

**AB Hanner**

Financial statements for the  
year ended  
31 December 2006

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## **Company details**

### **AB Hanner**

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Telefax: + 370 5 248 72 73  
Company code: 111535724  
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 financial statements**


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

The 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 financial statements thus give a true and fair view.


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

Vilnius, 30 May 2007

The Management:



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Vladas Kojala  
Chief Executive Officer



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Tomas Pauliukonis  
Chief Financial Officer

## **Independent auditor's report to the shareholders of AB Hanner**

We have audited the accompanying financial statements of AB Hanner, which comprise the balance sheet as at 31 December 2006, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, set out on pages 7-43. The corresponding figures presented are based on 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 an unqualified opinion on those statements.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

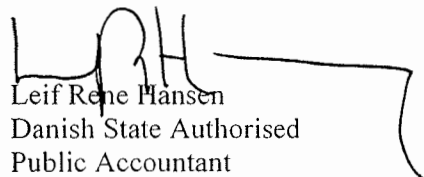
## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of AB Hanner as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

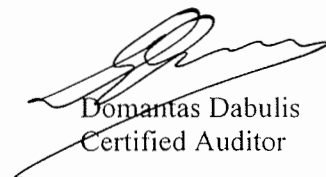
## Report on legal and other regulatory requirements

Furthermore, we have read the annual report for the year 2006 set out on pages 44-49 of the financial statements and have not identified any material inconsistencies between the financial information included in the annual report and the 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

## Balance sheet

as at 31 December

In thousands of Litass

	Notes	<u>2006</u>	<u>2005</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	2,842	1,924
Investments property	6	235,000	175,644
Investments in subsidiaries	7	193,543	183,104
Investments in joint ventures	8	30,350	25,442
Other receivables	9	118,547	69,770
<b>Total non-current assets</b>		<b><u>580,282</u></b>	<b><u>455,884</u></b>
<b>Current assets</b>			
Inventories	10	2,684	23,035
Trade and other receivables	11	93,215	97,411
Investment available-for-sale	12	24,573	0
Cash and cash equivalents	13	8,933	36,505
<b>Total current assets</b>		<b><u>129,405</u></b>	<b><u>156,951</u></b>
<b>TOTAL ASSETS</b>		<b><u><u>709,687</u></u></b>	<b><u><u>612,835</u></u></b>

The notes, set out on pages 13 to 43, are an integral part of these financial statements.

## Balance sheet (cont'd)

as at 31 December

In thousands of Litas	Notes	2006	2005
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	14	16,000	16,000
Legal reserve	15	1,600	1,600
Fair value reserve	16	3,901	0
Retained earnings		343,033	199,884
<b>Total equity</b>		<b>364,534</b>	<b>217,484</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	17	300,720	241,845
Advances received		0	294
Deferred tax liability	18	28,513	17,974
<b>Total non-current liabilities</b>		<b>329,233</b>	<b>260,113</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings	17	10,346	86,990
Trade and other payables	19	4,245	44,093
Corporate income tax payable		1,329	4,155
<b>Total current liabilities</b>		<b>15,920</b>	<b>135,238</b>
<b>Total liabilities</b>		<b>345,153</b>	<b>395,351</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>709,687</b>	<b>612,835</b>

The notes, set out on pages 13 to 43, are an integral part of these financial statements.



## **Income statement**

for the year ended 31 December

In thousands of Litas	Notes	2006	2005
Revenue	21	78,526	102,332
Net valuation gains on investment property	6	57,951	18,693
Direct property operating expenses	22	(8,790)	(7,572)
Services of sub-contractors		(31,624)	(49,911)
Depreciation of property, plant and equipment		(394)	(228)
Employee benefits	23	(2,683)	(1,973)
Other expenses	24	(2,215)	(2,913)
<b>Result from operating activities</b>		<b>90,771</b>	<b>58,428</b>
Finance income	25	19,878	5,486
Finance expenses	26	(21,450)	(12,117)
<b>Profit before tax</b>		<b>89,199</b>	<b>51,797</b>
Corporate income tax	27	(13,783)	(8,257)
<b>Profit for the year</b>		<b>75,416</b>	<b>43,540</b>

The notes, set out on pages 13 to 43, are an integral part of these financial statements.

## Statement of changes in shareholders' equity

In thousands of Litas	Notes	Share capital	Legal reserve	Fair value reserve	Retained earnings	Total shareholders' equity
<b>Capital and reserves at 1 January 2005</b>		<b>16,000</b>	<b>1,600</b>	<b>0</b>	<b>156,010</b>	<b>173,610</b>
Merger of the subsidiary to the Company					334	334
Profit for the year 2005					43,540	43,540
<b>Capital and reserves at 31 December 2005</b>		<b>16,000</b>	<b>1,600</b>	<b>0</b>	<b>199,884</b>	<b>217,484</b>
Merger of the subsidiary to the Company	29				67,733	<b>67,733</b>
Revaluation on available-for- sale investments				3,901		<b>3,901</b>
Profit for the year 2006					75,416	<b>75,416</b>
<b>Capital and reserves at 31 December 2006</b>		<b>16,000</b>	<b>1,600</b>	<b>3,901</b>	<b>343,033</b>	<b>364,534</b>

The notes, set out on pages 13 to 43, are an integral part of these financial statements.

## Statement of cash flows

for the year ended 31 December

In thousands of Litas	Notes	2006	2005
Net result (profit)		75,416	43,874
Adjustments for:			
Depreciation and amortisation	5	394	228
Net finance costs		3,348	8,087
Cancelled shares of merged subsidiaries		51,864	
Gain (loss) on disposal of fixed assets		(975)	
Gain (loss) from fair value adjustment on investment property	6	(57,951)	(18,693)
Gain (loss) fair value adjustment on short-term investment		(3,901)	
Write offs of property, plants and equipments			4
Share of profit before tax of merged subsidiary	29	67,733	(293)
Income tax expenses		13,783	8,215
<b>Net cash inflow from ordinary activities</b>			
before any change in working capital		149,711	41,422
Change in inventories		20,351	(61,718)
Change in prepayments and deferred expenses			
Change in trade and other receivables		19,792	(19,324)
Change in trade and other payables		(39,163)	22,145
<b>Net cash inflow from ordinary activities</b>		<b>150,691</b>	<b>(17,475)</b>
Profit tax paid		(7,049)	(208)
<b>Net cash inflow from operating activities</b>		<b>143,642</b>	<b>(17,683)</b>
Interest received	25	12,529	1,325
Purchase of property, plant and equipment	5	(1,435)	(565)
Additions to investment property	6	(1,805)	(2,276)
Proceeds from disposal of fixed assets		975	
Investments to subsidiaries	7	(62,317)	(5,094)
Investments to joint ventures	8	(5,334)	(22,681)
Purchase of short-term investments (AFS)		(20,672)	
Disposals of subsidiaries	7	14	
Disposals of joint ventures	8	427	
Long-term loan repayments received			3,028
Long-term loan granted		(48,777)	(77,717)
Short-term loan repayments received			11,279
Short-term loan granted		(15,596)	(68,104)
Cash from merged subsidiary		59	2
<b>Net cash inflow from investing activities</b>		<b>(141,932)</b>	<b>(160,803)</b>

## Statement of cash flows (cont'd)

for the year ended 31 December

Proceeds from borrowings	69,221	236,132
Repayment of borrowings	(86,991)	(20,257)
Payment of finance lease liabilities		
Interest paid	26 (11,512)	(2,735)
Dividends paid		
<b>Net cash inflow/(outflow) from financing, net</b>	<b>(29,282)</b>	<b>213,140</b>
<b>Net cash inflow/outflow from operating activities, investing activities and financing</b>	<b>(27,572)</b>	<b>34,654</b>
<b>Cash and cash equivalents, opening balance</b>	<b>36,505</b>	<b>1,851</b>
<b>Cash and cash equivalents at 31 December</b>	<b>8,933</b>	<b>36,505</b>

The notes, set out on pages 13 to 43, are an integral part of these financial statements.

## **Notes to the 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.

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

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

The Company is primarily involved in development of real estate projects and leasing out investment property under operating lease.

AB Hanner employed 42 staff members as at 31 December 2006 (39 staff members as at 31 December 2005).

### **2 Basis of preparation**

#### **Statement of compliance**

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

The Board 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 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 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 financial statements

### 2 Basis of preparation (cont'd)

#### **Use of estimates and judgments**

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 financial statements, and have been applied consistently by Company.

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

#### **Investments in subsidiaries and associated companies**

Investment in subsidiaries, joint ventures and associated companies are stated at cost less 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 income statement.

## Notes to the financial statements

### 3 Summary of significant accounting policies (cont'd)

#### **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.

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.

## Notes to the financial statements

### 3 Summary of significant accounting policies (cont'd)

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 re-measured to fair value and reclassified as investment property. Any gain or loss arising on re-measurement is recognized in profit or loss.

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as investment property. Any gain arising on re-measurement 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.

#### *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.



## Notes to the financial statements

### 3 Summary of significant accounting policies (cont'd)

#### **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 profit or loss.

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.

#### **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.

## Notes to the financial statements

### 3 Summary of significant accounting policies (cont'd)

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.

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#### **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 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.

## Notes to the financial statements

### 3 Summary of significant accounting policies (cont'd)

#### 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.

#### 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 do not affect neither accounting nor taxable profit, or 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.

## Notes to the financial statements

### 3 Summary of significant accounting policies (cont'd)

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.

#### **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.

## Notes to the financial statements

### 3 Summary of significant accounting policies (cont'd)

- 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.
- 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 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 financial statements

### 5 Property, plant and equipment

In thousand of Litas	Buildings and other constructions	Vehicles	Other fixed assets	Total
<b>At 1 January 2005</b>				
Costs	1,225	767	313	2,305
Accumulated depreciation	(139)	(424)	(151)	(714)
Net book amount	1,086	343	162	1,591
<b>Year ended 31 December 2005</b>				
Opening net book amount	1,086	343	162	1,591
Additions	-	190	375	565
Write-offs	-	-	(4)	(4)
Depreciation charge	(88)	(70)	(70)	(228)
Closing net book amount	998	463	463	1,924
<b>At 31 December 2005</b>				
Costs	1,225	871	669	2,765
Accumulated depreciation	(227)	(408)	(206)	(841)
Net book amount	998	463	463	1,924
<b>Year ended 31 December 2006</b>				
Opening net book amount	998	463	463	1,924
Additions	1,147	76	212	1,435
Write-offs/disposals	(75)	(48)		(123)
Transfers	109		(109)	0
Depreciation charge	(89)	(101)	(204)	(394)
Closing net book amount	2,090	390	362	2,842
<b>At 31 December 2006</b>				
Costs	2,430	722	594	3,746
Accumulated depreciation	(340)	(332)	(232)	(904)
Net book amount	2,090	390	362	2,842



## Notes to the financial statements

In thousand of Litas	2006	2005
<b>6 Investment property</b>		
At beginning of year	175,644	150,020
Subsequent expenditure - additions	1,805	2,276
Subsidiary merged to the Company	0	4,655
Net gain from fair value adjustments on investment property	57,951	18,693
Disposal	(400)	0
<b>Total</b>	<b>235,000</b>	<b>175,644</b>

As at 31 December 2006 all investment properties have been pledged as security for bank borrowings (Note 18).

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

In thousand of Litas	2006	2005
<b>7 Investments in subsidiaries</b>		
Beginning of the year	183,104	133,415
Establishment of subsidiaries	1,103	23
Acquisition of subsidiaries	58,552	800
Contribution to share capital of subsidiaries	2,662	59,366
Subsidiary merged into the Company (Note 30)	(51,864)	(9,710)
Disposal of subsidiaries	(14)	0
Impairment of investments	0	(790)
<b>End of the year</b>	<b>193,543</b>	<b>183,104</b>

On 11 February 2006 the share capital of Verkių Slėnis was increased by 2,662 thousand Litas. Capital increasing was covered with non-current assets (buildings): book value - 701 thousand Litas, revaluation - 1,961 thousand Litas.

On 07 April 2006 the investment in to UAB Aukštuminė Statyba was sold to V. Peekmann for 10 thousand Litas with 790 thousand Litas losses. Disposals' losses were booked in 2005 year accounts as investments' impairment.

On 22 February 2006 AB Hanner established OOO Hanner Vostok. Part of shareholding amounts to 90%.

AB Hanner has bought 100% of shares of SIA Dentava for 52,351 thousand Litas.

## Notes to the financial statements

AB Hanner has bought 75% of shares of OOO Stroitelnyje Technologii Buduscego for 26 thousand UAH (14.2 thousand Litas). At acquisition moment OOO Stroitelnyje Technologii Buduscego was new established, all activities started after AB Hanner bought shares.

On 13 February 2006 the subsidiary PC Europa was reorganized and joined to AB Hanner. As PC Europa was established by AB Hanner, after reorganization share capital was eliminated with investment without goodwill. The reserves of PC Europa amounting to 67,733 thousand Litas was transferred to AB Hanner.

On 09 June 2006 AB Hanner established UAB HD Statyba. Share capital amounts to 10 thousand Litas.

On 04 July 2006 AB Hanner established OOO JBK Invest in Ukraine with 270 thousand Litas share capital. AB Hanner has 99% of shares.

On 04 July 2006 AB Hanner established OOO Palmira Invest in Ukraine. AB Hanner has 70% of shares (350 thousand UAH at nominal value). At the year end only 250 thousand UAH were paid. Other shareholder did not pay its part. Taking into consideration only paid shares AB Hanner part equals to 100%.

On 04 July 2006 AB Hanner established OOO Ploschad Tolbuchina in Ukraine. AB Hanner has 80% of shares (400 thousand UAH at nominal value). At the year end only 250 thousand Litas were paid. Other shareholder did not pay its part. Taking into consideration only paid shares AB Hanner part equals to 100%.

On 22 August 2006 UAB Avestis being the only shareholder of UAB Avestis Capital decided to increase the share capital of the UAB Avestis Capital to 25 million Litas by issuing additional 4,998,000 ordinary shares of 5 Litas nominal value each: 4,950,000 shares to be transferred to AB Hanner and the remaining 48,000 shares to be remained with UAB Avestis. As a result, 99% of the Company's shares belong to AB Hanner and 1% of the Company's shares belong to UAB Avestis. As to the shares issue agreements (dated 22 August 2006) and as to the only shareholder's decision (dated 22 August 2006) AB Hanner and UAB Avestis had to pay 25% of the shares' value by 27 August 2006, while the remaining 75% of the shares' value had to be covered by 31 December 2006. But until the year end nor UAB Avestis, neither AB Hanner paid their parts.

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

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 Vsl Hanner Up.

On 25 August 2006 AB Hanner sold 0,1% of shares of OOO Hanner Invest, Ukraine to Gerdas Dubrickas for 4.5 thousand Litas (for acquisition cost).

## Notes to the financial statements

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

Name	Country of incorporation	Assets	Liabilities	Revenues	Profit/(Loss)	% interest held
Bajoru Kalvos	Lithuania	157,665	91,474	96	(393)	100%
Hanner AG	Lithuania	26,585	15,758	67,939	549	90%
Hanner Property	Lithuania	92,491	2,523	3,887	5	100%
Verkių Slėnis	Lithuania	20,125	17,019	141	(61)	100%
Avestis Capital	Lithuania	6,031	20	1	(247)	99%
Hanner Development	Lithuania	30,116	14,683	61,509	92	100%
Hanner Real Estate	Latvia	733	733	515	119	100%
SIA Dentava	Latvia	5,608	926	5	(149)	100%
Hanner RD SRL	Romania	27,358	24,097	345	169	100%
OOO Stroitelnye Technologii	Ukraine	1,232	1,318	0	(104)	75%
ZAO Hanner Vostok	Ukraine	521		0	(1)	90%
ZAO Palmyra Invest	Ukraine	127		0	(3)	70%
ZAO Plochad Tolbuxina	Ukraine	127		0	(3)	80%
ZAO JBK Invest	Ukraine	257		0	(4)	99%
ZAO Hanner Invest	Ukraine	10,909	7,980	0	(868)	99,9%
HD Statyba UAB	Lithuania	381	429	2,480	(58)	100,0%
SIA Hanner Olympia Centrs	Latvia	10	1	0	(1)	100,0%
OOO Hanner Manedzment, *	Ukraine	15				100,0%
VSI Hanner Up	Lithuania	1	0	0	0	100,0%

\*- the company was registered in 2007, as at 31-12-2006 only the contribution for shares was made.

In thousand of Litas

### 8 Investment in joint ventures

	2006	2005
Beginning of the year	25,442	73
Establishment of joint ventures	0	13,850
Acquisitions of joint ventures	5,335	0
Contribution to share capital of joint ventures	0	11,519
Disposals of joint ventures	(427)	0
<b>End of the year</b>	<b>30,350</b>	<b>25,442</b>

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.

## Notes to the financial statements

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

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
Gudeliu silas	Lithuania	5,709	332	8	(9)	50%
Puces Birzs	Latvia	56,264	57,562	10	(1,640)	50%
SIA Equilibrium	Latvia	9,902		15	(5)	50%
Carol Park Residence SRL	Romania	48,759	48,547	0	240	50%
Europe Group Hanner SRL	Romania	34,661	37,606	0	34	50%
ZAO Nest Hanner	Ukraine	35,655	20,499	156	(1,871)	50%
Yudgin OOO	Ukraine	84,080	80,782		(6,293)	50%*

\* 40% held directly and 10% held indirectly through joint venture ZAO Nest Hanner.

In thousand of Litass	2006	2005
<b>9 Other receivables</b>		
Long-term loans to related parties (Note 29)	114,966	71,183
Less: provision for impairment of long-term loans to related parties	(1,325)	(2,420)
Long-term loans to related parties - net	113,641	68,763
Long-term loans to third parties	4,178	190
Other receivables	846	964
<b>Total</b>	<b>118,665</b>	<b>69,917</b>
Less current portion - other receivable	(118)	(147)
<b>Total</b>	<b>118,547</b>	<b>69,770</b>

Loans to 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.

## Notes to the financial statements

In thousand of Litas	2006	2005
<b>10 Inventories</b>		
Development projects of trading properties	2,684	23,022
Other inventory	0	13
<b>Total</b>	<b>2,684</b>	<b>23,035</b>

Majority of development projects are expected to be completed during 12 month period.

In thousand of Litas	2006	2005
<b>11 Trade and other receivables</b>		
Trade receivables:		
- <i>receivables for development projects</i>	3,836	20,595
- <i>receivables for coal</i>	0	2,853
- <i>receivables for rent</i>	1,142	845
Total trade receivables	4,978	24,293
Less: impairment for doubtful receivables	(2)	(96)
<b>Trade receivables - net</b>	<b>4,976</b>	<b>24,197</b>
Short-term loans:		
- <i>loans to related parties</i>	82,861	69,709
Less: <i>impairment for loans to related parties</i>	(189)	(822)
- <i>loans to related parties - net (Note 28)</i>	82,672	68,887
- <i>loans to other parties</i>	4,323	2,512
<b>Receivables loans - net</b>	<b>86,995</b>	<b>71,399</b>
Current portion of other receivables	118	147
Prepayments, deferred charges and accrued income	744	871
Other receivables	382	797
<b>Total</b>	<b>93,215</b>	<b>97,411</b>

In thousand of Litas	2006
<b>12 Investments available-for-sale</b>	
At beginning of year	0
Additions	19,983
Net gain from fair value adjustments	4,590
<b>Total</b>	<b>24,573</b>

## Notes to the financial statements

In thousand of Litas	2006	2005
<b>13 Cash and cash equivalents</b>		
Cash at bank	8,923	36,498
Cash in hand	10	7
<b>Total cash and cash equivalents</b>	<b>8,933</b>	<b>36,505</b>

### 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 shares 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
<b>17 Borrowings</b>		
<b>Current liabilities</b>		
Current portion of long-term bank borrowings	10,346	7,025
Current portion of long-term borrowings from related parties	0	79,965
<b>Total current</b>	<b>10,346</b>	<b>86,990</b>
<b>Non-current liabilities</b>		
Long-term bank borrowings	187,323	126,571
Long-term borrowings from related parties (Note 29)	113,397	115,274
<b>Total non-current</b>	<b>300,720</b>	<b>241,845</b>
<b>Grand total</b>	<b>311,066</b>	<b>328,835</b>

## Notes to the financial statements

The borrowing and undrawn borrowing facilities include amounts secured on investment property to the value of 235,000 thousand Litass (Note 6).

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

	2006	2005
Long-term bank borrowings	4.79	3.84
Borrowings subsidiaries	4.00	4.00

Maturity of non-current borrowings:

	2006	2005
Within 1 year	10,346	86,990
Between 1 and 2 years	10,346	33,950
Between 2 and 5 years	46,706	21,075
Over 5 years	243,668	186,820
	<b>311,066</b>	<b>328,835</b>

Company's bank borrowings are denominated in Euro and borrowings from related parties are denominated in Litass.

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 Litass	2006	2005
At the beginning of the year	(17,974)	(14,081)
Change in deferred tax recognized in income statement	(9,850)	(3,893)
Change in deferred tax recognized in equity	(689)	0
<b>At the end of the year</b>	<b>(28,513)</b>	<b>(17,974)</b>

Deferred income tax to be recovered after more than 12 months	<b>(28,513)</b>	<b>(17,974)</b>
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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 Litass	2006	2005
Deferred tax assets	51	15
Deferred tax liabilities	(28,564)	(17,989)
<b>Total</b>	<b>(28,513)</b>	<b>(17,974)</b>

## Notes to the 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
<b>Deferred tax liabilities</b>				
At 1 January 2005	(648)	(13,442)	-	(14,090)
Credited/(charged) to income statement	49	(3,948)	-	(3,899)
At 31 December 2005	(599)	(17,390)	-	(17,989)
Credited/(charged) to income statement	146	(10,032)		(9,886)
Credited/(charged) to equity	0	0	(689)	(689)
<b>At 31 December 2006</b>	<b>(453)</b>	<b>(27,422)</b>	<b>(689)</b>	<b>(28,564)</b>

In thousand of Litas	Vacation reserve	Total
<b>Deferred tax assets</b>		
At 1 January 2005	9	9
Credited/(charged) to income statement	6	6
At 31 December 2005	15	15
Credited/(charged) to income statement	36	36
<b>At 31 December 2006</b>	<b>51</b>	<b>51</b>

In thousand of Litas	2006	2005
<b>19 Trade payables and other amounts payables</b>		
Taxes	837	13,011
Trade payables for construction works	690	26,906
Advances	359	3,054
Other payables	2,359	1,122
<b>Total</b>	<b>4,245</b>	<b>44,093</b>



## Notes to the financial statements

### 20 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. 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 Company 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 Capital	18,562
ZAO Palmira Invest	52
ZAO Ploshchad Tolbuchina	78
<b>Total</b>	<b>18,692</b>

In thousands of Litas

### 21 Revenues

	2006	2005
Development projects	51,165	78,209
Rental income	17,285	14,864
Service charges	8,107	6,661
Other services	1,969	2,598
<b>Total</b>	<b>78,526</b>	<b>102,332</b>

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

## Notes to the financial statements

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	21,345	17,305
Later than 1 year and no later than 5 years	90,543	55,088
Later than 5 years	18,968	8,228
<b>Total</b>	<b>130,856</b>	<b>80,621</b>

In thousands of Litas

	2006	2005
<b>22 Direct property operating expenses</b>		
Utilities and exploitation expenses	7,176	6,329
Repair and maintenance	552	472
Land and real estate taxes	752	691
Other	310	80
<b>Total</b>	<b>8,790</b>	<b>7,572</b>

In thousands of Litas

	2006	2005
<b>23 Employee benefit expenses</b>		
Wages and salaries	1,853	1,420
Social security costs	600	447
Vacation reserve	142	78
Other costs	88	28
<b>Total</b>	<b>2,683</b>	<b>1,973</b>

## Notes to the financial statements

In thousands of Lit

	2006	2005
<b>24 Other expenses</b>		
Charity, support	114	643
Consulting and mediation	747	172
Marketing and advertising expenses	556	448
Telecommunication and IT maintenance expenses	30	164
Business trip expenses	80	234
Transportation expenses	189	141
Taxes (other than income tax)	91	113
Office supplies and utilities	122	85
Office rent	1	0
Impairment provision for trade receivables	0	90
Other expenses	285	823
<b>Total</b>	<b>2,215</b>	<b>2,913</b>

In thousands of Lit

	2006	2005
<b>25 Finance income</b>		
Interest income		
- <i>interest income from related parties (Note 29)</i>	9,086	3,125
- <i>interest income from third parties</i>	3,443	871
Gain from currency exchange	43	1,490
Reversed impairment of loans and other receivables	1,728	0
Gain from disposal of property, contributed to share capital of subsidiary	1,961	0
Gain from disposal of investments	3,617	0
<b>Total</b>	<b>19,878</b>	<b>5,486</b>

## Notes to the financial statements

In thousands of Litas

	2006	2005
<b>26 Finance costs</b>		
Interest expense		
- bank borrowings	7,398	2,038
- borrowings from related parties	4,114	6,047
Losses from currency exchange	9,938	0
Impairment of loans and other receivables	0	3,242
Impairment of investment in subsidiary	0	790
<b>Total</b>	<b>21,450</b>	<b>12,117</b>

In thousands of Litas

	2006	2005
<b>27 Income tax</b>		
Current tax	3,993	4,364
Change in deferred tax	9,850	3,893
<b>Total</b>	<b>13,783</b>	<b>8,257</b>

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		89,199		51,797
Tax calculated at a tax rate of 19 per cent (2005: 15 per cent)	19.0%	16,948	15.0%	7,770
Tax non-deductible expenses/income not subject to tax	-1.0%	(856)	1.0%	536
Charity expenses deductible twice for tax purposes	0.0%	(22)	0.2%	(96)
Under provided in previous years	0.5%	413	0.0%	0
Impact of change of tax rates on temporary differences	-3.0%	(2,700)	0.1%	47
<b>Total charges as to accounts</b>	<b>15.5%</b>	<b>13,783</b>	<b>16.3%</b>	<b>8,257</b>

## Notes to the financial statements

### 28 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
<i>Sales</i>		
Sale to subsidiary	118	187
<b>Total</b>	<b>118</b>	<b>187</b>

In thousands of Litas	2006	2005
<i>Interest income</i>		
Interest income from loans to subsidiaries, associates and joint venture	9,058	2,443
Interest income from loans to other related parties	23	680
Interest income from loans to Mr. A. Avulis	5	2
<b>Total</b>	<b>9,086</b>	<b>3,125</b>

In thousands of Litas	2006	2005
<i>Purchases</i>		
Purchases of services from subsidiaries	14,699	57,550
<b>Total</b>	<b>14,699</b>	<b>57,550</b>

In thousands of Litas	2006	2005
<i>Interest expenses</i>		
Interest expenses for loans from subsidiaries	3,722	6,047
<b>Total</b>	<b>3,722</b>	<b>6,047</b>

## Notes to the financial statements

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

In thousands of Lit	2006	2005
<i>Trade receivables</i>		
Trade receivables from subsidiaries, associates and joint venture	837	2,853
<b>Total</b>	<b>837</b>	<b>2,853</b>

In thousands of Lit	2006	2005
<i>Long-term loans</i>		
Loans to subsidiaries, associates, joint ventures	104,822	61,046
Less: provision for impairment of long-term loans to subsidiaries, associates, joint ventures	(1,325)	(2,420)
Long term loans to subsidiaries, associates, joint ventures – net	103,497	58,626
Loans to other related parties	10,000	10,000
Loans to Mr. A. Avulis	144	137
<b>Total (Note 9)</b>	<b>113,641</b>	<b>68,763</b>

<i>Short-term loans</i>		
Loans to subsidiaries, associates, joint ventures	81,861	47,692
Less: provision for impairment of short-term loans to subsidiaries, associates, joint ventures	(189)	(822)
Short term loans to subsidiaries, associates, joint ventures – net	81,672	46,870
Loans to other related parties	10,000	22,017
<b>Total (Note 11)</b>	<b>82,672</b>	<b>68,887</b>

In thousands of Lit	2006	2005
<i>Trade payables</i>		
Trade payables to subsidiaries	676	24,863
<b>Total</b>	<b>676</b>	<b>24,863</b>

In thousands of Lit	2006	2005
<i>Borrowings</i>		
Borrowings from subsidiaries (Note 17)	113,397	195,239
<b>Total</b>	<b>113,397</b>	<b>195,239</b>

## Notes to the 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.

### 29 Merge of the subsidiary to the Company

On 11 February 2006 PC Europa UAB, the Company's subsidiary, has been merged to the Company.

The assets and liabilities merged to the Company are as follows:

	Transferred carrying amounts
Property, plant and equipment	1
Other receivables	3
Cash and cash equivalents	119,761
<b>Total assets</b>	<b>119,765</b>
Share capital	51,865
Retained earnings	67,733
Income tax liabilities	160
Trade and other payables	7
<b>Total equity and liabilities</b>	<b>119,765</b>

## Notes to the financial statements

### 30 Subsidiaries and joint ventures

Subsidiary / joint venture	Country of incorporation	Direct ownership interest in %		Activity of the enterprise
		2006	2005	
<b>Subsidiaries</b>				
UAB Hanner Property	Lithuania	100%	100%	The main activity is development of real estate projects in Lithuania.
UAB Hanner Development	Lithuania	100%	100%	Subsidiary is managing real estate projects and construction works. The subsidiary owns interest in indirect joint venture of the UAB Santariskiu Namai.
UAB Hanner AG	Lithuania	90%	100%	The main activity is wholesale of coal.
UAB Bajoru Kalvos	Lithuania	100%	100%	Subsidiary developing the residential project Bajoru Kalvos at Bajoru road and Mokslininku street in Vilnius.
UAB Verkiu Slenis	Lithuania	100%	100%	Subsidiary developing a luxury residential project Verkiu Slenis in Verkiu regional park, Vilnius.
UAB PC Europa	Lithuania	-	100%	Subsidiary engaged in lease of investment property was merged into the Company in 2006.
UAB Aukstumine 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 residential 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 Jugstroj 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 financial statements

### 30 Subsidiaries and joint ventures (cont'd)

Subsidiary / joint venture	Country of incorporation	Direct ownership interest in %		Activity of the enterprise
		2006	2005	
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 tehnologii 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.
<b>Joint Ventures</b>				
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 City Center Residence 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.

## **Notes to the financial statements**

### **31 Legal claims**

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

### **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**

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 Litass).

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.

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.

## Notes to the 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.

## Annual report for the year ended 2006

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 %
<i>31 December 2006</i>				
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.

## **Annual report for the year ended 2006**

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.

## Annual report for the year ended 2006

### Titles of the Company's subsidiaries

#### Subsidiaries, joint ventures and associated companies

<i>Subsidiary/joint venture/associated company</i>	<i>Country of incorporation</i>	<i>Direct ownership interest in %</i>		<i>Activity of the enterprise</i>
		<i>31/12/2006</i>	<i>31/12/2005</i>	
<b>Subsidiaries</b>				
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 Verkių 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. Develops 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.

## Annual report for the year ended 2006

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.
<b>Joint ventures</b>				
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 Pucēs Birzs	Latvia	50%	50%	Joint venture with I un MC established in 2005. Develops residential block area in Purciems area, Ryga, Latvia.
Carol Park Residence SRL	Romania	50%	50%	Joint venture with Bellerive Holdings Ltd established in 2005. Develops 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.

## Annual report for the year ended 2006

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.
<b>Associated companies</b>				
OOO Jugstroj 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 Litass).

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.



## **Annual report for the year ended 2006**

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