associates and joint ventures	43,845	42,208
Less: provision for impairment of long-term loans to joint ventures	(1,325)	(2,420)
Long term loans to associates and joint ventures – net	42,520	32,136
Loans to other related parties	10,686	10,000
Loans to Mr. A. Avulis	137	137
	53,343	49,925
Short-term loans		
Loans to associates and joint ventures	44,070	39,234
Less: provision for impairment of short-term loans to joint ventures	(128)	(353)
Loans to joint ventures – net	43,942	36,519
Loans to other related parties	-	22,017
Loans to a member of Senior Management	84	84
Total	**44,026**	**60,982**

Notes to the consolidated financial statements

(iii) compensation of key management:

In thousands of Litas	2006	2005
Salaries	623	604

Key management includes 5 (2005: 5) members of the Board and Senior Management.

30 Subsidiaries, joint ventures and associates

Subsidiary / joint venture	Country of incorpo-ration	Direct ownership interest in % 2006	2005	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. The subsidiary owns interest in indirect join venture of the UAB Santariškių Namai.
UAB Hanner AG	Lithuania	90%	100%	The main activity is 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 developing a luxury residential project "Verkių Slėnis" in Verkiai regional park, Vilnius.
UAB PC Europa	Lithuania	-	100%	Subsidiary engaged in lease of investment property was merged into the Company in 2006.
UAB Aukštuminė Statyba	Lithuania	-	100%	Subsidiary acquired in 2005 for performing construction works. The subsidiary was sold in 2006.
UAB HD Statyba	Lithuania	100%	-	Subsidiary coordinating construction of some of AB "Hanner" developed projects in Vilnius.
UAB Avestis Capital	Lithuania	99%	-	Main activity of the subsidiary– investments, acquisitions of companies.
SIA Hanner Real Estate	Latvia	100%	100%	Subsidiary in Latvia, coordinating investment into real estate in Latvia and managing the implementation of the Olympia project in Kipsala, Riga.
SIA Dentava	Latvia	100%	-	Enterprise in Latvia, developing multifunctional complex project "Ropazu" in Ropazu street, Riga.
SRL Hanner RD	Romania	100%	100%	Enterprise coordinating "Hanner" activities and investments in Romania; at the moment developing a Tineretului project in Bucharest, Romania.
ZAO Hanner Invest	Ukraine	100%	100%	Subsidiary, coordinating "Hanner" activities and investments in Ukraine. 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.
ZAO JBK Invest	Ukraine	99%	-	Enterprise, which main activity is implementation of OOO "Prioritet" developed real estate project.

Notes to the consolidated financial statements

30 Subsidiaries and joint ventures (cont'd)

Subsidiary / joint venture	Country of incorpo-ration	Direct ownership interest in % 2006	2005	Activity of the enterprise
ZAO Palmyra Invest	Ukraine	70%	-	Enterprise, which main activity is implementation of OOO "Hanber" developed real estate project.
ZAO Ploshad Tolbuchina	Ukraine	80%	-	Enterprise, which main activity is implementation of OOO "Jugstroj Invest" developed real estate project.
ZAO Stroitelnyje Technologii Budusevo	Ukraine	75%	-	Joint Stock Company, developing a real estate project "Fontanka" in Odessa.
ZAO Zakrytyj nediversifikovanyj investicionyj fond "Hanner-Vostok"	Ukraine	90%	-	Subsidiary which main activity is sale of the real estate that is developed in Ukraine.
Joint Ventures				
UAB Gudelių Šilas	Lithuania	50%	50%	Joint venture with Faulana developing residential project "Gudelių šilas" in Lazdynai district, Vilnius.
SIA Puces Birzs	Latvia	50%	50%	Joint venture with I un MC developing a residential block district project "Purvciems" in Purvciems district, Riga.
Pils 23 SIA	Latvia	-	50%	Joint venture with I un MC established in 2005 for development project in the old town of Riga. Was sold in 2006.
SRL S. C. Carol Park Residence	Romania	50%	50%	Joint venture with Bellerive Holdings Ltd. developing residential block district project in Bucharest, Romania.
SRL Europa Group Hanner	Romania	50%	50%	Joint venture with UAB "Group Europa Investment" developing the residential block district project "EUROPA" in Bucharest, Romania.
ZAO Nest Hanner	Ukraine	50%	50%	Joint venture with ZAO Nest developing a multifunctional complex project at the territory of the former tobacco factory in Kiev, Ukraine. Owns interest in indirect subsidiary of the Company Ippon Ltd.
OOO Yudgin	Ukraine	40%	40%	Joint venture with ZAO Nest developing the shopping center "Olympic Plaza" project in Kiev, Ukraine.
SIA Equilibrium	Latvia	50%	-	Joint venture developing a residential block district project in Purvciems district, Riga. Joint venture acquired in 2006.

31 Legal claims

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

Notes to the consolidated financial statements

32 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.

33 Subsequent events

No significant events occurred after the balance sheet date, which would require adjustments to these financial statements.

34 Financial instruments

Exposure to credit, liquidity, interest rate and currency exchange risk arises from operational, financing and investing activities of the Company.

Credit risk

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis.

Liquidity risk

The Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities.

Interest rate risk

The Company's borrowings are subject to fixed and variable interest rates related to EURIBOR and VILIBOR.

As at 31 December 2006, the Company did not use any financial instruments to hedge its exposure to the cash flow risk related to debt instruments with the variable interest rates or price risk related to debt instruments with the fixed interest rates.

Foreign exchange risk

The Company's functional currency is Litas. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognized monetary assets and liabilities and net investments in foreign operations. The risk related to transactions in EUR is held to be insignificant as the Lithuanian Litas is pegged to the Euro at a fixed rate.

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AB Hanner was registered on 27 July 1995.

The Company's authorized capital, registered in the Companies' register, amounted to 16,000,000 Litas as at 31 December 2006. It comprises of 16,000 ordinary registered shares with a par value of 1 tLitas. All the shares are fully paid.

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

As at 31 December 2006, the number of AB Hanner shareholders was 1. Sole shareholder of the Company was:

Shareholder	Registered address	Entity code	Number of shares	Share of authorised capital and votes %
31 December 2006				
Arvydas Avulis	Nugalėtojų 6, Vilnius	355010250167	16,000	100

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

Position	Name, surname	Identification code	Participation in the authorised capital
Chairman of the Board	Arvydas Avulis	355010250167	Holds 100% of the Company's shares
Member of the Board and General Director of the Company	Vladas Kojala	35512020437	Does not participate
Member of the Board	Robertas Kisielius	38008130064	Does not participate
Member of the Board	Lionginas Šepetys	36711040171	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 Company is primarily involved in the management of real estate development projects and lease of real estate. The investments into the development of real estate and constructions are made both from own and loaned funds.

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The Company owns non-current tangible assets and investment property of 237,842 tLitas, which include:

Investment property	235,000	tLitas;
Buildings	2,090	tLitas;
Vehicles	390	tLitas;
Other assets	362	Litas.

The Company's liability to the credit institutions amounted to 197,669 tLitas.

The assets of the Company are insured by AB Lietuvos Draudimas, UAB Ergo Lietuva, UAB If Draudimas.

At the end of 2006 the Company employed 42 employees. The remuneration fund amounts to 2,595 tLitas.

The continuity of the Company's activities is guaranteed by the concluded long-term agreements with the lessees and partners.

All assets of the Company at the moment amount to 709,687 tLitas and, if to compare with the same period of the previous year, increased by 96,852 tLitas.

In 2006, AB Hanner did not participate and currently is not participating in any lawsuits or arbitral procedures that could influence financial position of the Company.

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Titles of the Company's subsidiaries

Subsidiaries, joint ventures and associated companies

Subsidiary/joint venture/associated company	*Country of incorporation*	*Direct ownership interest in %*		*Activity of the enterprise*
		31/12/2006	*31/12/2005*	
Subsidiaries				
UAB Hanner Property	Lithuania	100%	100%	Main activity of the subsidiary – development of real estate projects in Lithuania, rent of real estate.
UAB Hanner Development	Lithuania	100%	100%	Subsidiary is managing real estate projects and construction works in Lithuania.
UAB Hanner AG	Lithuania	90%	90%	The main activity is wholesale of coal.
UAB Verkių Slėnis	Lithuania	100%	100%	Subsidiary developing a luxury residential project in Verkiai regional park, Vilnius.
UAB Bajorų Kalvos	Lithuania	100%	100%	Subsidiary established in 2005 manages the development of residential project Bajorų Kalvos at Bajorų road and Mokslininkų str., Vilniuje.
VŠĮ Hanner Up	Lithuania	100%	---	Subsidiary established in 2006.
UAB HD Statyba	Lithuania	100%	---	Subsidiary established in 2006, coordinates construction.
UAB PC Europa	Lithuania	---	100%	Subsidiary engaged in lease of investment property was merged to the Company in 2006.
UAB Aukštuminė Statyba	Lithuania	---	100%	Subsidiary performs construction works
SIA Hanner Real Estate	Latvia	100%	100%	Subsidiary established in 2005. Coordinates investment into real estate in Latvia and manages the implementation of Olympia project in Kipsala, Ryga as well as implementation of residential project Ropazu in Ryga.
SIA Dentava	Latvia	100%	100%	Subsidiary acquired in 2006. Developes multifunctional complex project Ropazu, Ryga.
SIA Hanner Olympia Centrs	Latvia	100%	100%	Subsidiary established in 2006. Manages the implementation of project Olympia in Kipsala, Ryga.
Hanner RD SRL	Romania	100%	100%	Subsidiary established in 2005. Coordinates investment into real estate in Romania and implementation of project Tineretului in Bucharest, Romania.

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Hanner Invest DP	Ukraine	100%	100%	Subsidiary established in 2004. Coordinates investment into real estate projects in Ukraine.
OOO Prioritet	Ukraine	90%	90%	Subsidiary develops residential and entertainment centre projects in Crimea, Ukraine.
OOO Olimpeks Trans	Ukraine	70%	70%	Subsidiary develops two luxury residential projects on the coast in Odes, Ukraine.
OOO Budmarin	Ukraine	70%	70%	Subsidiary develops residential area project in Odes, Ukraine.
OOO Hanber	Ukraine	50%	50%	Subsidiary developer two residential projects in Odes, Ukraine.
ZAO Hanner Vostok	Ukraine	90%		Subsidiary manages sales of the residential projects in Ukraine.
ZAO JBK Invest	Ukraine	99%		Subsidiary administers the development of projects in Crimes, Ukraine.
ZAO Palmyra Invest	Ukraine	70%		Subsidiary administers the development of projects in Odes, Ukraine.
ZAO Ploschad Tolbuhina	Ukraine	80%		Subsidiary administers the development of projects in Odes, Ukraine.
ZAO Stroitelnyje Technologii Budusevo	Ukraine	75%		Subsidiary develops residential area project in Odes, Ukraine.
OOO Mir Atrakcionov	Ukraine	80%	80%	Subsidiary develops multifunctional project Žalias Teatras in Odes, Ukraine.
Joint ventures				
UAB Gudelių Šilas	Lithuania	50%	50%	Joint venture with UAB Faulana established in 2005. Develops residential project Gudelių Šilas in Lazdynų area, Vilnius.
UAB Santariškių Namai	Lithuania	50%	50%	Joint venture with UAB Eika established in 2005. Develops Santariškės residential project in Vilnius.
SIA Pils 23 (former SIA Hanner Properties)	Latvia	---	50%	Joint venture with I un MC established in 2005. Develops real estate project in the Old Town of Ryga.
SIA Puces Birzs	Latvia	50%	50%	Joint venture with I un MC established in 2005. Develops residential block area in Purvciems area, Ryga, Latvia.
Carol Park Residence SRL	Romania	50%	50%	Joint venture with Bellerive Holdings Ltd established in 2005. Developes residential project in Bucharest, Romania.
Europa Group Hanner SRL	Romania	50%	50%	Joint venture with UAB Group Europa Investment established in 2005. Develops residential area project in Romania.

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ZAO Nest Hanner	Ukraine	50%	50%	Joint venture with ZAO Nest established in 2004. Develops multifunctional complex project in the former area of tobacco factory, Kiev, Ukraine.
Ippon Ltd.	Ukraine	50%	50%	100 % subsidiary of ZAO Nest Hanner, develops public catering and rent of commercial premises in Kiev, Ukraine.
OOO Yudgin	Ukraine	50%	50%	Joint venture with ZAO Nest develops supermarket project Olympic Plaza in Kiev, Ukraine.
Associated companies				
OOO Jugstroi Invest	Ukraine	50%	50%	Associated company develops residential area in Tolbuchin square, Kotovskog area, Odes, Ukraine.

Number of own shares acquired or transferred during the accounting financial year, amount of their nominal values and share in the Company's authorised capital, motivation for acquisition and transfer of these shares

During the accounting year, the Company neither had nor acquired its own shares.

Information regarding branches and representative offices

The Company has no branches and representative offices.

Major events in the Company during the year 2007

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

As at 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).

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).

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

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

As at 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.

As at 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.

Plans and forecasts for the activities of the company

In 2007 AB Hanner plans to continue already started and new projects of the real estate development in Lithuania and abroad. In Lithuania the Company plans to finish one stage of the construction project of residential buildings performed by the subsidiary UAB Bajorų Kalvos as well as to finish the projects of residential buildings abroad: one project in Latvia and one in Romania. In 2007 the Company plans to start development of the real estate projects in the Russian Federation.

General Director Vladas Kojala