



Baltic Property Trust Optima S.A. SICAR

Annual Report and
Consolidated Group Accounts 2006



Baltic Property Trust

Registered address

Baltic Property Trust Optima S.A. SICAR (BPTO)
8-10 Avenue de la Gare
L-1610 Luxembourg
Luxembourg

Registration number

B110456

Board of directors

Lars Ohnemus, chairman
Finn Hasselriis
Alain Heinz

Administrative agent, registrar and transfer agent

Swedbank (Luxembourg) S.A.
8-10 Avenue de la Gare
L-1610 Luxembourg
Luxembourg

Investment advisor

BPT Asset Management A/S
Bredgade 23A
DK-1260 Copenhagen K
Denmark

Custodian and paying agent

Swedbank (Luxembourg) S.A.
8-10 Avenue de la Gare
L-1610 Luxembourg
Luxembourg

Auditors

Ernst & Young S.A.
7 Parc d'Activité Syrdall
L-5365 Munsbach
Luxembourg

Legal Advisors

Stampe, Haume & Hasselriis Advokater
St. Kongensgade 49, P.O. Box 9005
DK-1022 Copenhagen K
Denmark

Luxembourg tax advisors

ATOZ, S.A.
1B, Heienhaff
L-1736 Senningerberg
Luxembourg

Baltic Property Trust Optima S.A. SICAR

Société d'Investissement en Capital à Risque

*CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2006*

and

Independent auditor's report

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prospectus accompanied by the latest annual and the most
recent semi-annual report, if published thereafter.*

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Independent auditor's report

To the Shareholders of
Baltic Property Trust Optima S.A. SICAR
8-10 Avenue de la Gare
L-1610 Luxembourg

We have audited the accompanying financial statements of Baltic Property Trust Optima S.A., SICAR, which comprise the consolidated balance sheet as at 31 December 2006, and the related consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted in 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 misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "réviseur d'entreprises"

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 as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the judgement of the "réviseur d'entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises" considers 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 policies used and the reasonableness of accounting estimates made by the 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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Baltic Property Trust Optima S.A., SICAR 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.

Report on Management Review

Furthermore, we have read the Management Review for the year ended 31 December 2006 (included on pages 6 through 9 of the accompanying 2006 consolidated financial statements) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

Ernst & Young

Société Anonyme
Réviseur d'Entreprises

Michael Hornsby

Luxembourg, April 24, 2007

Management review



Launched on 30 August 2005, BPT Optima S.A. SICAR has now been in existence for its first full year. The Fund's profit after tax reached EUR 21.4 million, what corresponds to a return on equity (ROE) of 30.5 pct for the 12-month reporting period. The 2006 recommendation for a dividend payment of EUR 9 per share of EUR 100 reflects strong business performance of the underlying assets. The ROE, yield performance and dividend ratio all exceeded our budget objectives and benchmarks. Furthermore, over the last 12 months, the Fund has enjoyed keen interest from institutional investors and the equity of EUR 150 million has been fully subscribed (as at 31 December 2006 118.6 million). With an overall investment capacity of EUR 667 million once the company has been fully invested, BPT Optima S.A. SICAR will definitely be the largest real estate company with a clear focus on the three Baltic countries and Northern Poland.

To the satisfaction of both the Board of Directors and Management, EUR 156 million has been invested by 31 December 2006, with firm commitments of another EUR 58 million. Profit from properties operating activities reached EUR 8.2 million which corresponds to a net yield on the properties of 8.2 pct.

In Estonia and Latvia, the yield compression continued and reached a level, which was clearly not satisfactory to our investors in order to make good acquisitions. In Lithuania and Poland, a number of important deals were concluded during the year. Those deals met or exceeded our benchmark criteria. Particularly, our build-up of a strong Polish team paid off, as three major transactions were concluded throughout the year. At the beginning of the year, the Fund had four large retail properties in the Baltic countries. Despite a challenging market, each property performed satisfactorily.

Poland

In April 2006 the Fund entered into a joint venture transaction with the former owners of the Gdansk shipyard land. The joint venture acquired 4.5 hectares of land in the central part of Gdansk with an option to purchase another 20.2 hectares early 2007. The land has a unique location between the old part of the city and the waterfront and has an estimated 950,000-1,000,000 sq. m. of space available for office, retail and residential construction. On 29 December 2006, the first plot of land with the right to build a shopping centre of up to 40,000 sq. m. was disposed to Euro Mall Poland Group with a net gain of EUR 7.1 million and the provision of EUR 2.8 million was made for its future obligations. Both players have a strong proven track record in the Polish real estate market and share our vision about the future development of the area. As part of this contract, BPT Optima S.A. SICAR also signed up for the purchase of a new 11,000 sq. m. office tower. This will be the first true international office tower entering the Gdansk office construction market. At present, the market conditions for office buildings are satisfactory in Northern Poland, particularly in Gdansk, where the vacancy ratio is approaching less than 5 pct.

Meanwhile, a small and effective project organisation has been established in Gdansk that is currently preparing the entire area for future development, including the sale and development of each plot. At this point in time, we estimate that EUR 26.9 million will need to be invested in roads and infrastructure. As part of the process, a special infrastructure company will be established into which developers will have to pay EUR 50/sq. m. for construction rights. To a large extent, these fees will permit us to fund all the necessary infrastructure investments and once the entire development has been completed, it is our plan to hand over this

company to the appropriate local authorities. Furthermore, we will also apply for the EU and local government funding when appropriate and possible from a timing perspective.

In terms of sales we have been contacted by more than 26 leading developers, who have shown interest in getting involved in this project. The next step will be to sign up with a developer who will acquire all the rights to build up to 150,000 sq. m. of residential property in mid 2007. This transaction is also expected to provide a substantial capital gain. Our ultimate goal is to own all of the office buildings in this area and a large part of all retail and entertainment premises. Accordingly, all residential rights will gradually be sold to the third party developers and investors.

In the middle of 2006 we presented an investment case to the Board of Directors where we recommended an increased investment focus on the Polish market for office buildings since this segment had under-performed over the last 7-8 years and because the retail market was, in our view, getting overheated. As one of the first steps in this plan, BPT Optima S.A. SICAR acquired more than 20,000 sq. m. of an office complex located at Zelazna 12 in the central part of Warsaw in September. At present, Zelazna office complex consists of two buildings, with a third one under construction that is expected to be completed in the first half of 2007. The entire complex has been leased to various Polish governmental institutions on very satisfactory terms and we expect this investment to begin yielding approx. 7 pct in 2007.

In December, a well-situated 3,000 sq. m. office building was acquired in Gdansk at a total price of EUR 5.5 million. Furthermore, another 9,000 sqm office building in Gdynia was acquired in

January 2007 for EUR 13 millions. Head of Terms have been signed for another office building in Gdansk with an expectation to complete the transaction in April 2007. These transactions will ultimately make BPT Optima S.A. SICAR the leading player in the office building segment in Northern Poland.

In this region, we have also signed up with a leading developer, which will permit us to have a more proactive approach in the office building segment and to replicate what BPT has achieved in the Baltic countries. Our goal is clearly to become the largest player in the tri-city office construction market. We are confident that our declared business objective of becoming the leading player in this segment can be achieved by the end of 2007/early 2008.

Estonia

In Estonia, Tööstuspark shopping centre in Tallinn proved to be a very solid investment and during the last 12 months we have succeeded in increasing the actual yield to over 9.1 pct. This has been achieved through a focused cost reduction programme, re-letting and by focusing on areas that were utilised in the past. Furthermore, we have signed up with the anchor tenant that the centre should be extended by another 3,000 sq. m. at a predefined yield of 9 pct. The actual construction work for the expansion began in January 2007 and is expected to be completed in the middle of 2007. Through this additional investment, the centre will de facto become the largest do-it-yourself centre in Estonia.

In October, the Fund acquired a shopping centre located at Raja 5, Valga from BPT Asset Management Fund with the option of extending it by an additional 3,000-3,500 sq. m. The centre was acquired at a yield of 7.9 pct.

Latvia

In Riga, our investment in Olympia shopping centre, with expansion options of 25,110 sq. m., has proved to be a demanding task. The actual annual yield was 8 pct, but it is obvious that the turnaround phase will take another 12-18 months. Today, our local team, in cooperation with the external experts, has developed a new centre management concept, which has been promoted locally and internationally. As a result of this step, the actual occupancy ratio is now increasing and we are confident that this exceptionally well located shopping centre will turn out to be an attractive investment in the long run. Furthermore, a development agreement was signed with Hanner, a leading Baltic developer. Our plan is to extend the premises by building an office tower as well as a residential tower. The residential tower will not be owned by the company. All construction rights to this building have been sold at a predefined price of EUR 125/sq. m. Once the actual plans have been approved by the City of Riga, we expect to yield an exceptional capital gain of EUR 2.5-3 million. All plans have now been submitted to the City of Riga, which is expected to approve the project in mid/late 2007. Furthermore, the Fund acquired medium size shopping centre in central Riga for EUR 11 million.

Lithuania

In Lithuania, our activities have been successfully managed throughout the year. In Kaunas, which is the second largest city in Lithuania, the company acquired Molas shopping centre in September 2005. The conversion of the centre has now been successfully completed and more than 7,000 sq. m. have been refurbished and re-let. Therefore, we are confident that the actual yield will gradually increase and reach a level of 9.5 pct at the end of 2007. This conversion has been very demanding and was delayed by more than 10 weeks due to a shortage of manpower in the Lithuanian construction industry. Nevertheless, the overall outcome is very positively seen from an investor perspective and generated a capital gain of EUR 5 million in 2006. The occupancy rate of the centre is now 95 pct and we expect the centre to be fully let by the end of 2007.

In Klaipeda, our shopping centre of 20,000 sq. m. has proved to be a steady cash cow despite a very competitive environment. The actual yield ranged from 8 - 8.5 pct throughout the year. The next step will be to focus on the extension of the centre and gradually to enhance the tenant mix. In June 2006 we signed the agreement according to which the Fund acquired the construction rights of Vilnius Gate, the most prominent new office building in Vilnius. Located next to the Lithuanian Parliament by the river Neris, it is

the first true A+ office building ever built in Vilnius. The construction of the building is was completed in April 2007 at which time the Fund concluded the contract of the acquisition. New tenants can gradually move during the summer 2007. At present, more than 40 pct of the building has been pre-let and we expect that at least 80 pct of the building will have been leased by the end of 2007. The market conditions for office buildings in Lithuania are currently favourable with a vacancy ratio below 5 pct. This forwarding transaction also addresses one concern, which we as fund managers have to consider: quality. Historically, building and construction standards are high in the Baltic countries, but due to the current construction boom many developers and construction firms are building below our standards.

Future outlook

As to the future prospects, the investors of BPT Optima S.A. SICAR can expect fluctuating market conditions in 2007. Attractive open-market conditions will be rare, particularly in Estonia and Latvia. The actual prices will not reflect the actual project or country risks. In 2007, our focus will be on off-market transactions or transactions based on a clear investment concept. As in the past, we will engage in transactions where land acquisitions could be required or where an above-market return can be generated by entering joint-venture projects with leading local developers. As previously announced and as part of this strategy, we will buy out the remaining 22.5 hectares, plus additional 20 hectares of land in Gdansk. We still think that this project offers an above-market return and is highly advantageous due to the ability to control the entire area. This also eliminates any conflict of competing projects. We will continue to benefit from the positive market conditions in Northern Poland and Lithuania and we expect our country allocation for these markets to be exhausted by the end of 2007. As a result, we may ask our investors for permission to slightly modify the overall country allocations if market conditions do not change in 2007.

Risks

As mentioned above, we will remain critical about the market conditions in Estonia and Latvia. The combination of lower building standards and yield levels is not interesting. Our strategy is clearly to wait until market conditions become more attractive. Last year, we budgeted for interest rates that would increase by 100-125 basis points. The European Central Bank did actually increase interest rates by more than 100 points and we expect an interest rate increase of another 50 basis points this year. These increases



will gradually squeeze out more speculative funds in the market and provide a more acceptable investment environment by late 2007/early 2008.

At macro level we continue to observe that particularly Estonia and Latvia are experiencing unsustainable growth rates. Deficit on the balance of trade and foreign debt have reached a level which could initiate devaluations if not adjusted at the political level. The introduction of the Euro in Estonia and Lithuania has been delayed until 2009/2010, which is regrettable.

Summary

When looking at 2006, the Fund had a satisfactory performance despite a challenging business environment. Our business and business model proved to generate above-market performance, which has translated into a strong return on investment and a healthy dividend stream. This provided us with a solid basis for the future as we have never had a stronger acquisition pipeline in the history of BPT Optima S.A. SICAR than at present. Therefore, we expect the overall fund size to reach EUR 310-320 million by the end of 2007. As in 2006, the year 2007 will clearly be a build-up year as the actual timing of the acquisitions can have an impact on the overall Fund performance. Going forward, we expect the average yield of the Fund to be about 8.5 pct, with an expected distribution of dividend of 8 pct.

Income statement

for the year ended 31 December, 2006

(expressed in '000 EUR)

	Notes	2006	2005
Rental Income		12.738	3.047
Costs of rental activities	4	(4.506)	(1.080)
Profit from property operating activities		8.232	1.967
Administrative expenses	5	(2.788)	(899)
Fund custodian fees		(139)	(18)
Performance fee accrual	19, 22	(3.883)	-
Fund expenses		(6.810)	(917)
Other Income	6a	12.490	467
Other Costs	6b	(8.174)	-
Net valuation gains on investment properties	10	19.320	2.942
Net operating profit before financing		25.058	4.459
Financial income	7	3.283	96
Financial expenses	8	(4.252)	(941)
Net financing costs		(969)	(845)
Profit before tax		24.089	3.614
Charge for taxation	9	(2.728)	(468)
Profit after tax		21.361	3.146
Basic and diluted earnings per share (Euro)	16	32.2	12.5

The accompanying notes are an integral part of these consolidated financial statements.

Balance sheets

as of 31 december, 2006

(expressed in '000 EUR)

	Notes	2006	2005
<hr/>			
Non-current assets			
Investment property	10	173.211	97.957
Property, plant and equipment		4	1
Hedging instruments	25	2.476	118
Deferred tax asset	9	320	56
Total non-current assets		176.011	98.132
<hr/>			
Current assets			
Inventory	11,6b	17.148	-
Trade and other receivables	12	18.429	778
Other current assets	13	591	207
Cash and cash equivalents	14	51.013	7.681
Total current Assets		87.181	8.666
Total assets		263.192	106.798

The accompanying notes are an integral part of these consolidated financial statements.

Balance sheets

as of 31 december, 2006

(expressed in '000 EUR)

	Notes	2006	2005
Equity			
Capital	15a	118.619	39.418
Cash flow hedge valuation reserve	15b,25	2.052	(1.681)
Cumulative foreign currency translation		276	-
Net retained earnings		24.507	3.146
Equity attributable to Shareholders		145.454	40.883
Minority Interest in subsidiaries		-	-
Total Equity		145.454	40.883
Liabilities			
Non-current liabilities			
Debts to banks	17	80.643	30.428
Financial lease obligations	18	33	45
Provisions	19,22	20.159	300
Deferred tax liability	9	6.620	3.681
Hedging instruments	25	297	1.800
Advances received		649	600
Total Non-current liabilities		108.401	36.854
Current liabilities			
Trade payables		1.035	916
Debts to banks, current part	17	628	27.800
Current portion of long-term lease obligations	18	12	12
Deferred income and advances received	20a, 6a	2.771	117
Income tax payable		70	-
Hedging instruments	25	158	-
Other payables	20b	1.866	216
Provisions	19	2.797	-
Total Current liabilities		9.337	29.061
Total liabilities		117.738	65.915
Total equity and liabilities		263.192	106.798

The accompanying notes are an integral part of these consolidated financial statements.

Statement of changes in equity

for the period ending 31 december, 2006

(expressed in '000 EUR)

	Capital	Other reserves	Retained earnings	Cumulative foreign currency translation	Total
Balance at the inception date					
Contribution upon establishment	32	-	-	-	32
Capital increase	39.386	-	-	-	39.386
Movement in hedging reserve	-	(1.681)	-	-	(1.681)
Net profit for the period	-	-	3.146	-	3.146
Balance at 31 December 2005	39.418	(1.681)	3.146	-	40.883
Balance at 1 January 2006	39.418	(1.681)	3.146	-	40.883
Capital increase	79.201	-	-	-	79.201
Currency translation adjustment	-	-	-	276	276
Movement in hedging reserve	-	3.733	-	-	3.733
Net profit for the period	-	-	21.361	-	21.361
Balance at 31 December 2006	118.619	2.052	24.507	276	145.454

The accompanying notes are an integral part of these consolidated financial statements.

Cash flow statement

for the year ended 31 december, 2006

(expressed in '000 EUR)

	Notes	2006	2005
Net cash flow from operating activities	27	4.549	5.394
Cash flow from investing activities			
Purchase of a business, net of cash acquired	10	(157)	(23.154)
Purchase of property, plant and equipment		(4)	-
Purchase of investment in real estate		(52.391)	(17.325)
Net cash flow from investing activities		(52.552)	(40.479)
Cash flow from financing activities			
Received bank loans		50.436	4.025
Disbursements of loans		(35.493)	101
Interest paid		(2.983)	(1.275)
Interest received		190	497
Shareholders contribution into share capital		79.201	39.418
Net cash flow from financing activities		91.351	42.766
Increase in cash and cash equivalent		43.348	7.681
Foreign currency translation		(16)	-
Cash and cash equivalent at the beginning of the period		7.681	-
Cash and cash equivalents at the end of the period	14	51.013	7.681

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the financial statements



1. General information

Baltic Property Trust Optima S.A. SICAR (the "Company") was incorporated in the Grand Duchy of Luxembourg on 30 August 2005 as a 'société anonyme' under the Luxembourg law on commercial companies dated 10 August 1915; as amended and registered as a 'société d'investissement en capital à risque' ("SICAR") under the related law dated 15 June 2004.

The Articles of Incorporation (the "Articles") have been published on 16 September 2005 in the Memorial C, Recueil des Sociétés et Associations (the "Mémorial"). The Company is registered at the Registre de Commerce, Luxembourg, under number B110456. The Company was established for an undetermined period and may be dissolved by a resolution of the shareholders, subject to the quorum and majority requirements for the amendment of the Articles. Baltic Property Trust Optima S.A. SICAR is the ultimate parent and controlling entity. The exclusive object of the Company is to invest in securities representing risk capital in order to provide its investors with the benefit of the result of the management of its assets in consideration of the risk with they incur.

The consolidated financial statements of the Group for the period ended on 31 December 2006 were authorized for issue in accordance with a resolution of the Board of Directors of 24 April 2007. Those consolidated financial statements will be submitted to the general meeting of shareholders on 24 April 2007.

As of 31 December 2006 the number of employees of the Group was 5 (as of 31 December 2005: 3).

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated in the following text.

Basis of preparation

The Group's accounts have been prepared in accordance with the International Financial Reporting Standards (the 'IFRS') as adopted for use in the European Union.

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year:

IAS 19	Amendment-Employee Benefits;
IAS 21	Amendment-The Effects of Changes in Foreign Exchange Rates;
IAS 39	Amendments-Financial Instruments: Recognition and Measurement;
IFRIC 4	Determining whether an Arrangement contains a Lease;
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
IFRIC 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment.

Adoption of these revised standards and interpretations had no material effect on the financial statements of the Group.

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

2. Summary of significant accounting policies (continued)

Adoption of new and/or changed IFRSs and IFRIC interpretations (cont'd)

- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting once adopted by EU.
- amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.
- IFRIC 8 Scope of IFRS 2 (effective after endorsed by European Union, but not earlier than 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.
- IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). This interpretation establishes that the entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective after endorsed by European Union, but not earlier than 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements once adopted by EU.
- Amendments to IAS 23 Borrowing Costs (effective once adopted by the EU but not earlier than for annual periods beginning 1 January 2009, earlier application permitted). Revised IAS 23 requires that all borrowing costs must be capitalised to the extent they are directly attributable to the acquisition, construction or production of a qualifying asset. The choice to immediately recognise such costs as an expense is eliminated.

The Group expect that adoption of the pronouncements listed above as they become effective will have no significant impact on their financial statements, except for additional disclosures on IFRS 7. The Group is still estimating the impact of these requirements. The consolidated financial statements are prepared on the historic basis except for the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as available for sale and investment property.

2. Summary of significant accounting policies (continued)

The significant accounting policies applied by the Fund are as follows:

2a Presentation currency

The consolidated financial statements have been prepared in Euro (EUR), which is the Company's functional and presentation currency. Exchange rates used as of 31 December, 2006 are as follows:

Currency	Average exchange rate on the period	Exchange rate at closing date
LTL/EUR	3.4532	3.4528
LVL/EUR	0.69623	0.6971
EEK/EUR	15.6466	15.6443
PLN/EUR	3.88093	3.8368
DKK/EUR	7.4305	7.4563

Unless stated otherwise, all values are rounded to the nearest thousand of Euro. The consolidated financial statements are presented in thousand of Euro.

As these financial statements are presented in EUR thousands, individual amounts were rounded.

2b Consolidated financial statements

The consolidated financial statements of the Group include Baltic Property Trust Optima S.A. SICAR (the "Company") and subsidiaries (Note 28a) of which the Company directly or indirectly holds more than 50 percent of the voting rights or otherwise has controlling influence. The equity and net income attributable to minority shareholders' interests, if any, are shown separately in the consolidated balance sheet and consolidated income statement. The consolidated financial statements are prepared on the basis of financial statements of the Company and its subsidiaries by consolidation of financial statements' items of a uniform nature. The financial statements used for consolidation have been prepared applying Group's accounting policy.

Inter-company balances and transactions, including unrealised profits and losses, are eliminated in consolidation. Companies acquired or sold during a year are included into the financial statements from the date the Company obtains control to the date control ceases, respectively. The purchase method is applied in the acquisition of new subsidiaries which qualify as business combination, under which the identifiable assets and liabilities and contingent liabilities of these companies are measured at fair value at the acquisition date.

Cost of the acquired company consists of fair value of the paid consideration (cash or own shares) added the costs directly attributable to the acquisition of the subsidiary. If the final determination of the consideration is conditioned by one or several future events, these are only recognised in cost if the relevant event is likely and the effect in cost can be calculated reliably. When the transaction has not been identified as being a business combination, the transaction has been accounted for an acquisition of individual assets and liabilities where the initial purchase consideration is allocated to the separate assets and liabilities acquired.

2. Summary of significant accounting policies (continued)

2c Recognition and measurement (continued)

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Group and the value of the assets can be measured reliably. Liabilities are recognised in the balance sheet when they are probable and can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each financial statement item below.

2d Goodwill

Difference between the acquisition cost and the fair value of the net identifiable assets at acquisition date is considered to be goodwill (negative goodwill). The negative goodwill is recognised as income in the income statement immediately. In the consolidated financial statements goodwill related to consolidated subsidiaries is presented in the intangible assets caption.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2e Interest in a joint venture

The Group has an a joint venture which is a jointly controlled entity. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. The Group recognises its interest in the joint venture using proportionate consolidation. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with the similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting year as of the Group, using consistent accounting policies.

Unrealised gains on transactions between the group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity.

2. Summary of significant accounting policies (continued)

2f Foreign currency translation

The functional currency of a subsidiary is determined with reference to the currency of the primary economic environment in which the entity generates and expends cash and raises finance. Transactions in other currencies than the functional currency are transactions in foreign currencies. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rate of exchange ruling at the balance sheet date. The cumulative effect of exchange differences on cash transactions are classified as realised gains and losses in the Consolidated Income Statement in the period in which they are settled.

Where the functional currency is different from the presentation currency of the Group those assets and liabilities are translated at the rate of exchange ruling at the balance sheet date. The income statements of such subsidiaries are translated at the average exchange rate for the period. The exchange differences arising on the currency translation are recorded as a separate component of Shareholders reserves under the heading of "Cumulative foreign currency translation". On the disposal of such a subsidiary, accumulated exchange differences are recognised in the Consolidated Income Statement as a component of the gain or loss on disposal, including any tax effects.

Exchange differences arising on monetary items, which in substance form part of the Group's net investment in a foreign entity, are recorded as a separate component of Shareholders reserves under the heading of "Cumulative foreign currency translation". Fair value adjustments and goodwill arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired company and are recorded at the exchange rate at the date of the transaction.

2g Investment in property

Investment properties are real estate properties (land or a building – or part of a building- or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for the use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business. Investment property is initially recorded at cost including costs directly resulting from the acquisition such as transfer taxes and legal fees. Costs, adding new or improved qualities to an investment property compared to the date of acquisition, and which thereby improve the future yield of the property, are added to cost as an improvement. Costs, which do not add new or improved qualities to an investment property, are expensed in the income statements under operating expenses.

Under IAS 40, investment properties are valued to Fair Value as determined by independent appraisers being the estimated price at which the property could be exchanged at the date of the valuation between knowledgeable, willing parties in an arm's length transaction. Valuations are also undertaken on acquisitions and contributions in kind. UAB Re-Solution and UAB Koba have been appointed as appraisers of the Fund. Their valuations are prepared in accordance with the methodology and guidelines as set out in IAS 40 and the joint valuation report is issued at the end of 2006 year

Valuations are prepared by considering a discounted cash flow projection based on an estimate of future net cash flow. Future net cash flows comprise the rental income secured under current leases less any known or expected non-recoverable costs, income from rent guarantees, and the current market rent attributable to futures vacant periods. A discount rate which reflects market conditions at the date of valuation is then applied to the future net cash flow to arrive at the net present value of that future rental income. This calculation excludes the effects of taxes and disposal costs borne by the seller, and is net of transaction costs normally borne by the purchaser. Depreciation is not provided on investment properties.

2. Summary of significant accounting policies (continued)

2g Investment in property (continued)

The fair value does not necessarily represent the liquidation value of the properties which would be dependent upon the price negotiated at the time net of selling costs. The fair value is largely based on estimates as described above which are inherently subjective. The yield requirement (discount factor) is determined for each property. Value adjustments are recognised in the Consolidated income statement under the item "Value adjustment".

2h Property, Plant and Equipment

Property, plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment in value. Costs comprised the acquisition price and costs directly attributable to the acquisition until the time when the asset is ready to be put into operation.

Depreciation is computed on a straight-line basis over the following average estimated useful lives of the assets:

- Technical equipment and machines 3 to 10 years
- Other tools and equipment between 3 and 5 years.

The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Depreciation is recognised in the income statement under administrative expenses.

2i Inventories

Inventories are initially measured at cost. Cost comprises all costs directly allocable to the production process and an appropriate share of overheads. Inventories are measured at the lower of cost or net realizable value as of the balance sheet date. Net realizable value is the estimated selling price less all estimated costs of completion and marketing and selling expenses. If inventories are sold, their carrying value is recognized as an expense in the year in which the related revenue is recognized.

2j Accounts Receivable

Receivables are measured at nominal value less allowances for doubtful debts, if any. The Management assesses specific provisions on a customer by customer basis throughout the year.

2k Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2. Summary of significant accounting policies (continued)

2l Dividends

Proposed dividends are recognized as a liability at the time of declaration.

2m Reserve for Exchange adjustments

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Income statement of the respective entity.

2n Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provisions are reviewed at each balance sheet date and adjusted in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses, which are expected to be incurred to settle the liability.

2o Derivative financial instruments

The Group engages in forward, swap and other contracts, mainly for currency and interest rate risk management purposes. Outstanding forwards, swaps and other financial instruments are carried in the balance sheet at the fair value. Fair value is derived from quoted market prices, or using the discounted cash flow method applying effective interest rate. The estimated fair values of these contracts are reported on a gross basis as financial assets for contracts having a positive fair value; and financial liabilities for contracts with a negative fair value. Contracts executed with the same counterparty under legally enforceable master netting agreements are presented on a net basis. Gain or loss from changes in the fair value of outstanding forward contracts, swaps and other financial instruments, which are not classified as hedging instruments, are recognized in the Income statement as they arise.

2p Hedge accounting

The effectiveness of the hedge is assessed by comparing the value of the hedge item with the notional value implicit in the contractual terms of the financial instruments being used in the hedge.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognized asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecasted transaction.

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized immediately in the statement of income.

2. Summary of significant accounting policies (continued)

2p Hedge accounting (continued)

In relation to cash flow hedges, which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized initially in equity and the ineffective portion is recognized in the statement of income. The gains or losses on effective cash flow hedges recognized initially in equity are either transferred to the statement of income in the period in which the hedged transaction impacts the statement of income or included in the initial measurement of the cost of the related asset or liability.

For hedges, which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

2q Financial liabilities

Debts to banks and financial institutions are recognised on taking out the loan at the proceeds received less transaction costs incurred. Subsequently, these debts items are measured at amortized cost using the effective interest rate method.

The Group classifies its financial liabilities as current when they are due to be settled within twelve months after balance sheet date, even if:

- (a) the original term was for a period longer than twelve months; and
- (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognising of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. Borrowing costs are expensed as incurred.

2r Other liabilities

Other liabilities, comprising payables to suppliers, guarantee deposits received from tenants and other payables, are measured at amortized cost using the effective interest rate method. Deferred income is recognised under liabilities and include received payments for future income.

2s Financial lease

The Group recognizes financial leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate of financial lease payment, when it is possible to determine it; in other cases, Company's composite interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

2. Summary of significant accounting policies (continued)

2t Financial assets

The Group recognizes financial assets on its balance sheet when, and only when, the Group becomes a party to the contractual provisions of the instrument.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. All "regular way" purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention are recognized at trade date (the date that the Group commits to purchase or sell the asset), otherwise such transactions are treated as derivatives until the settlement day.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2u Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is possible.

2v Subsequent events

Post-balance sheet events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

2w Offsetting

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when there is a legal right to do so.

2. Summary of significant accounting policies (continued)

2x Rental income

The Group leases its buildings to customers under agreements that are classified as operating lease. Rental income represents rents charged to customers and is recognised on a straight line basis, net of any sales taxes, over the lease period to the first break option. The Group does not apply lease incentives. Expense reimbursement income are recognised on gross basis and included in the income statement when the company is not acting as agent on behalf of third parties and charging the commissions for the collections. Otherwise, revenue is the commissions.

2y Expense recognition

Expenses are accounted for an accrual basis. Expenses are charged to the Consolidated Income Statement, except for those incurred in the acquisition of an investment property which are capitalised as part of the cost of investment and costs incurred to acquire borrowings which are capitalised with note 2q. Operating expenses comprise costs incurred to earn rental revenue during the financial year to cover operations and maintenance of the own properties.

2z Value adjustments of Investment Properties

Changes in the fair value of investment properties include the period adjustment of the estimated market value, see note "Investment property". Any gain or losses on a change in the Fair Value of investment properties are recognised in the Consolidated Income Statement in the period in which they arise.

2aa Administrative expenses

Administrative expenses include costs and expenses which were incurred for the management of the investment properties and the Group during the year.

2ab Finance income

Finance income includes interest income received and the effect of unrealised and realised gain arising on foreign currency transactions and balances during the period.

2ac Finance expenses

Finance expenses include:

- i) interest expenses related to long term and short term debts, and are recognised on an accruals basis;
- ii) amortisation of transaction costs applicable to the period;
- iii) the effect of the unrealised change in the fair value of mark to market currency hedges related to the financing activities for the period;
- iv) the effect of the unrealised foreign currency losses on monetary assets and liabilities arising in the period; and
- v) the effect of the realised foreign currency losses on cash transactions completed during the period.

2. Summary of significant accounting policies (continued)

2ad Taxation

The consolidated subsidiaries of the Group are subject to taxation in the countries in which they operate. Current taxation is provided for at the applicable current rates on the respective taxable profits.

2ae Deferred taxation

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- i) where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax credits and unused tax losses can be utilised except:

- i) where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Unrecognised deferred income tax assets are re-assessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when an asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. Summary of significant accounting policies (continued)

2af Significant accounting judgements, estimates and assumptions

The Group's management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements. As in more detail described in Note 11, in 2006 BPTO Gdansk Development A/S sold land plots in Gdansk for EUR 21.708 thousand. The Company has to purchase back 17.84 % of this land when an office tower is built on it, therefore, for the purposes of these financial statements the management has determined that risks and rewards have not been transferred and the related revenue was not recognised. For the remaining part of the land sold in 2006 there are no remaining obligations (except for the commitment to build the road and infrastructure as described below), and, therefore, BPTO Gdansk Development A/S has recognised the related revenue of EUR 17.835 thousand in its income statement for the year 2006 (the Group's portion is EUR 12,485 thousand). Based on the agreements signed by BPTO Gdansk Development A/S in 2006, the management is of the opinion that the joint venture will also purchase additional land in the same zone of Gdansk (Note 21c) in 2007.

In relation to the above agreements BPTO Gdansk Development A/S committed to construct the road and infrastructure to the respective zone of Gdansk. The management believes that the costs of this construction will be reimbursed by the City of Gdansk and/or the EU funds, however the reimbursement is not certain and, therefore, the provision for the expected costs of construction, amounting to EUR 26.825 thousand, was recorded in the joint venture's financial statements (the Group's portion is EUR 18,777 thousand (Note 21c)). The total amount of this provision was allocated to the respective land plots based on the area of the buildings to be built on them. As a result, EUR 3.405 thousand (the Group's portion is EUR 2.797 thousand) were allocated to the land plots sold in 2006 and this part of provision decreases profit from disposal of land in the income statement. The remaining EUR 23.420 thousand (the Group's portion is EUR 15.980 thousand) were allocated to the land to be sold or to be purchased and sold in the future, and accounted in inventory.

The preparation of financial statements in conformity with the IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to depreciation, impairment evaluation and fair valuation of investment properties, Fair Value derivatives, the determination of the method of acquisition accounting and the determination of deferred tax balances. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the resulting differences may be material to the financial statements.

3. The Group risk management policy

3a Risk relating to investment in real estate

Investment in real estate is subject to varying degrees of risk. The main factors which affect the value of the investment include:

- (i) changes in the general economic climate;
- (ii) conditions in the market in which invested real estate operate;
- (iii) government regulations and taxation; and
- (iv) availability of investment opportunities in real estate.

To address these risks the Fund is subject to certain investment restrictions (please refer to the Fund's prospectus for a more comprehensive description):

- (i) None of the shareholders is allowed to hold directly or indirectly more than twenty-five percent (25%) of the shares of the Company, once the share capital of the Company has reached the amount of one hundred and fifty million Euro (EUR 150.000.000);
- (ii) The Fund will invest up to 20% of its funds in land, back to back real estate projects or co-invest in development projects with local or international partners in the Baltic States or Poland; and
- (iii) In any case, no investor may hold less than one hundred twenty-five thousand Euro (EUR 125.000) of subscribed capital in the Fund.

3b Credit risk

The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. Major acquisition and project finance credit risks are minimized by sharing these risks with banks and insurance companies. Credit risks related to the placement of liquid funds and to trading in financial instruments (counterparty credit risks) are minimized by making agreements only with the most reputable domestic and international banks and financial institutions.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Group considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognised at the balance sheet date.

3c Interest rate risk

The Group is exposed to interest rate risk primarily through market value changes to the net debt portfolio (price risk) and also through changes in interest rates. Fluctuations in interest rates affect the interest expense. As the Group's income is not correlated with the level of interest rates, there is an interest rate risk policy to synchronize the interest cost with the earnings and to hedge the long-term loans to a fixed rate for their whole life. This converts floating rate liabilities to fixed rate liabilities. In order to achieve this, the Group either takes fixed rate loans or swaps fixed interest rates to floating using interest rate swaps and forwards contracts (further described in Note 25).

3. The Group risk management policy (continued)

3c Interest rate risk (continued)

The following table sets out the carrying amount by maturity, of the Group's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2006

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Fixed rate							
Cash deposits	28,945	-	-	-	-	-	28,945
Loan receivable	5,235	-	-	-	-	-	5,235
Bank loan	72	75	79	82	1,871	-	2,179
Bank loan	-	-	-	-	450	21,997	22,447
Finance lease	7	8	8	7	-	-	30
Floating rate							
Bank loan	-	-	-	-	-	12,391	12,391
Bank loan	-	-	-	-	-	16,673	16,673
Bank loan	228	912	912	912	912	7,524	11,400
Bank loan	328	355	328	328	697	14,145	16,181
Finance lease	7	7	6	-	-	-	20

Interest on financial instruments classified as floating rate is reprised at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Year ended 31 December 2005

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Fixed rate							
Finance lease	8	7	8	8	7	-	38
Floating rate							
Bank loan	-	-	-	-	-	12,388	12,388
Bank loan	-	-	-	-	-	16,670	16,670
Bank loan	1,370	-	-	-	-	-	1,370
Bank loan	16,400	-	-	-	-	-	16,400
Bank loan	11,400	-	-	-	-	-	11,400
Finance lease	7	7	7	6	-	-	27

The current bank loans amounting to EUR 16.4 million and EUR 11.4 million were refinanced by non-current loans during 2006 year.

3. The Group risk management policy (continued)

3d Liquidity risk

The investments made by the Fund will be illiquid in nature. The ability of the Fund to liquidate its investments at attractive prices at appropriate times will depend on a number of factors that may be outside of the control of the Management. The Fund's management reviews the liquidity of the assets held within the Fund based on current market conditions on a regular basis.

3e Foreign exchange risk

The Fund holds assets denominated in currencies other than the Euro, its functional currency. The Fund is therefore subject to risk from movements in exchange rates between the Euro and other currencies (i.e. LTL, LVL, EEK, DKK and PLN). For each currency, the Fund's management reviews the stability of the currency and evaluates the potential need to hedge against any potential movements in the currency versus the cost of such hedge.

The Group hedges material foreign exchange risk associated with highly probable forecast transactions (earnings or costs) in other than reporting currency. The Group has a policy to match loans and investments in the same currencies in which the funds are received wherever this is possible and economically viable. However, the borrowed funds or funds to be invested may be converted into other currencies provided that forward exchange agreements are entered in simultaneously to ensure recovery of currencies converted.

Derivative instruments used in currency risk hedge are forwards contracts that are further described in the Note 25.

4. Cost of rental activities

	2006	2005 (4 months)
Utilities	1.878	457
Property management expenses	909	206
Repair and maintenance	675	141
Real estate taxes	500	124
Sales and marketing expenses	479	137
Property insurance	57	15
Other	8	-
Total cost of rental activities	4.506	1.080

5. Administrative expenses

	2006	2005 (4 months)
Management fee	1.595	374
External consultant expenses	509	341
Project discontinued	205	-
Wages and salaries and social security	193	1
Non-recoverable VAT expenses (Real Invest SIA)	112	-
Allowance for bad debts	44	42
Staff travel expenses	32	-
Equipment written off	26	-
General marketing expenses	27	-
Goodwill written off	-	126
Other	45	15
Total	2.788	899

BPT Asset Management Group is entitled to a base management fee equivalent to a percentage of the value of the Fund's investment in real estate. A quarterly management fee is based on the investment properties book values at the end of each calendar quarter and the following rates are charged (Note 23):

Up to EUR 100.000 thousand - 0.3125%
EUR 100.000 thousand to 200.000 thousand - 0.2500%
EUR 200.000 thousand to 300.000 thousand - 0.2250%
EUR 300.000 thousand to 400.000 thousand - 0.1750%
EUR 400.000 thousand - 0.1250%

Board fees and other Board related expenses represent EUR 181 and are included in the line "Wages and salaries and social security".

6. Other Income and Costs

6a. Other Income

	2006	2005 (4 months)
Revenue on disposal of land	12.485	-
Negative goodwill recognised to income	-	457
Other operating income	5	10
Total other income	12.490	467

The Group proportion on revenue is recognised selling the land in Gdansk, Poland and was reduced by unrealised income of EUR 2.711 thousands related to its commitment to construct the road and infrastructure (Note 11, Note 2af). The negative goodwill of EUR 457 thousand was recognised as income immediately in 2005 and it is attributable to the acquisition of the subsidiary Real Invest SIA.

6. Other Income and Costs (continued)

6b. Other Costs

The cost of land of EUR 8.174 thousand reflects Group's proportion in joint venture and the cost was increased by additional sum of EUR 2.797 thousands related to Group's further commitments to construct road and infrastructure and reduced by EUR 1.168 thousands as a result not recognising revenue from the same transaction. (Note 11, Note 21c, Note 2af).

7. Finance Income

	2006	2005 (4 months)
Interest income	712	92
Foreign currency exchange gain	2.566	-
Other finance income	5	4
Total	3.283	96

The unrealised foreign exchange gain mainly arose from the fluctuation of the rate EUR/PLN in Poland.

8. Finance Costs

	2006	2005 (4 months)
Interest expenses	3.225	922
Foreign currency exchange loss	893	6
Finance lease charges	3	-
Change in Fair Value of derivative financial instruments	131	13
Total	4.252	941

The current interest expense mainly relates on liabilities to banks. The item change in fair value of derivative financial instrument includes loss of EUR 100 thousand from exercising currency forward contract (Note 25).

9. Taxation

The Company is subject to an income tax (corporate income tax and municipal business tax) at the global rate of 29.63 % (2005: 30.38 %). However, the Company can exempt from its tax base all investment income or capital gains attributable to securities. Moreover, income received on funds which are temporarily placed before their investment in buyouts or private equity transactions for a period of time not exceeding 12 months, can also be exempt from the tax base.

Capital contribution made to the Company at the time of incorporation is subject to a fixed capital tax of EUR 1.250. The Company is exempt from net worth tax and subscription tax. Real estate revenues, or capital gains derived from real estate are subject to taxes by assessment in the countries where real estate is situated. The Fund's subsidiaries depreciate their historical property cost in accordance with applicable tax regulations. Depreciation is deducted from taxable profits in determining current taxable income.

9. Taxation (continued)

	2006	2005 (4 months)
<hr/>		
Components of the income tax expense (income)		
Exchange adjustment	30	-
Tax on taxable income for the year	49	-
Adjustment of deferred tax for the year	2.649	468
Income tax (expenses) income recorded in income statement	2.728	468
	<hr/>	<hr/>
	2006	2005
Tax losses brought forward	1.362	722
Valuation allowances	(23)	-
Adjustments related to previous year	(210)	-
Adjustment on accrued expenses, that are taxable on a cash basis	215	-
Changes in respect of an asset/liability denominated in foreign currency	99	-
Other tax asset	88	-
	<hr/>	<hr/>
Deferred income tax asset	1.531	722
Changes in respect of an asset/liability denominated in foreign currency	(393)	-
Depreciation for tax purposes	(1.670)	-
Revaluation of investment properties to Fair Value	(5.760)	(4.347)
Other tax liability	(8)	-
Deferred income tax liability	(7.831)	(4.347)
	<hr/>	<hr/>
Deferred income tax liability, net	(6.300)	(3.625)
 Reflected in the balance sheet as follows:		
Deferred tax asset	320	56
Deferred tax liability	(6.620)	(3.681)

The gain derived on the valuation when restructuring the activity in Poland is not subject to Danish tax legislations, therefore no deferred tax liability was calculated (Note 11). Deferred tax assets and liabilities are presented according to different tax jurisdictions, i.e. total deferred tax asset and total deferred tax liability are totalled from each country and not netted.

Tax on operating profit can be explained as follows:

9. Taxation (continued)

	2006	2005 (4 months)
Profit before income tax	24.089	3.614
At statutory tax rate	(3.260)	(528)
Non deductible expenses	(1.366)	-
Non –taxable income	1.647	60
Tax effect on changes in tax rates	251	-
Total income tax expenses	(2.728)	(468)

	2006	2005 (4 months)
Effective tax rate	11.3 %	12.9 %

Summary of taxation rates:

	2006	2005
Lithuania	19 %	15 %
Latvia	15 %	15 %
Poland	19 %	19 %
Denmark	28 %	-
Estonia*	22 %	23 %
Luxembourg	29.63 %	30.38 %

*Estonian 0 % rate applies if there are no dividends declared / withdrawn from the subsidiary.

10. Investment Property

Investment property represents buildings, which are rented out under contracts. Acquired properties are not held directly by Baltic Property Trust Optima S.A. SICAR. The fair value of the investment properties is determined by the Board of Directors of the Company, based on independent appraisals performed by two companies - UAB Koba and UAB "Re-Solution" in accordance with the Practice Statements and Relevant Guidance Notes of the RICS Appraisal and Valuation and approved by both the International Valuation Standards Committee (IVSC) and by the European Group of Valuers' Association (TEGoVA). In accordance with that basis, the market value is an estimated amount for which a property should exchange on the date of 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.

The appraisers derive the fair value by applying the methodology and valuation guidelines as set out by the Royal Institution of Chartered Surveyors in the United Kingdom in accordance with IAS 40. Starting from year 2006, the investment properties are being revaluated on a six-month basis.

10. Investment Property (continued)

	2006	2005
Cost		
Balance at 1 January	95.015	-
Exchange adjustment	309	-
Acquisitions of investment properties	51.447	95.015
Improvements	4.154	-
Write off	(25)	-
Adjustments/Reclassifications	(527)	-
Cost at 31 December	150.373	95.015
Revaluations		
Balance at 1 January	2.942	-
Net revaluation gain	19.320	2.942
Adjustments /Reclassifications	576	-
Revaluations at 31 December	22.838	2.942
Carrying amount at 31 December	173.211	97.957

During year 2006, there have been the following acquisitions through business combinations in Group:

	BPT Varahaldus AS	BPT 2 UAB	Total
Investment in property	3.263	-	3.263
Cash and cash equivalents	2	7	9
Other net assets	(3.100)	(6)	(3.106)
Deferred tax liability	-	-	-
Total cost of acquisition	165	1	166
Goodwill	-	-	-
Total cost of acquisition paid by cash	(165)	(1)	(166)
Cash acquired by the subsidiary	2	7	9
Cash paid	(165)	(1)	(166)
Net cash outflow	(163)	6	(157)

The revenue and the profit or loss of the combined entities for the whole 2006 year are specified below:

	BPT Varahaldus AS	BPT 2 UAB	Total
Revenue	448	-	448
Profit (Loss)	190	(2)	188

10. Investment Property (continued)

Acquisition of Zelazna Center,

The acquisition of investment property located at Zelazna 59, Warsaw, Poland was closed on 26 September 2006. The property consists of two buildings constituting a modern business centre of approximately 21.000 sq. m. situated in the central business district of Warsaw. The value of acquisition is around EUR 40 million and the financing was partly provided by DNB Nord Polska Bank S.A (Note 17). The down-payment of EUR 132 thousand was made on signing a preliminary sale agreement for the extension of the property delivering additional 4.221 sq. m.

Acquisition of Dmowskiego Center, Poland

This medium size office building, located at Dmowskiego 12, Gdansk, Poland was acquired on 12 December 2006. The acquisition value was EUR 5.475 thousand. It was built seven years ago and was modernised within the last few years. Gross total area of the building is 4.497sq. m. and the acquisition was financed by internal Group loan granted by the Baltic Property Trust Optima S.A. SICAR .

Acquisition of Valga Selver, Estonia

Valga Selver is a small size shopping centre located at Raja 5, Valga, Estonia, acquired on 1 October 2006 from Baltic Property Trust Asset Management A/S Fund. The acquisition value including pre-acquisition costs equals to EUR 3.3 million. All investment properties, except the property located at Dmowskiego 12, Gdansk, Poland at a value of EUR 5.475 thousand with the carrying value amounting to EUR 167.577 are pledged to Banks (Note 17).

11. Interest in a joint venture

The Group has a 70 % interest in BPTO Gdansk Development A/S, a jointly controlled entity which is involved in the investment and development of the real estate industry in Poland as of 31 December 2006. The share of the assets, liabilities, income and expenses of the jointly controlled entity at 31 December 2006, which are included in the consolidated financial statements, are as follows:

	2006	2005
Current assets	32.804	-
Non-current assets	13	-
Current liabilities	6.556	-
Non current liabilities	15.980	-
Rental income	80	-
Costs of rental activities	(41)	-
Revenue on land disposal	12.485	-
Cost of land	(8.174)	-
Administrative expenses	(133)	-
Finance (costs)/income	163	-
Profit before income tax	4.380	-
Income tax expenses	(36)	-
Net profit	4.344	-

11. Interest in a joint venture (continued)

On 26 April 2006 joint venture BPTO Gdansk Development A/S acquired the land plots located in Gdansk Young City, zone which falls into the special local development plan adopted by the Council of the Municipality of Gdansk. The purchase price was EUR 7.995 thousand and the seller was represented by Synergja 99 Sp. z o.o. The land was revaluated and transferred as contribution in kind from BPTO Gdansk Development A/S to its newly acquired subsidiary Młode Miasto Sp. z o.o. on 7 December 2006.

The land was sold on 29 December 2006 to Euro Mall Poland Group for EUR 21.708 thousand. The net gain on disposal of the land of EUR 4.311 thousand is recognised proportionally to Group share in joint venture and reduced by the Group's future commitment related to the purchase of an office tower which will be built on a minor part of the land sold.

The revenue on land disposal was reduced by unrecognised income by EUR 2.711 which was reported as deferred income (Note 20) and the costs directly attributable to the sale were adjusted by the costs related to the land (Note 6b). A provision of EUR 18.777 (Note 19) thousands reflect Group's share in a joint venture and is recognised as a result to the performance of certain obligations under road and infrastructure development agreements whereas a sum of EUR 2.797 thousands is reflected in other costs (Note 6b) and represents the current part and the amount of EUR 15.980 thousands is reported as Inventory and is recognised as current.

The total amount reported as inventory equals to EUR 17.148 thousand and consists of the provision of EUR 15.980 thousand related to the commitment to build road and infrastructure as described above and the cost of land equal to EUR 1.168 thousand.

12. Trade and other receivables

	2006	2005
Trade receivable, gross	1.209	580
VAT receivable	9.116	118
Short term loan receivables	5.235	-
Receivable for joint venture shares	2.540	-
Accrued financial income	287	1
Accrued rental income	280	278
Less valuations allowances on trade receivable	(238)	(199)
Total	18.429	778

On 12 June 2006 BPT Optima UAB signed an umbrella agreement with the constructor Ranga IV Investicijos UAB whereas the parties entered into a loan agreement whereby UAB Optima disbursed of EUR 5.000 thousand bearing the interest at an annual rate of 10 % to the constructor. Loan, including accrued interest, was offset against the total payment for the investment property located at Gyneju 16, Vilnius, Lithuania in 2007 according to the preliminary real estate property sale and the purchase agreement (Note 26).

The Group paid 100 % of the shares in Joint Venture amounting to EUR 8.477 thousand and 30 % of this amount, equal to EUR 2.540 thousand, has to be compensated by its partner. The part of the Group loan amounting to EUR 235 thousand is recorded as a receivable from a joint venture BPTO Gdansk Development A/S. The annual interest rate of 6 % is applied. VAT receivable represents mainly VAT paid on the acquisition of the investment property located at Zelazna 59, Warsaw, Poland in September 2006 and is to be refunded from the state budget. Valuation allowances for doubtful trade receivables are reported in administration costs.

13. Other current assets

	2006	2005
Prepaid expenses for projects in progress	227	15
Other prepaid expenses	152	192
Advance payment to suppliers	138	-
Prepaid taxes	66	-
Other current assets	8	-
Total	591	207

14. Cash and cash equivalents

Overnight deposits are made depending on the immediate cash requirements of the Group and earn interest at the respective interest rate varying from 3.2 % to 3.9 %.

15. Share capital and other reserves

15a Subscribed capital

As at 31 December 2006, the subscribed capital of the Company is represented by 1.095.958 ordinary shares with a par value of EUR 100 each, fully paid-in. During the year, the authorised share capital was increased by EUR 79.201 thousand by the creation of 701.776 ordinary shares. The amount of EUR 9.023 thousand is the share premium reserve that represents the excess of the payments above the nominal value of the share. The shares were subscribed and paid at net asset value which exceeds the initial price during 2006 year.

Ordinary shares issued and fully paid

	Number of shares	Amount
Balance at the inception day		
Contribution upon establishment	320	32
Issued in September 2005	234.806	23.481
Issued in October 2005	143.105	14.310
Issued in November 2005	15.951	1.595
As at 1 January 2006	394.182	39.418
Issued in March 2006	177.691	18.363
Issued in April 2006	83.088	9.168
Issued in May 2006	100.573	11.097
Issued in June 2006	4.003	442
Issued in November 2006	250.000	29.822
Issued in December 2006	86.421	10.309
As at 31 December 2006	1.095.958	118.619

15a Subscribed capital (continued)

Subsidiaries did not hold any shares of the Company as at 31 December 2006. The Company did not hold its own shares at the year end.

15b Cash flow hedge valuation reserve

This reserve represents the Fair Value of the effective part of the derivative financial instruments (interest swap), used by the Group to secure the cash flows from interest rate risk, at the balance sheet date. The reserve is accounted for according to the requirements of IAS 39 (see also Note 25).

	2006	2005
Balance at the beginning of the period	(1.681)	-
Movements in Fair Value of existing hedges	4.151	(1.681)
Fair value of hedges acquired during period	(418)	-
Net variation during the period	3.733	(1.681)
Balance at the end of the period	2.052	(1.681)

16. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary shares, divided by the equivalent weighted average number of ordinary shares during the period. Diluted earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the total number of ordinary shares committed to existing shareholders.

For the period ended December 31, 2006	2006	2005*
Earnings per period		
Basic and fully diluted (thousand Euro)	21.361	3.146
Weighted average number of ordinary shares during the period		
Basic and diluted	664.345	251.885
Earning per share (Euro)		
Basic and diluted	32.2	12.5

*The period used for the calculation of weighted average number of shares for 2005 is 4 months.

17. Debts to banks

All Group debts to banks are denominated in EUR.

	Maturity	2006	2005
Non-current borrowings			
Nordea Bank Finland Plc. Lithuania branch	31 December 2015	16.673	16.670
Nordea Bank Finland Plc. Lithuania branch	30 September 2013	12.391	12.388
DnB Nord Polska Bank S.A.	31 August 2016	22.447	-
AS SEB Latvijas Unibanka	28 March 2013	15.853	-
Nordea Bank Finland Plc Estonia Branch	19 October 2012	11.172	-
AS Hansapank	16 November 2006	-	1.370
AS Hansapank	28 March 2011	2.107	-
Total non current debt		80.643	30.428
Current borrowings (current part of non current borrowings)			
SEB Latvijas Unibanka	30 March 2006	-	16.400
Nordea Bank Finland Plc Estonia Branch	19 December 2006	-	11.400
Nordea Bank Finland Plc Estonia Branch	19 October 2012	228	-
AS SEB Latvijas Unibanka	28 March 2013	328	-
AS Hansapank	28 March 2011	72	-
Total current debt		628	27.800
Total		81.271	58.228

The fair values of borrowings bearing variable interest rates are approximate their carrying value. Fixed interest rate loans have been obtained during 2006 and during the year interest rates have not changed significantly. Therefore, fair value of fixed interest rate loans as 31 December 2006 approximates their carrying value. For the maturity of the borrowings see note 3c.

Approximate weighted average effective interest rates:

	2006	2005
Current debt	-	6 %
Non-current debt	4.39 %	3 %

For the borrowings received, the Group pledged the following:

- 100 % of shares of BPT Optima Retail UAB for an amount of EUR 3 thousand;
- 100 % of shares of Real Invest SIA in amount of EUR 21.320 thousand;
- All investment properties with the carrying value totalling to EUR 167.577 thousand. The property at Dmowskiego 12, Gdansk, Poland at a value of EUR 5.475 thousand is not pledged;
- Rights to amount of receivables from lease agreements of investment property at K. Baršausko 66a, Kaunas, Lithuania, with income in totally not less than EUR 854 thousand per year;
- Rights to amount of receivables from lease agreements of investment property at Taikos 139, Klaipeda, Lithuania, with income totally not less than EUR 1.752 thousand per year;
- All existing and future funds in all BPT Optima Retail UAB bank accounts; and
- Rights to amount of receivables from lease agreements of investment property located at Zelazna 59, Warsaw, Poland with income amounting to EUR 35.490 thousand to DNB Nord Polska S.A. bank;

18. Financial lease obligations

The assets leased by the Group under financial lease contracts represent integral part of investment properties. Apart from the lease payments, the most significant liabilities under lease contracts are property maintenance and insurance. The terms of financial lease are from 4 to 6 years and expired respectively in 2009 and 2010 years.

Principal amounts of financial lease payables at the year-end denominated in currencies are as follows:

	2006	2005
EUR	27	32
LTL	18	25
Total	45	57

As at 31 December 2006, the weighted average effective interest rate on the financial lease obligations is 5 % (2005: 4 %)

Future minimal lease payments under the above mentioned financial lease contracts at the end of the year are as follows:

	2006	2005
Within one year	14	15
From one to five years	36	50
After five years	-	-
Total financial lease obligations	50	65

18. Financial lease obligations (continued)	2006	2005
Interest	5	8
Present value of financial lease obligations	45	57

Financial lease obligations are accounted for as:

- non- current	33	45
- current	12	12

19. Provisions

	Environmental provision	Performance bonus	Development of road and infrastructure	Total
Balance at 1 January 2006	300	-	-	300
Arising during the year	-	3.883	18.777	22.660
Utilised	(4)	-	-	(4)
Balance as at 31 December 2006	296	3.883	18.777	22.956

An environmental provision has been recognised to measure the risk of environment pollution generated by a methane concentration at the area of a former waste dump in Tallinn, Estonia, where the Group investment property is located. (Ministry of the Environment might demand soil investigations and soil change). An expert has been engaged during the year 2006. The conclusion of the report confirmed that the situation is stable.

A provision for performance bonus is calculated under the provisions of Private Placement Memorandum to Baltic Property Trust Asset Management Group which is acting as Investor Adviser to the Group (Note 22). A provision has been recognised for the Group liabilities to the development of road and infrastructure associated with its participation in joint venture and commitments to buy property in the future located at this area (Note 11, Note 21c, Note 2af).

Time of maturity for provisions is expected to be:

	2006	2005
Non-current	20.159	300
Current	2.797	-
Provisions as at 31 December	22.956	300

20. Other current liabilities

20a Deferred income and advances received

	2006	2005
Deferred income	2.711	63
Advance payments	60	54
Total	2.771	117

A sum of EUR 2.711 thousand reported as deferred income reflects Group unrealised revenue on land disposal in joint venture (Note 11, Note 6a, Note 2af). As at 31 December 2006, non-current and current advances received consisted of amounts received from tenants as a guarantee for their obligations in respect of their rent agreements and equals to EUR 709 thousand (as at 31 December 2005: EUR 654 thousand). These amounts will be netted off with their final payments according to the rent agreements, the latest maturity of which is till 2015.

20b Other payables

	2006	2005
VAT payable	145	11
Accrued financial expenses	319	72
Other tax payables	446	71
Accrued expenses	466	49
Payable under the construction contract	480	-
Other payables	10	13
Total	1.866	216

The amount payable under the construction contract represents a sum due to Constructus UAB for the reconstruction of the investment property located at K. Barsausko str 66a, Kaunas, Lithuania as of 31 December 2006 (Note 21b).

21. Commitments and contingencies

21a Operating leases commitments – Group as a lessor

The Fund leases real estate under operating leases. The terms of the leases are in line with normal practises in each market. Leases are reviewed or subject to automatic inflationary adjustments as appropriate. The leasing arrangements entered into or in relation with Group's investment properties portfolio which include a clause authorizing tenants to terminate the leasing arrangements up to six-months notice and are as such not considered as non-cancellable leases. Lease payments receivable from non-cancellable lease are shown below. For the purposes of this schedule it is conservatively assumed that a lease expires on the date of the first break option.

Year of expiry or first break option	Amount receivable	%
Within 1 year	8 929	22 %
Between 2 and 5 years	22.272	54 %
5 years and more	9.998	24 %
Total	41.199	100 %

21b Litigation

On 5 April 2006 BPT Optima Retail UAB and Constructus UAB entered into the reconstruction agreement of the property located at K. Barsausko str 66a, Kaunas, Lithuania. Due to delays in construction works by three months, BPT Optima Retail UAB has lost rental income and has faced claims from the tenants. BPT Optima Retail UAB is on ongoing dispute with Constructus UAB claiming for compensation for the lost rental income and undelivered services amounting to EUR 232 thousand.

On 28 February 2007 Baltic Property Trust Optima Sp. z o.o. claimed the penalties amounting to EUR 61 thousand according to the Head of Terms signed on 26 October 2006 with Organika Trade Sp. z o.o. concerning the acquisition of Organika business centre. The seller has not agreed to sign the preliminary sale agreement on the pre-ceded conditions and the penalties were claimed to compensate due diligence costs.

On 12 March 2007 BPT Optima Sp. z o.o. has entered into a lawsuit with J.M.Property Sp. z o.o. with respect to the acquisition of the part of Zelazna office building. According to the preliminary sale agreement the property had to be sold not later than 1 March 2007 and an advance of EUR 131 thousand was paid as a guarantee. The seller has withdrawn from signing the final agreement without the reasonable explanations.

No adjustments were made to the financial statements for the above litigation issues as the outcome of these cases is uncertain.

21c Commitments related to the interest in a joint venture

In terms of the agreement, the Group contributes to the road infrastructure project in Gdansk, Poland, as a result in the participation in a joint venture. The total estimated costs of the project amounts to EUR 26.825 thousand which is calculated with reference to an independent engineering company's estimate for the whole project. The Group share is estimated to be of EUR 18.777 thousand (Note 19) whereas the amount of EUR 2.797 thousand of the Group's share was recognised as cost of land disposed (Note 6) and the remaining part of EUR 15.980 thousands is reflected as inventory.

The Group has the commitment to make additional capital increase of EUR 14.078 thousand in joint venture and to sell 5.867 of the ordinary shares to its partner at nominal price equal to EUR 1.000. In terms of the agreements, the Group has the commitment to buy back the office real estate from the developer after it has been constructed. In the next Phase of the Project in Gdansk (Phase II), BPTO Gdansk Development A/S will acquire a separate tract of land in the Gdansk shipyard territory as was envisaged by the original Master agreement signed in April 2006. The closing of Phase II will take place during April 2007, will include a share deal worth EUR 30.434 thousand. The Phase II land will then be sold off to developers who will construct mainly residential living and a leisure facility.

21d Capital commitments (buy-lease back)

According to the provisions of the Contract of Suretyship between Ehitus Service OÜ and BPTO Peterburi OÜ dated 18 August 2006, the extension of the existing property located at Peterburi 64, Tallinn, Estonia by additional 2.856 sq. m. was agreed. The construction works have to be completed and the rights of the property have to be transferred to BPTO Peterburi OÜ no later than August 2007 for EUR 1.300 thousand. The property has to be leased back to Ehitus Service OÜ for an annual rent of EUR 223 thousand and the lease contract is effective till 1 April 2012.

22. Performance fees

Under the Private Placement Memorandum dated 7 October 2005, the Investment Advisor BPT Asset Management A/S Group is entitled to a performance fee if the annual return on equity (the RoE) of the Group exceeds 10% per year (calculated on the basis on the monthly weighted equity for the year) the performance commission will amount to 22% of the yield achieved above this target. The commission will be calculated on a yearly basis and the net sum hereof will be paid on 1 January 2015. In case the investment advisory agreement with Baltic Property Trust Asset Management A/S should terminate prior to this date, however, the success fee shall be made up and payable, if any, upon termination (Note 19).

23. Related parties

During the year, the Group entered into transactions with related parties. Those transactions and related balances are presented below. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

BPT Asset Management A/S Group

The Group has entered into investment advisory agreement with BPT Asset Management A/S Group. Under the terms of the agreement, BPT Asset Management A/S Group companies carry out property managers functions on behalf of the Group and the Group is paying management fees respectively (Note 5). In addition, the internal costs born by BPT Asset Management A/S Group related to the acquisition of properties are remunerated with a acquisition fee of 0.3 % of the investment value of each acquisition made.

BPTO Gdansk Development A/S

Joint Venture in which the Group has 70 % interest.

23. Related parties (continued)

The following table provides the total amount of the transactions, which have been entered into with related parties for the relevant financial year:

	2006	2005
BPT Asset Management A/S		
Acquisition fees	151	173
Interest (expenses)/income	2	2
Management fees	1.612	443
Acquisition of the subsidiary *	165	-
Payables	39	222
Accounting services fees	226	39
Receivables	45	-
Total	2.240	879
BPTO Gdansk Development A/S		
Receivables (loan and interest)	241	-
Interest expenses	3	-
Total	244	-

*On 1 October 2006 BPT Optima UAB acquired BPT Varahaldus AS shares from BPT Asset Management A/S Group (Note 10).

Entities having control or significant influence over the Group

The shareholders owning more than 5 % of the ordinary shares as of 31 December 2006:

	Number of shares	Percentage
Danske Capital Finland Clients	346.398	31.6 %
Aage V. Jensens Charity Foundation	320.000	29.2 %
ISP - Pensionskassen for Teknikum Ogmingeniorer	101.435	9.3 %
NOVO A/S	84.999	7.8 %

24. Remuneration of the management and other payments

The Group's management remuneration amounted to EUR 6 thousand in 2006. (2005: EUR 1 thousand). In 2006 the management of the Group did not receive any loans or guarantees; no other payments or property transfers were made or accrued.

25. Derivative financial instruments

The Group entered into a number of interest rate swaps ('IRS'), cross currency swaps ('CCS') and forward contracts with Nordea Bank Finland Plc. The purpose of these financial instruments is to hedge the interest rate risk arising from interest rate fluctuations as the Group's non-current loans and some of the Group's current loans as well as planned future loans bear variable interest rates, although Group's policy is to have fixed interest expenses. According to the swap agreements the Group will pay fixed interest payments to the bank and will get variable interest rate payments from the bank.

The Group hedges material foreign exchange risk associated with highly probable forecast transactions (earnings or costs) in other than reporting currency. IAS 39 (Financial Instruments: Recognition and Measurement) allows hedge accounting provided that the hedge is expected to be highly effective. In such cases, any gain or loss recorded on the fair value of the financial instrument goes to equity reserves rather than the profit and loss account. Specific documentation on each financial instrument is required to be maintained to ensure hedge accounting principles (Note 15b).

Summary of swap contracts:

Derivative type	Starting date	Closing date	Notional amount in EUR	Fair value in EUR	
				2006	2005
IRS	Sept 2005	Sept 2013	12.407	631	105
IRS	Oct 2005	Oct 2012	11.400	451	13
IRS	Dec 2005	Dec 2015	16.700	489	-
IRS	Feb 2007	Feb 2017	8.400	157	-
IRS	June 2007	June 2017	41.600	748	-
Derivative financial instruments assets				2.476	118
IRS	Sept 2005	Dec 2015	16.700		(420)
IRS	June 2006	June 2016	50.000		(1.380)
IRS	July 2006	March 2013	16.154	(6)	-
CCS	Sept 2006	Jan 2007	3.101	(31)	-
CCS	Sept 2006	March 2007	3.017	(30)	-
CCS	Sept 2006	April 2007	3.017	(31)	-
CCS	Sept 2006	Sept.2007	3.017	(32)	-
CCS	Sept 2006	Dec 2007	3.017	(34)	-
CCS	Sept 2006	March 2008	3.027	(36)	-
CCS	Sept 2006	June 2008	3.027	(38)	-
CCS	Sept 2006	Sept 2008	3.027	(40)	-
CCS	Sept 2006	Dec 2008	3.027	(41)	-
CCS	Sept 2006	March 2009	3.053	(44)	-
CCS	Sept 2006	June 2009	3.053	(45)	-
CCS	Sept 2006	Sept 2009	3.054	(47)	-
Derivative financial instruments liabilities				(455)	(1.800)
NET value of financial derivatives				2.021	(1.682)

25a Interest rate swap contracts

In 2006 BPT Optima UAB has split the interest swap contract of EUR 50 million which was acquired from Nordea Bank Finland Plc into two separate interest swap contracts of EUR 8,4 million and EUR 41,6 million.

25b Cross currency swap contracts

On 27 September 2006 the Group has acquired 12 forward contracts from Nordea Bank Finland Plc to sell PLN and to purchase EUR. The currency forward contracts were acquired in order to hedge EUR/ PLN forward exchange risk arising from the highly probable forecast quarterly operating income denominated in PLN and related to the investment property located in Zelazna str., Warsaw, Poland. On 28 December 2006 the 12 currency forwards were re-assigned from BPT Optima UAB to Baltic Property Trust Optima Sp. z o.o.

All mentioned currency forward contracts are accounted for at fair value as at 31 December 2006, where the fair value was determined by Nordea Bank Finland Plc. 11 forward contracts are designated as effective cash flow hedge instruments, thus changes in their fair value are accounted for in the separate equity reserve (Note 15b).

No hedge accounting was applied for the currency forward contract with the settlement date in the same year as it was purchased (29 December 2006). As the settlement date of this forward contract was rolled over to 4 January 2007, the change in fair value of this contract equal to EUR 31 thousand was recognized in the income statement in 2006 (Note 8).

The currency forward contract purchased by BPT Optima UAB to hedge the risk of the future investments in USD expected to be made in Poland. According to the contract it was agreed to purchase USD 10 million at the agreed rate of 0,85 EUR / USD. The preliminary settlement date was fixed on 27 January 2006 and later were postponed due to delays in acquisitions. On 15 March 2006 the currency forward contract was exercised buying USD 10 million at an exchange rate of 1.181 and selling at 1.1960. As a result of this transaction, the loss of EUR 100 thousand was recognized in income statement (Note 8).

Maturity of derivative financial Instruments in Group is specified as follows:

Maturity	Liabilities		Assets	
	2006	2005	2006	2005
Non-current	297	1.800	2.476	118
Current	158	-	-	-
Total	455	1.800	2.476	118

On 19 December 2006 the current loan of 11.400 thousands from Nordea Bank Finland Plc Estonia branch was refinanced by non-current loan therefore interest swap contract attributable to this loan was reclassified to non-current following the maturity of the underlying instrument (Note 17).

26. Subsequent events

On 31 January 2007 the Fund acquired a property located at Slaska 23/25, Gdynia, Poland, for EUR 13.050 million. The property gross area equals to 14.583 sq. m. On 8 February 2007 the Fund acquired 100 % of Barona Projects SIA company shares from Hibernian Holdings SIA, the sole shareholder for EUR 10.886 million. On 27 February 2007 Baltic Property Trust Optima Sp. z o.o received an additional sum of EUR 4.800 million from Bank DnB Nord Polska S.A for the financing of Zelazna property.

On 30 March 2007 the Fund signed preliminary sale agreement in respect to the acquisition of investment property situated in Värvi tn.7, Tallinn, Estonia. The property gross area is 34.000 sq. m. and the property consists of storehouse, manufacture and office premises. The purchase price is EUR 18.600 thousand and the completion of the acquisition is expected no later than 15 May 2007.

On 5 April 2007 the Fund acquired a property located at Gyneju 16C, Vilnius, Lithuania for EUR 21.113 thousand. The loan of EUR 5 million and accrued interest in total to EUR 5.403 thousand were offset against the payment (Note 13). A sum of EUR 1.448 thousand was holdback till the construction of the property will be fully completed. On 21 April 2007 the share capital of EUR 8.410 thousand was registered in of joint venture BPTO Gdansk Development A/S. BPT Optima UAB holds 70 % of its interest.

27. Net cash flow from operating activities:

	2006	2005
Profit before tax	24.089	3.614
Adjustments for non cash items		
Value adjustment of investment properties, net	(19.320)	(2.942)
Change in allowance for bad debts	44	42
Provisions	5.508	-
Negative goodwill recognised as income	-	(457)
Goodwill written off	-	126
Value adjustment of derivative finance instruments	30	13
Interest income	(712)	(92)
Interest expenses	3.231	922
Loan amortisation	7	-
Property , plant and equipment written off	25	-
Depreciation of property, plant and equipment	1	-
Increase/Decrease in operating assets		
(Increase) in trade accounts receivable	(625)	(52)
(Increase)/Decrease in other current assets	(11.904)	4.933
Increase in advances received	45	45
Increase in trade accounts payable	110	553
(Decrease) increase in other current liabilities	4.042	(1.311)
Paid income tax	(10)	-
Increase (Decrease) in finance leasing payable	(12)	-
Net cash generated by operating activity	4.549	5.394

28. List of consolidated companies

28a Subsidiaries included in the consolidated financial statements

<u>Company name</u>	<u>Registered office</u>	<u>Registration Number</u>	<u>Date of Acquisition</u>	<u>Activity</u>	<u>Share in capital</u>
BPT Optima UAB	Dominikonu g. 5, LT-01131 Vilnius, Lithuania	300123657	1 September 2005	Holding company	100 %
BPT Optima Retail UAB	Dominikonu g. 5, LT-01131 Vilnius, Lithuania	300122128	1 September 2005	Asset holding company	100 %
BPTO Peterburi OU	Revala 5, EE-10143 Tallinn, Estonia	10630713	19 October 2005	Asset holding company	100 %
Real Invest SIA	Kalku 15, LV-1050 Riga, Latvia	50003425251	10 October 2005	Asset holding company	100 %
BPT Optima Sp.z.o.o.	Ul. Doki 1 Gdansk 80-958, Poland	0000246648	8 December 2005	Asset holding company	99.8 %
BPT 2 UAB	Dominikonu g. 5, LT-01131 Vilnius, Lithuania	110827280	29 December 2006	Asset holding company	100 %
BPT Varahaldus AS	Revala 5, EE-10143 Tallinn, Estonia	11227422	30 September 2006	Asset holding company	100 %

28b. Joint ventures included in the consolidated financial statements

<u>Company name</u>	<u>Registered office</u>	<u>Registration Number</u>	<u>Date of Acquisition</u>	<u>Activity</u>	<u>Share in capital</u>
BPTO Gdansk	Bredgrade 23 ^a , DK-1260 Copenhagen Denmark	29420386	17 March 2006	Joint Venture	70 %
Development A/S	Ul. Doki 1				
Mlode Miasto Sp. z o.o.	Gdansk 80-958 Poland	0000268337	7 December 2006	Joint Venture	70 %

Acquisitions have been accounted for as business combinations and have been consolidated in the income statement as of their respective acquisition dates (Note 10).



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