AB CITY SERVICE

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009,
prepared in accordance with International Financial Reporting Standards,
as adopted by the European Union,
presented together with Independent Auditors' report

ERNST & YOUNG

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Juridinių asmenų registras

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Register of Legal Entities

Independent auditors' report to the shareholders of AB City Service

Report on the Financial Statements

We have audited the accompanying 2009 financial statements of AB City Service, a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), and the consolidated financial statements of AB City Service and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as of 31 December 2009, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor 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 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 accompanying financial statements and the consolidated financial statements present fairly, in all material respects, the financial position of AB City Service and the Group as of 31 December 2009, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2009 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335
Vilnius, Lithuania

Jonas Akelis
Auditor's licence
No. 000003
President

Inga Gudinaitė
Auditor's licence
No. 000366

The audit was completed on 9 April 2010.

Statements of financial position

			Group		Company	
		Notes	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
	ASSETS					
A.	**Non-current assets**					
I.	Intangible assets					
I.1.	Goodwill	4	31,515	14,526	-	-
I.2.	Other intangible assets	5	62,062	8,474	37	77
	Total intangible assets		93,577	23,000	37	77
II.	Property, plant and equipment	7				
II.1.	Buildings		21,154	12,062	-	-
II.2.	Vehicles		3,664	3,353	1,369	1,589
II.3.	Other property, plant and equipment		1,869	1,395	1,129	930
II.4.	Construction in progress		544	164	544	163
	Total property, plant and equipment		27,231	16,974	3,042	2,682
III.	Investment property	6	609	658	-	-
IV.	Non-current financial assets					
IV.1.	Investments into subsidiaries	8	-	-	45,419	30,177
IV.2.	Investments into associates	1	351	311	220	220
IV.3.	Non-current receivables	11, 12	2,748	2,760	29	172
IV.4.	Other financial assets	1	-	2,000	-	2,000
	Total non-current financial assets		3,099	5,071	45,668	32,569
V.	Deferred income tax asset	26	2,630	2,325	650	324
	Total non-current assets		**127,146**	**48,028**	**49,397**	**35,652**
B.	**Current assets**					
I.	Inventories and prepayments					
I.1.	Inventories	9	3,909	6,830	322	1,103
I.2.	Prepayments	10	13,991	6,532	146	4,514
I.3.	Prepayments to related parties	31	-	102	-	102
	Total inventories and prepayments		17,900	13,464	468	5,719
II.	Accounts receivable					
II.1.	Trade receivables	11	74,575	57,896	32,092	36,244
II.2.	Receivables from related parties (including loans granted)	31	5,065	7,645	53,476	34,408
II.3.	Other receivables	21	2,093	756	843	2,233
	Total accounts receivable		81,733	66,297	86,411	72,885
III.	Prepaid income tax		1,142	570	151	-
IV.	Other current assets		2,679	5,424	-	-
V.	Cash and cash equivalents	12	5,510	5,386	425	613
	Total current assets		**108,964**	**91,141**	**87,455**	**79,217**
	Total assets		**236,110**	**139,169**	**136,852**	**114,869**

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

Statements of financial position (cont'd)

		Group		Company	
	Notes	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
EQUITY AND LIABILITIES					
C. Equity					
I. Share capital	1	19,110	19,110	19,110	19,110
II. Share premium	13	23,456	23,456	23,456	23,456
III. Legal reserve	13	1,922	1,586	1,911	1,575
IV. Other reserves	13	6,000	-	6,000	-
V. Foreign currency translation reserve	2.2.	(491)	(644)	-	-
VI. Retained earnings		22,472	15,483	17,774	15,547
Equity attributable to equity holders of the parent		**72,469**	**58,991**	**68,251**	**59,688**
Non-controlling interests		**10**	**266**	**-**	**-**
Total equity		**72,479**	**59,257**	**68,251**	**59,688**
D. Liabilities					
I. Non-current liabilities					
I.1. Non-current borrowings	14	21,649	7,237	21,649	8,549
I.2. Financial lease obligations	15	229	535	131	323
I.3. Deferred income tax liability	26	13,260	3,545	-	-
I.4. Non-current employee benefits	17	460	-	226	-
I.5. Non-current payables		252	112	-	-
Total non-current liabilities		**35,850**	**11,429**	**22,006**	**8,872**
II. Current liabilities					
II.1. Current loans	14	6,303	-	9,317	-
II.2. Current portion of non-current borrowings	14	7,116	4,211	7,116	4,211
II.3. Current portion of financial lease obligations	15	486	723	265	527
II.4. Trade payables	18	71,927	39,377	8,911	22,199
II.5. Payables to related parties	31	12,447	5,806	12,130	9,880
II.6. Advances received	19	11,570	10,433	4,114	5,990
II.7. Income tax payable		1,658	460	-	-
II.8. Other current liabilities	18, 20	16,274	7,473	4,742	3,502
Total current liabilities		**127,781**	**68,483**	**46,595**	**46,309**
Total equity and liabilities		**236,110**	**139,169**	**136,852**	**114,869**

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

General Manager	Žilvinas Lapinskas		9 April 2010
Finance Director	Jonas Janukėnas		9 April 2010

Statements of comprehensive income

	Notes	Group 2009	Group 2008	Company 2009	Company 2008
I. Sales	3, 21	374,495	263,850	124,570	140,937
II. Cost of sales	22	(308,753)	(217,299)	(101,065)	(117,693)
III. Gross profit		**65,742**	**46,551**	**23,505**	**23,244**
IV. General and administrative expenses	23	(45,546)	(34,276)	(15,878)	(15,458)
V. Other operating income (expenses), net	24	392	165	47	205
VI. Profit from operations		**20,588**	**12,440**	**7,674**	**7,991**
VII. Finance income	25	890	583	7,095	2,342
VIII. Finance expenses	25	(4,493)	(2,080)	(2,248)	(477)
IX. Share of profit of associates		40	91	-	-
X. Profit before tax		**17,025**	**11,034**	**12,521**	**9,856**
XI. Income tax	26	(1,732)	(2,348)	(1,856)	(1,236)
XII. Net profit		**15,293**	**8,686**	**10,665**	**8,620**
Other comprehensive income					
Exchange differences on translation of foreign operations		153	(590)	-	-
Total comprehensive income for the year, net of tax		**15,446**	**8,096**	**10,665**	**8,620**
Profit attributable to:					
The shareholders of the Company		15,287	8,660	10,665	8,620
Non-controlling interests		6	26	-	-
		15,293	**8,686**	**10,665**	**8,620**
Total comprehensive income attributable to:					
The shareholders of the Company		15,440	8,070	10,665	8,620
Non-controlling interests		6	26	-	-
		15,446	**8,096**	**10,665**	**8,620**
Basic and diluted earnings per share (LTL)	27	0.80	0.45		

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

General Manager	Žilvinas Lapinskas		9 April 2010
Finance Director	Jonas Janukėnas		9 April 2010

Statements of changes in equity

Group	Notes	Equity attributable to equity holders of the Company								
		Share capital	Share premium	Legal reserve	Foreign currency translation reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interests	Total
Balance as of 31 December 2007		**19,110**	**23,456**	**1,061**	**(54)**	**-**	**10,406**	**53,979**	**240**	**54,219**
Net profit for the year		-	-	-	-	-	8,660	8,660	26	8,686
Other comprehensive income		-	-	-	(590)	-	-	(590)	-	(590)
Total comprehensive income		-	-	-	(590)	-	8,660	8,070	26	8,096
Transfer to legal reserve		-	-	525	-	-	(525)	-	-	-
Dividends declared	28	-	-	-	-	-	(3,058)	(3,058)	-	(3,058)
Balance as of 31 December 2008		**19,110**	**23,456**	**1,586**	**(644)**	**-**	**15,483**	**58,991**	**266**	**59,257**
Net profit for the year		-	-	-	-	-	15,287	15,287	6	15,293
Other comprehensive income		-	-	-	153	-	-	153	-	153
Total comprehensive income		-	-	-	153	-	15,287	15,440	6	15,446
Transfer to reserves	13	-	-	336	-	6,000	(6,336)	-	-	-
Dividends declared	28	-	-	-	-	-	(2,102)	(2,102)	-	(2,102)
Acquisition of non-controlling interest	1	-	-	-	-	-	140	140	(262)	(122)
Balance as of 31 December 2009		**19,110**	**23,456**	**1,922**	**(491)**	**6,000**	**22,472**	**72,469**	**10**	**72,479**

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

Statements of changes in equity (cont'd)

Company	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 31 December 2007		**19,110**	**23,456**	**1,050**	**-**	**10,510**	**54,126**
Net profit for the year		-	-	-	-	8,620	8,620
Total comprehensive income		-	-	-	-	8,620	8,620
Transfer to legal reserve		-	-	525	-	(525)	-
Dividends declared	28	-	-	-	-	(3,058)	(3,058)
Balance as of 31 December 2008		**19,110**	**23,456**	**1,575**	**-**	**15,547**	**59,688**
Net profit for the year		-	-	-	-	10,665	10,665
Total comprehensive income					-	10,665	10,665
Transfer to reserves	13	-	-	336	6,000	(6,336)	-
Dividends declared	28	-	-	-	-	(2,102)	(2,102)
Balance as of 31 December 2009		**19,110**	**23,456**	**1,911**	**6,000**	**17,774**	**68,251**

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

General Manager	Žilvinas Lapinskas		9 April 2010
Finance Director	Jonas Janukėnas		9 April 2010

Statements of cash flows

		Notes	Group		Company	
			2009	**2008**	**2009**	**2008**
I.	**Cash flows from (to) operating activities**					
I.1.	Net profit		15,293	8,686	10,665	8,620
	Adjustments for non-cash items:					
I.2.	Income tax expenses		1,732	2,348	1,856	1,236
I.3.	Depreciation and amortisation	5, 6, 7	4,580	2,024	1,133	960
I.4.	Impairment of accounts receivable and write-off of accounts receivable	11	6,743	3,095	882	-
I.5.	Allowance for inventories	9	39	(4)	-	-
I.6.	Loss (gain) on disposal of property, plant and equipment	24	(46)	(17)	(4)	2
I.7.	Discounting effect		240	651	-	29
I.8.	Dividend (income)	25	-	-	(5,225)	(840)
I.9.	Profit from sale of investments	25	(426)	-	-	-
I.10.	Impairment of investments	8	-	-	835	-
I.11.	Interest (income)	25	(215)	(420)	(1,768)	(1,446)
I.12.	Interest expenses	25	2,796	226	1,179	381
I.13.	Share of net profit of associate		(40)	(91)	-	-
I.14.	Foreign exchange effect on loans		-	(716)	-	-
			30,696	15,782	9,553	8,942
	Changes in working capital:					
I.15.	Decrease in inventories		3,683	1,392	780	115
I.16.	(Increase) in trade receivables, receivables from related parties and other current assets		(16,732)	(19,623)	(30,079)	(2,921)
I.17.	(Increase) in prepayments		(6,719)	(1,061)	4,470	(172)
I.18.	Increase in trade payables and payables to related parties		15,386	4,416	20,345	9,960
I.19.	Income tax (paid)		(4,940)	(3,379)	(2,189)	(1,205)
I.20.	(Decrease) in advances received and other current liabilities		(4,917)	(9,912)	8,684	(9,832)
	Net cash flows from (to) operating activities		**16,457**	**(12,385)**	**11,564**	**4,887**
II.	**Cash flows from (to) investing activities**					
II.1.	(Acquisition) of non-current assets	5, 6, 7	(1,830)	(1,444)	(1,378)	(767)
II.2.	Proceeds from sale of non-current assets		-	1,647	38	49
II.3.	(Acquisition) of investments in subsidiaries (net of cash acquired in the Group) and associates	4, 8	(24,194)	(10,410)	(11,159)	(12,378)
II.4.	Disposal of investments in subsidiaries	1	7,812	10	-	10
II.5.	(Acquisition) of other investments	1	-	(2,000)	-	(2,000)
II.6.	Dividends received		-	-	5,225	840
II.7.	Interest received	25	135	420	135	163
II.8.	Loans granted	31	-	-	(18,531)	(15,719)
	Net cash flows (to) investing activities		**(18,077)**	**(11,777)**	**(25,670)**	**(29,802)**

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

Statements of cash flows (cont'd)

		Note	Group		Company	
			2009	**2008**	**2009**	**2008**
III.	**Cash flows from (to) financing activities**					
III.1.	Dividends (paid)		(639)	(765)	(639)	(765)
III.2.	Proceeds from loans	14	24,332	11,447	20,606	12,759
III.3.	Loans (repaid)	14	(18,254)	-	(4,600)	-
III.4.	Interest (paid)		(2,810)	(225)	(859)	(332)
III.5.	Financial lease (payments)	15	(885)	(991)	(590)	(685)
	Net cash flows from financial activities		**1,744**	**9,466**	**13,918**	**10,977**
IV.	**Net increase (decrease) in cash and cash equivalents**		**124**	**(14,696)**	**(188)**	**(13,938)**
V.	**Cash and cash equivalents at the beginning of the year**		**5,386**	**20,082**	**613**	**14,551**
VI.	**Cash and cash equivalents at the end of the year**		**5,510**	**5,386**	**425**	**613**
	Supplemental information of cash flows:					
	Non-cash investing activity:					
	Property, plant and equipment acquisitions financed by financial lease		287	882	108	520
	Non-cash financing activity:					
	Non-cash dividends to shareholders (set-off against intercompany receivables)		1,463	2,293	1,463	2,293

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

General Manager	Žilvinas Lapinskas		9 April 2010
Finance Director	Jonas Janukėnas		9 April 2010

Notes to the financial statements

1 General information

AB City Service (hereinafter the Company) is a public limited liability company registered in the Republic of Lithuania on 28 January 1997. The Company's legal status was changed from a private limited liability company to a public limited liability company on 6 October 2005.

The address of the Company's registered office is as follows:

Konstitucijos Ave. 7,
Vilnius,
Lithuania.

The Company's address of residence is:

Smolensko Str. 12,
Vilnius,
Lithuania.

The Company is engaged in facility management, administration of commercial buildings and dwelling-houses, renovation and maintenance of thermal systems, installation and maintenance of thermal installations.

As of 31 December 2009 and 2008 the shareholders of the Company were:

	2009		**2008**	
	Number of shares held	**Percentage**	**Number of shares held**	**Percentage**
UAB ICOR (former UAB Rubicon Group)	13,303,544	69.62 %	13,303,544	69.62 %
Shareholders of UAB ICOR:				
Mr. Andrius Janukonis	146,434	0.766 %	146,434	0.766 %
Mr. Darius Leščinskas	-	-	146,434	0.766 %
Mr. Arūnas Mačiuitis	146,432	0.766 %	146,432	0.766 %
Mr. Rimantas Bukauskas	115,403	0.603 %	146,432	0.766 %
Mr. Gintautas Jaugielavičius	146,432	0.766 %	146,432	0.766 %
Mr. Linas Samuolis	146,432	0.766 %	146,432	0.766 %
Mr. Remigijus Lapinskas	50,000	0.260 %	146,432	0.766 %
Other private and institutional shareholders	5,055,323	26.45 %	4,781,428	25.02 %
Total	**19,110,000**	**100 %**	**19,110,000**	**100 %**

The ultimate parent of AB City Service, UAB ICOR, has pledged the part of the Company's shares, i.e. 10,486,275 units, which constitutes 54.87 % of the authorised capital of the Company, to the bank. The right to transfer, pledge or dispose of the abovementioned shares otherwise has been restricted. All other property and non-property rights of UAB ICOR, as the shareholder, are free from any encumbrances or restrictions.

Share capital of the Company

The share capital of the Company was LTL 19,110 thousand as of 31 December 2009 and 2008. It is divided into 19,110,000 ordinary shares with the nominal value of LTL 1 each.

All 19,110,000 ordinary shares of the Company are included into the Baltic Main List of NASDAQ OMX Vilnius Stock Exchange (ISIN Code of the shares is LT0000127375). Trading Code of the shares on NASDAQ OMX Vilnius Stock Exchange is CTS1L.

All shares of the Company are fully paid. The Company does not have any other classes of shares than ordinary shares mentioned above, there are no restrictions of share rights or special control rights for the shareholders set in the articles of association of the Company. No shares of the Company are held by itself or its subsidiaries. No convertible securities, exchangeable securities or securities with warrants are outstanding; likewise, there are no outstanding acquisition rights or undertakings to increase share capital as of 31 December 2009.

1 General information (cont'd)

Structure of the Group

As of 31 December 2009 the AB City Service group consists of AB City Service and the following directly and indirectly owned subsidiaries (hereinafter the Group):

Company	Country	Share of the stock held by the Group as of 31 December 2009	Share of the stock held by the Group as of 31 December 2008	Main activities
UAB Žaidas	Lithuania	99 %	99 %	Administration of dwelling-houses
UAB Vingio Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Buitis Be Rūpesčių	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Sostinės Naujienos	Lithuania	100 %	100 %	Dormant
UAB Ąžuolyno Valda	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Marių Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Pempininkų Valdos	Lithuania	100 %	87.3 %	Administration of dwelling-houses
UAB Mūsų Namų Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Namų Priežiūros Centras	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Pašilaita	Lithuania	100 %	100 %	Administration of dwelling-houses
ОАО Сити Сервис / OAO City Service (hereinafter RSP)	Russia	100 %	100 %	Administration of dwelling-houses
ЗАО Сити Сервис / ZAO City Service	Russia	100 %	100 %	Administration of dwelling-houses
ОАО Спец РНУ / OAO Spec RNU (full name – ОАО Специализированное ремонтно-наладочное управление)*	Russia	100 %	100 %*	Construction and engineering
SIA Riga City Service	Latvia	100 %	100 %	Administration of dwelling-houses
ZAT Kiev City Service	Ukraine	100 %	100 %	Administration of dwelling-houses
UAB Sinsta	Lithuania	100 %	100 %	Dormant
UAB Fervėja	Lithuania	100%	-	Dormant
UAB Atidumas	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Ūkvedys	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Šiaulių Butų Remonto Tarnyba	Lithuania	100 %	100 %	Construction
UAB Lazdynų Būstas	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Vilko Pėda	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Šilutės Butų Ūkis	Lithuania	99.84 %	99.84 %	Administration of dwelling-houses
UAB Antakalnio Ūkis	Lithuania	100 %	-	Administration of dwelling-houses
UAB Karoliniškių Būstas	Lithuania	100 %	-	Administration of dwelling-houses
UAB Naujamiesčio Būstas**	Lithuania	100 %	-	Administration of dwelling-houses
UAB Viršuliškių Būstas	Lithuania	100 %	-	Administration of dwelling-houses
ООО Жилкомсервис г. Ломоносов / OOO Žilkomservis Lomonosov	Russia	80 %	-	Administration of dwelling-houses
ООО Жилкомсервис № 3 Фрунзенского района / OOO Žilkomservis Frunzenskovo Rajona	Russia	80 %	-	Administration of dwelling-houses
ООО Жилкомсервис № 2 Невского Района / OOO Žilkomservis Nevskovo Rajona	Russia	80 %	-	Administration of dwelling-houses

* For the purpose of preparation of the financial statements the management considered that the Company owned 100 % of the shares in OAO Spec RNU as of 31 December 2008, even though it was sold in December 2008, as the Company retained a call option to reacquire OAO Spec RNU, and exercised management control. Subsequently, the sales agreement was terminated during 2009 and the Company reacquired 100 % of the shares of OAO Spec RNU for LTL 226 thousand.

** As of 31 December 2009 UAB Būsto Investicijų Valdymas was merged with UAB Naujamiesčio Būstas, as described further in the financial statements.

1 General information (cont'd)

Changes in the Group in 2009

During the year 2009 the Company acquired 6 new subsidiaries in Lithuania and 6 buildings' administration companies in St. Petersburg.

In 2009 UAB Fervėja was acquired (purchase price amounting to LTL 12,968 thousand), at the same time appending UAB Būsto Investicijų Valdymas, UAB Antakalnio Ūkis, UAB Karoliniškių Būstas, UAB Naujamiesčio Būstas, UAB Viršuliškių Būstas. The results of these new companies were consolidated in the Group financial statements since 1 January 2009.

As a result of reorganisation of UAB Būsto Investicijų Valdymas it was merged with UAB Naujamiesčio Būstas, which continued operations. Since 31 December 2009 UAB Naujamiesčio Būstas took over all the rights, obligations and assets of UAB Būsto Investicijų Valdymas, including the shares of UAB Antakalnio Ūkis, UAB Karoliniškių Būstas and UAB Viršuliškių Būstas.

At the beginning of June 80% of the following companies in St. Petersburg were acquired: ООО Жилкомсервис г. Ломоносов, ООО Жилкомсервис № 3 Фрунзенского Района, ООО Жилкомсервис № 2 Невского Района, ООО Жилкомсервис № 2 Центрального Района, ООО Жилкомсервис № 1 Красногвардейского Района and ООО Жилкомсервис № 1 Кировского Района. The latter three companies, purchased for LTL 7,386 thousand, were sold on 28 of August 2009, with a gain of LTL 426 thousand (sales settled in cash) and not included into consolidation, as they were primarily purchased for sale and the effect of consolidation would not be material for the Group. Thus, total purchase consideration of the three remaining subsidiaries amounted to LTL 7,378 thousand and their results were consolidated in the Group financial statements since 1 June 2009.

More detailed information on the subsidiaries acquired in 2009 is presented in Note 4 and Note 8.

Changes in the Group in 2008

During 2008 the Group has been enlarged by:
- acquisition of 100 % of UAB Lazdynų Būstas shares (acquisition cost LTL 7,551 thousand); the results of this subsidiary are consolidated in the Group's financial statements from 1 March 2008;
- acquisition of 80.02 % of UAB Šilutės Butų Ūkis shares (acquisition cost LTL 2,087 thousand); the results of this subsidiary are consolidated in the Group's financial statements from 1 March 2008;
- acquisition of 100 % of UAB Vilko Pėda (acquisition cost LTL 2,740 thousand); the results of this subsidiary are consolidated in the Group's financial statements from 1 September 2008.

On 4 November 2008 the Company has transferred UAB Fervėja shares for their carrying value equal to LTL 10 thousand.

On 9 December 2008 the Company sold its shareholding in OAO Spec RNU for its acquisition cost of LTL 226 thousand. For the purpose of preparation of 2008 financial statements the management considered that the Company owns 100 % of the shares in OAO Spec RNU, because the Company retained a call option to reacquire OAO Spec RNU and continued to exercise management control. As noted above, these shares were reacquired in 2009.

On 19 December 2008 the Company signed an authorised capital increase agreement (share subscription agreement) with UAB Fervėja under which 99.9 % of UAB Fervėja shares were acquired in 2009 as noted above. Control of UAB Fervėja was obtained in 2009 after the authorization from the Competition Council of the Republic of Lithuania was received. The Company had no control or significant influence over this entity as of 31 December 2008. According to the share subscription agreement the Company has made a prepayment for the shares of UAB Fervėja amounting to LTL 2,000 thousand, which was accounted for as other financial assets as of 31 December 2008 in the Group's and the Company's financial statements.

More detailed information on the subsidiaries acquired in 2008 is presented in Note 4 and Note 8.

1 General information (cont'd)

Investments into associates

The Group's and the Company's investments into associates balance as of 31 December 2009 and 2008 comprises an investment in UAB Būsto Administravimo Agentūra (37 % of share capital, acquisition price LTL 220 thousand), which was acquired on 7 November 2005.

The Group accounted for the associate's results attributable to the Group and the Company amounting to LTL 91 thousand in the statement of comprehensive income for the year ended 31 December 2008 and LTL 40 thousand for the year ended 31 December 2009.

Summarized financial information of UAB Būsto Administravimo Agentūra as of 31 December (unaudited):

	2009	**2008**
Assets	1,212	994
Liabilities	263	153
Net assets	949	841
Revenue	1,702	1,484
Net profit	108	155

As of 31 December 2009 the number of employees of the Group was 3,234 (as of 31 December 2008 – 1,621). As of 31 December 2009 the number of employees of the Company was 712 (as of 31 December 2008 – 486).

2 Accounting policies

2.1. Basis of preparation

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

The Company's management authorised these financial statements on 9 April 2010. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

Financial statements of the Group and the Company have been prepared on a historical cost basis.

Adoption of new and/or changed IFRSs and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The Group and the Company has adopted the following new and amended IFRS and International Financial Reporting Interpretation Committee (hereinafter IFRIC) interpretations during the year:

- IFRS 8 *Operating Segments;*
- Amendment to IAS 1 *Presentation of Financial Statements;*
- Amendment to IAS 23 *Borrowing Costs;*
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements;*
- Amendment to IFRS 2 *Share-based Payment;*
- Amendments to IFRS 7 *Financial Instruments: Disclosures;*
- Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation;
- Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement* – Embedded derivatives;
- IFRIC 13 *Customer Loyalty Programmes;*
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction;*
- IFRIC 15 *Agreement for the Construction of Real Estate;*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation;*
- Improvements to IFRS (issued in 2008 and effective on 1 January 2009).

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

The principal effects of these changes are as follows:

IFRS 8 Operating Segments
IFRS 8 replaced IAS 14 *Segment Reporting*. The Group and the Company concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 3, including the related revised comparative information.

Amendment to IAS 1 Presentation of Financial Statements
This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group and the Company has elected to present its comprehensive income in a single statement.

Amendment to IAS 23 Borrowing Costs
The amendment requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's and the Company's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions, the Group and the Company has adopted the standard on a prospective basis. Therefore, borrowing costs should be capitalised on qualifying assets with a commencement date on or after 1 January 2009. However, there were no borrowing costs matching the mentioned criteria during the year 2009.

The other standards and interpretations and their amendments adopted in 2009 did not impact the financial statements of the Group and the Company, because the Group and the Company did not have the respective financial statement items and transactions addressed by these changes.

Standards issued but not yet effective

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

*Amendment to IFRS 2 Share-based Payment (*effective for financial years beginning on or after 1 January 2010).
The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company does not have share-based payments.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009).
Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investment in Associates* and IAS 31 *Interests in Joint Ventures*. In accordance with the transitional requirements of these amendments, the Group and the Company will adopt them as a prospective change. Accordingly, assets and liabilities arising from business combinations prior to the date of application of the revised standards will not be restated.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2013, once adopted by the EU).
IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets. The Group and the Company has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011, once adopted by the EU).
The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Group and the Company, however it may impact the related parties disclosures.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

*Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (*effective for financial years beginning on or after 1 February 2010).
The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company does not have such instruments.

*Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (*effective for financial years beginning on or after 1 July 2009).
The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company has not entered into any such hedges.

Improvements to IFRSs
In May 2008 and April 2009 IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Group and the Company:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 *Operating Segments*. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 7 *Statement of Cash Flows*. Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- *IAS 36 Impairment of Assets.* The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards will not have any impact on the accounting policies, financial position or performance of the Group and the Company:

- IFRS 2 Share-based Payment;
- IAS 1 Presentation of Financial Statements;
- IAS 17 Leases;
- IAS 38 Intangible Assets;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRIC 9 Reassessment of Embedded Derivatives;
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 29 March 2009).
This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group and the Company is an operator and, therefore, this interpretation has no impact on the Group and the Company.

Amendment to IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2011, once adopted by the EU).
The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Group and the Company does not have defined benefit assets.

*IFRIC 17 Distributions of Non-cash Assets to Owners (*effective for financial years beginning on or after 31 October 2009).
The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group and the Company does not distribute non-cash assets to owners.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

*IFRIC 18 Transfers of Assets from Customers (*effective for financial years beginning on or after 31 October 2009). The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). IFRIC 18 will not have an impact on the consolidated financial statements because the Group and the Company does not have such agreements.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 April 2010, once adopted by the EU).
The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group and the Company does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

2.2. Measurement and presentation currency

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania, Litas (LTL).

The functional currency of the Company and its subsidiaries operating in Lithuania is Litas. The functional currencies of foreign subsidiaries are the respective foreign currencies of the country of residence. Items included in the financial statements of these subsidiaries are measured using their functional currency.

Transactions in foreign currencies are initially recorded in the functional currency as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange as at the date of the statement of financial position.

The assets and liabilities of foreign subsidiaries are translated into Litas at the reporting date using the rate of exchange as of the date of the statement of financial position, and their statements of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on this translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in the income statement.

Long-term receivables from or loans granted to foreign subsidiaries that are neither planned nor likely to be settled in the future are considered to be a part of the Company's net investment in the foreign operation. In the Group's consolidated financial statements the exchange differences recognized in the separate financial statements of the subsidiary in relation to these monetary items are reclassified to other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in the income statement.

Starting from 2 February 2002, Lithuanian Litas is pegged to Euro at the rate of 3.4528 Litas for 1 Euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.3. Principles of consolidation

The consolidated financial statements of the Group include AB City Service and its subsidiaries as well as associated companies. The financial statements of the subsidiaries are prepared for the same reporting year, using consistent accounting policies.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated. The equity and net income attributable to non-controlling shareholders' interests are shown separately in the statement of financial position and the statement of comprehensive income.

Acquisitions of non-controlling interest by the Group are accounted using the Entity concept method, i.e. the difference between the carrying value of the net assets acquired from the non-controlling interests in the Group's financial statements and the acquisition price is accounted directly in equity.

Investments in associated companies where significant influence is exercised by AB City Service are accounted for using the equity method in the Group's consolidated financial statements. Impairment assessment of investments in associates is performed when there is an indication that the asset may be impaired or the impairment losses recognised in prior years no longer exist.

2 Accounting policies (cont'd)

2.3 Principles of consolidation (cont'd)

<u>Business combinations and Goodwill</u>

Business combinations are accounted for using the purchase method. 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.

The excess of the acquired interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the investment remaining after the reassessment of the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination is recognised in the statement of comprehensive income immediately.

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.

2.4. Investments in subsidiaries and associates (the Company)

Investments in subsidiaries and associates in the Company's stand-alone financial statements are carried at cost, less impairment.

Financial guarantees provided for the liabilities of the subsidiaries during the initial recognition are accounted at estimated fair value as the investment into subsidiaries and financial liability in the balance sheet. Subsequent to initial recognition this financial liability is amortised and recognised as income depending on the related amortisation / repayment of the subsidiary's financial liability to the bank. If there is a possibility that the subsidiary may fail to fulfil its obligations to the bank, a financial liability of the Company is accounted for at the higher of amortised value and the value estimated according to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

2.5. Intangible assets other than goodwill

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably.

The useful lives of intangible assets are assessed to be either finite or indefinite.

After initial recognition, intangible assets with finite lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their useful lives:

Contractual investments (also described in Note 2.18)	6 years
Customer relationship	40 years
Other intangible assets	3 years

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets other than goodwill.

The Group and the Company do not have any intangible assets with infinite useful life other than goodwill.

2 Accounting policies (cont'd)

2.6. Property, plant and equipment and investment property

Property, plant and equipment, including investment property, are stated at cost less accumulated depreciation and impairment losses.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment is ready for its intended use, such as repair and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred.

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

Buildings	20 – 62,5 years
Vehicles	4 – 10 years
Other property, plant and equipment	3 – 6 years

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

Construction in progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction-in-progress is not depreciated until the relevant assets are completed and put into operation.

2.7. Financial assets

According to IAS 39 "Financial Instruments: Recognition and Measurement" the Group's and the Company's financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

<u>Financial assets at fair value through profit or loss</u>

The category financial assets at fair value through profit or loss includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in statement of comprehensive income.

The Group and the Company does not have any finance instruments at fair value through profit or loss.

<u>Held-to-maturity investments</u>

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group / the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in statement of comprehensive income when the investments are derecognised or impaired, as well as through the amortisation process.

The Group and the Company did not have any held-to-maturity investments as of 31 December 2009 and 2008.

<u>Loans and receivables</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2 Accounting policies (cont'd)

2.7 Financial assets (cont'd)

Loans and receivables (cont'd)

Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with unrealized gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement.

2.8. Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group / the Company retains 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; or
- the Group / the Company has transferred its rights to receive cash flows from the asset and 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.

When the Group / the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group / the Company could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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 derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.9. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost of raw materials that are not ordinarily interchangeable and are segregated for specific projects is determined using specific identification method; cost of other inventory is determined by the first-in, first-out (FIFO) method. Unrealisable inventory has been fully written-off.

2.10. 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.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank accounts as well as deposits in bank with original term equal to or less than 3 months.

2 Accounting policies (cont'd)

2.11. Borrowings

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

The Group and the Company capitalise borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. However, there were no borrowing costs matching the capitalisation criteria in 2009.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings. The borrowings are classified as non-current if the completion of a refinancing agreement before the date of the statement of financial position provides evidence that the substance of the liability at the date of the statement of financial position was long-term.

2.12. Financial and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

<u>Financial lease</u>

The Group and the Company recognise financial leases as assets and liabilities in the statement of financial position 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 incremental 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.

The depreciation is accounted for financial lease assets and it also gives rise to financial expenses in the Group's and the Company's statement of comprehensive income for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets can not be depreciated over the period longer than lease term, unless the Group or the Company, according to the lease contract, gets transferred their ownership after the lease term is over.

<u>Operating lease</u>

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

2.13. Non-current employee benefits

According to the requirements of Lithuanian Labour Code, each employee leaving the Group or the Company at the age of retirement is entitled to a one-off payment in the amount of 2 months salary.

Current year cost of employee benefits is recognised as incurred in the statement of comprehensive income. The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in the statement of comprehensive income as incurred.

The above mentioned employee benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Obligation is recognized in the statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognized in the income statement as incurred.

2 Accounting policies (cont'd)

2.14. Provisions

Provisions are recognised when the Group and the Company 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 Group / the Company re-evaluates provisions at each date of the statement of financial position and adjusts them 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

2.15. Income tax

The Group companies are taxed individually, irrespective of the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania, the Republic of Latvia, the Republic of Ukraine and Russian Federation.

The standard income tax rate in Lithuania was 20 % in 2009 (15 % in 2008). After the amendments of Income Tax Law of Republic of Lithuania had come into force, 15 % income tax rate has been established for an indefinite period starting 1 January 2010.

Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company changes its activities due to which these losses incurred except when the Company does not continue its activities due to reasons which do not depend on Company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Income tax rate in Ukraine, Russia and Latvia is 25 %, 20 % and 15 %, respectively.

Deferred taxes are calculated using the liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.16. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

The Group and the Company recognises revenue from projects on renovation of thermal systems and installation of thermal components (i.e. customer specific contracts) based on the method of percentage of completion: completion percentage is estimated by the proportion of actual costs incurred to the total estimated costs of the project. Changes in profit rates are reflected in current earnings as identified. Contracts are reviewed regularly and in case of probable losses, provisions are recorded.

Revenue from sales of goods is recognised when delivery has taken place and transfer of risks and rewards has been completed.

Revenue from services is recognised when services are rendered.

Dividend income from subsidiaries is recognised in the Company's stand-alone financial statements when the dividends are declared by the subsidiary.

2 Accounting policies (cont'd)

2.17. Impairment of assets

<u>Financial assets</u>

Financial assets are reviewed for impairment at each date of the statement of financial position.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the statement of comprehensive income. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the statement of comprehensive income. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

<u>Other assets (excluding goodwill)</u>

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted for in the same caption of the statement of comprehensive income as the impairment loss.

2.18. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards 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 the accompanying financial statements relate to depreciation (Note 2.6., Note 6 and Note 7), amortization (Note 2.5 and Note 5), percentage of completion evaluation for customer specific contracts (Note 2.16. and Note 21), non-current employee benefits (Note 2.13), impairment evaluation of goodwill (Note 2.3. and Note 4) and other assets (Note 2.17., Note 5, Note 9, Note 10 and Note 11). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

At the date of preparing these financial statements, the underlying assumptions and estimates were not subject to a significant risk that from today's point of view it is likely that the carrying amounts of assets and liabilities will have to be adjusted significantly in the subsequent fiscal year, except for the estimated validity period of the contracts underlying capitalised investments made in St. Petersburg, which are accounted for under other intangible assets and their acquisition value amounts to LTL 640 thousand as of 31 December 2008 and LTL 613 thousand as of 31 December 2009. The management amortises these contractual investments over the estimated validity period of the contracts, which is 6 years, however, as the Company operates in St. Petersburg only since 2006, there is not enough statistical data on the early terminations of the contracts by the customers. The management estimated that the expected validity term of the contracts is 6 years based on the current development of the operations, i.e. already concluded contracts or protocols of intention, as well as current rate of terminated contracts, which is insignificant. Should the circumstances change in the future, the estimate may need to be revised and the size of such revision can not be reasonably estimated at the date of these financial statements. The net book value of these investments carried in the intangible assets caption of the Group amount to LTL 270 thousand as of 31 December 2009 and LTL 410 thousand as of 31 December 2008.

2.19. Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities associated with acquisitions. 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 are probable.

2 Accounting policies (cont'd)

2.20. Subsequent events

Subsequent events that provide additional information about the Group's / the Company's position at the date of statements of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

3 Segment information

For management purposes, the Group and the Company are organized into business units based on their services provided and have two reportable segments as follows:

- Heating infrastructure renovation
- Buildings' administration

Segment of Heating infrastructure renovation includes services of renovation, modernisation of heating infrastructure and equipment.

Segment of Buildings' administration includes services of administration and maintenance of commercial and residential buildings. The segment also includes services of maintenance of heat and water systems and supply of heating energy and water to educational institutions in Vilnius city.

No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, financing (including finance costs and finance income) and income taxes of the Group are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's lengths basis in a manner similar to transactions with third parties.

3 Segment information (cont'd)

Operating Segments

The following tables present revenue, profit and certain asset and liability information regarding the Group's and the Company's reportable operating segments:

	Group			Company		
Year ended 31 December 2009	**Heating infrastructure renovation**	**Buildings' administration**	**Total**	**Heating infrastructure renovation**	**Buildings' administration**	**Total**
Revenue	31,268	341,952	373,220	31,268	92,027	123,295
Unallocated income			1,275[1]			1,275[1]
Total revenue			**374,495**			**124,570**
Segment results	(264)	30,185	29,921	(264)	17,271	17,007
Unallocated expenses			(9,333)[2]			(9,333)[2]
Profit before tax, finance costs and finance revenue			**20,588**			**7,674**
Net financial costs			(3,563)[3]			4,847[3]
Profit / (loss) before income tax			17,025			12,521
Income tax expenses			(1,732)[3]			(1,856)[3]
Net profit for the year			**15,293**			**10,665**
As of 31 December 2009						
Assets and liabilities						
Segment assets	9,693	179,895	189,588	9,693	55,879	65,572
Unallocated assets			46,522[4]			71,280[4]
Total assets			**236,110**			**136,852**
Segment liabilities	15,396	106,242	121,638	15,396	11,212	26,608
Unallocated liabilities			41,993[5]			41,993[5]
Total liabilities			**163,631**			**68,601**
Other segment information						
Capital expenditure	-	2,239	2,239	-	1,489	1,489
Impairment losses recognised in statement of comprehensive income	-	-	-	-	835	835

[1] Unallocated income includes other income not attributable to either of the listed segments, namely IT services (LTL 1,275 thousand).
[2] Unallocated expenses include costs related to unallocated income (LTL 1,125 thousand), general and administrative expenses (LTL 8,110 thousand) and other expenses (LTL 98 thousand) identifiable as costs managed on a group basis.
[3] Financing of the Group and the Company (including finance costs and finance income) (LTL 3,563 thousand, including share of profit of associates, and LTL 4,847 thousand respectively) and income taxes (LTL 1,732 thousand and LTL 1,856 thousand respectively) are managed on a group basis and are not allocated to operating segments.
[4] Segment assets do not include financial assets (LTL 45,668 thousand for the Company), construction in progress (LTL 544 thousand), deferred tax asset (LTL 2,630 thousand for the Group and LTL 650 thousand for the Company) and current assets not attributable to either of the listed segments, such as prepayments (LTL 13,991 thousand for the Group and LTL 146 thousand for the Company), partly receivables from related parties (LTL 23,847 thousand) and cash (LTL 5,510 thousand for the Group and LTL 425 thousand for the Company).
[5] Segment liabilities do not include current (LTL 9,317 thousand) and non-current (LTL 28,765 thousand) loans taken to finance the activities of the entire Group, finance lease obligations (LTL 396 thousand) and a part of other current liabilities (LTL 3,515 thousand), mainly comprising payroll payable.

3 Segment information (cont'd)

Year ended 31 December 2008	Group: Heating infrastructure renovation	Group: Buildings' administration	Group: Total	Company: Heating infrastructure renovation	Company: Buildings' administration	Company: Total
Revenue	56,064	206,344	262,408	56,064	83,431	139,495
Unallocated income			1,442[1]			1,442[1]
Total revenue			**263,850**			**140,937**
Segment results	4,928	14,550	19,478	4,928	10,101	15,029
Unallocated expenses			(7,038)[2]			(7,038)[2]
Profit before tax, finance costs and finance revenue			12,440			7,991
Net financial costs			(1,406)[3]			1,865[3]
Profit / (loss) before income tax			11,034			9,856
Income tax expenses			(2,348)[3]			(1,236)[3]
Net profit for the year			**8,686**			**8,620**
As of 31 December 2008						
Assets and liabilities						
Segment assets	14,247	122,906	137,153	14,247	66,037	80,284
Unallocated assets			2,016[4]			34,585[4]
Total assets			**139,169**			**114,869**
Segment liabilities	14,569	53,369	67,938	14,569	28,638	43,207
Unallocated liabilities			11,974[5]			11,974[5]
Total liabilities			**79,912**			**55,181**
Other segment information						
Capital expenditure	3	2,578	2,581	3	1,279	1,282
Impairment losses recognised in statement of comprehensive income	-	-	-	-	-	-

All segment sales are made to external customers.

[1] Unallocated income includes other income not attributable to either of the listed segments, namely IT services (LTL 1,442 thousand).
[2] Unallocated expenses include costs related to unallocated income (LTL 1,017 thousand), general and administrative expenses (LTL 5,918 thousand) and other expenses (LTL 103 thousand) identifiable as costs managed on a group basis.
[3] Financing (including finance costs and finance income) ((LTL 1,406) thousand, including share of profit of associates, and LTL 1,865 thousand respectively) and income taxes (LTL 2,348 thousand and LTL 1,236 thousand respectively) of the Group and the Company are managed on a group basis and are not allocated to operating segments.
[4] Segment assets do not include financial assets (LTL 32,569 thousand), construction in progress (LTL 163 thousand), deferred tax asset (LTL 324 thousand) and current assets not attributable to either of the listed segments, such as partly prepayments (LTL 916 thousand) and cash (LTL 613 thousand).
[5] Segment liabilities do not include partly non-current (LTL 11,124 thousand) loans taken to finance the activities of the entire Group and finance lease obligations (LTL 850 thousand).

3 Segment information (cont'd)

Geographical information

The following tables present geographical information on revenue based on the location of the customers and non-current assets information based on the location of the Group's assets:

2009	**Baltic states**	**CIS states**	**Total**
Revenue			
Sales to external customers	186,537	187,958	374,495
Segment revenue	**186,537**	**187,958**	**374,495**

2008	**Baltic states**	**CIS states**	**Total**
Revenue			
Sales to external customers	181,883	81,967	263,850
Segment revenue	**181,883**	**81,967**	**263,850**

The major part of sales in the Baltic States comprise of sales in Lithuania, in CIS – the main area of the Group sales is Russia.

2009	**Baltic states**	**CIS states**	**Total**
Non-current assets			
Segment assets	110,033	14,483	124,516
Total assets	**110,033**	**14,483**	**124,516**

2008	**Baltic states**	**CIS states**	**Total**
Non-current assets			
Segment assets	38,786	6,915	45,701
Total assets	**38,786**	**6,915**	**45,701**

Non current assets for this purpose consist of property, plant and equipment, investment property, intangible assets and non-current financial assets.

All the Company's revenues are derived in Lithuania as well as its assets are located in Lithuania.

Revenue from the largest customer amounted to LTL 29,731 thousand (LTL 25,579 thousand in 2008), arising from sales to Department of Culture, Education and Sports of Vilnius Municipality and is accounted in buildings' administration segment.

4 Goodwill

	Group
Cost:	
Balance as of 31 December 2007	11,976
Additions	2,840
Balance as of 31 December 2008	14,816
Additions	16,989
Balance as of 31 December 2009	31,805
Impairment:	
Balance as of 31 December 2007	290
Impairment for the year	-
Balance as of 31 December 2008	290
Impairment for the year	-
Balance as of 31 December 2009	290
Net book value as of 31 December 2009	**31,515**
Net book value as of 31 December 2008	**14,526**

Acquisitions in 2009

As disclosed in Notes 1 and 8, during 2009 the Company has acquired the following new subsidiaries: UAB Fervėja, at the same time acquiring indirect investments into UAB Būsto Investicijų Valdymas, UAB Antakalnio Ūkis, UAB Karoliniškių Būstas, UAB Naujamiesčio Būstas and UAB Viršuliškių Būstas. In addition, 80 % of three companies in St. Petersburg were acquired.

All purchase consideration has been settled in cash.

During the period between the acquisition date and 31 December 2009 ООО Жилкомсервис г. Ломоносов has earned a profit of LTL 121 thousand; ООО Жилкомсервис № 3 Фрунзенского района has earned a profit of LTL 4,157 thousand; ООО Жилкомсервис № 2 Невского района has earned a profit of LTL 4,627 thousand, UAB Fervėja has earned a profit of LTL 213 thousand, UAB Būsto Investicijų Valdymas has incurred a loss of LTL 747 thousand, UAB Antakalnio Ūkis has earned a profit of LTL 554 thousand, UAB Karoliniškių Būstas has earned a profit of LTL 1,133 thousand, UAB Naujamiesčio Būstas has earned a profit of LTL 734 thousand, UAB Viršuliškių Būstas has earned a profit of LTL 633 thousand.

If all the acquisitions had been performed as of 1 January 2009, the revenue of the Group for the year ended 31 December 2009 would be larger by LTL 67,699 thousand and the net result would be larger by LTL 6,360 thousand.

Due to the mentioned acquisitions intangible assets were accounted for (Note 5). Goodwill appeared due to expected synergies and other benefits resulting from market imperfections.

4 Goodwill (cont'd)

The fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2009 were as follows (provisional for the companies in Russia due to complex economic and tax environment):

Fair value of assets, liabilities and contingent liabilities	**UAB Fervėja**	**ООО Жилкомсервис г. Ломоносов**	**ООО Жилкомсервис № 3 Фрунзенского района**	**ООО Жилкомсервис № 2 Невского района**
Date of acquisition	**1 January 2009**	**1 June 2009**	**1 June 2009**	**1 June 2009**
Property, plant and equipment	10,936	178	243	170
Intangible assets	24,155	4,811	11,355	14,715
Other non-current assets	649	-	-	-
Current assets	9,491	2,227	5,494	7,982
Total assets	**45,231**	**7,216**	**17,092**	**22,867**
Equity	2,720	(221)	2,190	(1,332)
Non-current and current liabilities	42,511	7,437	14,902	24,199
Total equity and liabilities	**45,231**	**7,216**	**17,092**	**22,867**

Data for UAB Fervėja presented above and further in this note is consolidated for UAB Fervėja and its directly or indirectly controlled subsidiarines, i.e. UAB Būsto Investicijų Valdymas, UAB Naujamiesčio Būstas, UAB Viršuliškių Būstas, UAB Antakalnio Ūkis, UAB Karoliniškių Būstas.

The carrying values of the acquired assets and liabilities assumed were as follows:

Book values	**UAB Fervėja**	**ООО Жилкомсервис г. Ломоносов**	**ООО Жилкомсервис № 3 Фрунзенского района**	**ООО Жилкомсервис № 2 Невского района**
Date of acquisition	**1 January 2009**	**1 June 2009**	**1 June 2009**	**1 June 2009**
Property, plant and equipment	3,093	178	243	170
Other non-current assets	649	-	-	-
Current assets	21,870	2,227	5,494	7,982
Total assets	**25,612**	**2,405**	**5,737**	**8,152**
Non-current and current liabilities	36,113	6,474	12,631	21,256
Total liabilities	**36,113**	**6,474**	**12,631**	**21,256**

The differences between the amounts paid and the fair values of assets acquired and liabilities and contingent liabilities assumed for the acquisitions of 2009 were as follows:

	UAB Fervėja	**ООО Жилкомсервис г. Ломоносов**	**ООО Жилкомсервис № 3 Фрунзенского района**	**ООО Жилкомсервис № 2 Невского района**
Date of acquisition	**1 January, 2009**	**1 June, 2009**	**1 June, 2009**	**1 June, 2009**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	2,720	(221)	2,190	(1,332)
Goodwill	10,248	1,281	140	5,320
Total purchase consideration	**12,968**	**1,060**	**2,330**	**3,988**
Cash acquired	752	123	515	242
Total purchase consideration, net of cash acquired	**12,216**	**937**	**1,815**	**3,746**

4 Goodwill (cont'd)

All purchase consideration has been settled in cash. For acquisition of UAB Fervėja advance payment of LTL 2,000 thousand was made in 2008.

As it is disclosed further in the financial statements, in 2009 the Group's management finalized purchase price allocation of UAB Vilko Pėda, acquired on 1 September 2008 and included with provisional accounting in the financial statements of 2008. As a result of finalization of purchase price allocation the following corrections in fair value of assets and liabilities assumed have been recorded:

	Provisional fair value recognized on acquisition	Effect of finalization of purchase price allocation	Final fair value recognized on acquisition
Property, plant and equipment	11	-	11
Intangible assets	-	2,731	2,731
Other non-current assets	43	-	43
Current assets	1,687	-	1,687
Total assets	**1,741**	**2,731**	**4,472**
Equity	(195)	2,185	1,990
Non-current and current liabilities	1,936	546	2,482
Total equity and liabilities	**1,741**	**2,731**	**4,472**

The differences between the amounts paid and the fair values of assets acquired and liabilities and contingent liabilities assumed for UAB Vilko Pėda according to finalized purchase price allocation are as follows:

	Provisional fair value recognized on acquisition	Effect of finalization of purchase price allocation	Final fair value recognized on acquisition
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	(195)	2,185	1,990
Goodwill	2,935	(2,185)	750
Total purchase consideration	**2,740**	**-**	**2,740**
Cash acquired	269	-	269
Total purchase consideration, net of cash acquired	**2,471**	**-**	**2,471**

In these financial statements comparative figures for 2008 have been amended as outlined above due to finalization of purchase price allocation of UAB Vilko Pėda.

<u>Acquisitions in 2008</u>

As disclosed in Notes 1 and 8, during 2008 the Company has acquired 3 new subsidiaries: UAB Lazdynų Būstas, UAB Vilko Pėda, UAB Šilutės Butų Ūkis. At the acquisition of these subsidiaries goodwill of LTL 5,025 thousand has been accounted for. The goodwill appears due to expected synergies and other benefits resulting from market imperfections.

4 Goodwill (cont'd)

The fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2008 were as follows (finalized provisional accounting for UAB Vilko Pėda):

Fair value of assets, liabilities and contingent liabilities	**UAB Lazdynų Būstas**	**UAB Šilutės Butų ūkis**	**UAB Vilko Pėda**
Date of acquisition	**1 March 2008**	**1 March 2008**	**1 September 2008**
Property, plant and equipment	3,276	1,107	11
Intangible assets	3,443	1,757	2,731
Other non-current assets	-	-	43
Current assets	2,062	806	1,687
Total assets	**8,781**	**3,670**	**4,472**
Equity	5,461	2,160	1,990
Non-current and current liabilities	3,320	1,510	2,482
Total equity and liabilities	**8,781**	**3,670**	**4,472**

The carrying values of the acquired assets and liabilities assumed were as follows:

Book values	**UAB Lazdynų Būstas**	**UAB Šilutės Butų Ūkis**	**UAB Vilko Pėda**
Date of acquisition	**1 March 2008**	**1 March 2008**	**1 September 2008**
Property, plant and equipment	330	320	11
Other non-current assets	-	-	43
Current assets	2,062	806	1,687
Total assets	**2,392**	**1,126**	**1,741**
Non-current and current liabilities	2,284	1,001	1,936
Total liabilities	**2,284**	**1,001**	**1,936**

The differences between the amounts paid and the fair values of assets acquired and liabilities and contingent liabilities assumed for the acquisitions of 2008 were as follows (finalized provisional accounting for UAB Vilko Pėda):

	UAB Lazdynų Būstas	**UAB Šilutės Butų Ūkis**	**UAB Vilko Pėda**
Date of acquisition	**1 March 2008**	**1 March 2008**	**1 September 2008**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	5,461	2,160	1,990
Goodwill	2,090	-	750
Total purchase consideration	**7,551**	**2,160**	**2,740**
Cash acquired	1,244	455	269
Total purchase consideration, net of cash acquired	**6,307**	**1,705**	**2,471**

All purchase consideration has been settled in cash.

4 Goodwill (cont'd)

When preparing the 2008 financial statements, the management of the Group attributed all difference between the purchase consideration and the fair value of the acquired net assets of UAB Vilko Pėda to goodwill, however, this purchase price allocation for UAB Vilko Pėda was provisional as the Group's management had not finalized purchase price allocation to identified intangible assets (i.e. customer relationships) according to IFRS 3 *Business Combinations* requirements, as the acquisition of UAB Vilko Pėda was completed close to the year-end.

During the period between the acquisition date and 31 December 2008 UAB Lazdynų Būstas has earned a profit of LTL 543 thousand; UAB Šilutės Butų Ūkis has earned a profit of LTL 314 thousand; UAB Vilko Pėda has earned a profit of LTL 65 thousand.

If all the acquisitions had been performed as of 1 January 2008, the revenue of the Group for the year ended 31 December 2008 would be larger by LTL 1,643 thousand and the net result would be lower by LTL 105 thousand.

<u>Goodwill allocation</u>

For the purpose of impairment evaluation, the goodwill as of 31 December 2009 and 2008 was allocated to the following cash generating units:

Cash generating unit	**Carrying value of allocated goodwill as of 31 December 2009**	**Carrying value of allocated goodwill as of 31 December 2008**
Subsidiaries operating in Klaipėda (administration of dwelling-houses in Klaipėda)	4,894	4,894
Subsidiaries operating in Kaunas (administration of dwelling-houses in Kaunas)	2,144	2,144
Subsidiaries operating in Vilnius (administration of dwelling-houses in Vilnius)	15,704	5,461
Subsidiaries operating in Šiauliai (administration of dwelling-houses in Šiauliai)	822	822
Subsidiaries operating in St. Petersburg (administration of dwelling-houses in Russia, St. Petersburg)	7,951	1,205
	31,515	14,526

The recoverable amount of each cash generating unit as of 31 December 2009 and 2008 was determined based on the value in use calculation using cash flow projections based on the five-year financial forecasts prepared by the management. Significant assumptions used for the assessment of the value in use in 2009 and 2008 were similar, as described further. The forecasted revenues were estimated based on the area of the dwelling-houses administered as of 31 December 2009 and 2008 assuming that the area administered will remain the same in the future years and the growth in revenue will be derived from a service fee increase, which was forecasted to be in line with the estimated inflation rate. In 2009 the assessed revenue from additional services for CGU's operating in the territory of Lithuania are forecasted to decrease for several years to come because of the existing economic conditions in Lithuania. The costs were projected based on the actual cost level taking into account estimated inflation. Cash flows beyond the five-year period were extrapolated using 2 % growth rate (same in 2008) that reflects the best estimate of the management based on the current situation in the respective industry. The discount rate used by the management was estimated for each individual cash generating unit as a weighted average cost of capital for that particular cash generating unit and is equal to 14 % for short-term perspective and 10 % for long-term perspective for cash generating units located in Lithuania (16 % and 12 % respectively in 2008), and 16% for locations in St. Petersburg (Russia) (19 % in 2008).

The assessment of the recoverable amounts of the CGU as of 31 December 2009 and 2008 resulted in no impairment of goodwill.

With regard to the assessment of the recoverable amount of all the above mentioned cash generating units as of 31 December 2009 and 2008, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

5 Other intangible assets

Movement of other intangible assets in 2009 and 2008 is presented below:

	Group	**Company**
Cost:		
Balance as of 31 December 2007	1,428	663
Additions arising from acquisitions of subsidiaries	7,932	-
Additions	66	18
Disposals	(2)	-
Exchange differences	(98)	-
Retirements	(317)	(307)
Balance as of 31 December 2008	9,009	374
Additions arising from acquisitions of subsidiaries	55,036	-
Additions	19	19
Disposals	(20)	(1)
Exchange differences	4	-
Retirements	(7)	-
Balance as of 31 December 2009	64,041	392
Accumulated amortisation:		
Balance as of 31 December 2007	663	545
Charge for the year	224	59
Disposals	(1)	-
Exchange differences	(34)	-
Retirements	(317)	(307)
Balance as of 31 December 2008	535	297
Charge for the year	1,454	59
Disposals	(1)	(1)
Exchange differences	(2)	-
Retirements	(7)	-
Balance as of 31 December 2009	1,979	355
Net book value as of 31 December 2009	**62,062**	**37**
Net book value as of 31 December 2008	**8,474**	**77**

The main part of other intangible assets consists of customer relationship intangible assets, which are amortised during the period of 40 years. As of 31 December 2009 net book value of such intangible assets constituted LTL 61,707 thousand (LTL 7,931 thousand as of 31 December 2008).

The Group and the Company has not capitalised any internally generated intangible assets. Amortisation expenses of intangible assets are included within general and administrative expenses in the statement of comprehensive income.

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 1,744 thousand as of 31 December 2009 was fully amortised (LTL 190 thousand as of 31 December 2008) but was still in use.

6 Investment property

Movement in the Group's investment property during 2009 and 2008 can be specified as follows:

	Buildings
Cost:	
Balance as of 1 January 2008	-
Reclassifications from property, plant and equipment	759
Balance as of 31 December 2008	759
Reclassifications to property, plant and equipment	(29)
Balance as of 31 December 2009	730
Accumulated depreciation:	
Balance as of 1 January 2008	-
Reclassifications from property, plant and equipment	83
Charge for the year	18
Balance as of 31 December 2008	101
Reclassifications to property, plant and equipment	-
Charge for the year	20
Balance as of 31 December 2009	121
Net book value as of 31 December 2009	**609**
Net book value as of 31 December 2008	**658**

Investment property includes part of office building in Vilnius and premises in Alytus owned by UAB Pašilaita leased to other entities. The expenses related to investment property comprising of depreciation charge are included under the cost of sales caption in the statement of comprehensive income. The fair value of investment property as of 31 December 2009 is estimated by the management to approximate LTL 1,100 thousand (LTL 1,400 thousand as of 31 December 2008).

Income from rent of investment property in the Group amounted to LTL 202 thousand in 2009 (LTL 298 thousand in 2008).

As described in Note 14, as of 31 December 2009 investment property of the Group with a net book value of LTL 609 thousand was pledged to banks as collateral for the loans (LTL 658 thousand in 2008).

7 Property, plant and equipment

Movement of property, plant and equipment in 2009 and 2008 is presented below:

Group	**Buildings**	**Vehicles**	**Other property, plant and equipment**	**Construc-tion in progress**	**Total**
Cost:					
Balance as of 31 December 2007	10,466	3,779	3,190	-	17,435
Additions arising from acquisitions of subsidiaries	4,171	137	86	-	4,394
Additions	129	1,343	879	164	2,515
Disposals	(1,521)	(312)	(110)	-	(1,943)
Exchange differences	-	(174)	(41)	-	(215)
Retirements	-	(63)	(1,075)	-	(1,138)
Reclassifications	(759)	265	(265)	-	(759)
Balance as of 31 December 2008	12,486	4,975	2,664	164	20,289
Additions arising from acquisitions of subsidiaries	10,108	741	585	48	11,482
Additions	85	736	944	380	2,145
Disposals	(12)	(369)	(184)	-	(565)
Exchange differences	-	51	10	12	73
Retirements	(14)	(92)	(125)	(60)	(291)
Reclassifications	-	221	(221)	-	-
Balance as of 31 December 2009	22,653	6,263	3,673	544	33,133
Accumulated depreciation:					
Balance as of 31 December 2007	244	1,117	1,738	-	3,099
Charge for the year	263	801	718	-	1,782
Disposals	-	(202)	(94)	-	(296)
Exchange differences	-	(28)	(21)	-	(49)
Retirements	-	(66)	(1,072)	-	(1,138)
Reclassifications	(83)	-	-	-	(83)
Balance as of 31 December 2008	424	1,622	1,269	-	3,315
Charge for the year	1,075	1,072	959	-	3,106
Disposals	-	(263)	(148)	-	(411)
Exchange differences	-	7	3	-	10
Retirements	-	(4)	(114)	-	(118)
Reclassifications	-	165	(165)	-	-
Balance as of 31 December 2009	1,499	2,599	1,804	-	5,902
Net book value as of 31 December 2009	**21,154**	**3,664**	**1,869**	**544**	**27,231**
Net book value as of 31 December 2008	**12,062**	**3,353**	**1,395**	**164**	**16,974**

7 Property, plant and equipment (cont'd)

Company

	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:				
Balance as of 31 December 2007	2,474	2,605	-	5,079
Additions	608	493	163	1,264
Disposals	(217)	(937)	-	(1,154)
Balance as of 31 December 2008	2,865	2,161	163	5,189
Additions	391	699	381	1,471
Disposals	(102)	(31)	-	(133)
Balance as of 31 December 2009	3,154	2,829	544	6,527
Accumulated depreciation:				
Balance as of 31 December 2007	956	1,757	-	2,713
Charge for the year	490	411	-	901
Disposals	(170)	(937)	-	(1,107)
Balance as of 31 December 2008	1,276	1,231	-	2,507
Charge for the year	582	492	-	1,074
Disposals	(73)	(23)	-	(96)
Balance as of 31 December 2009	1,785	1,700	-	3,485
Net book value as of 31 December 2009	**1,369**	**1,129**	**544**	**3,042**
Net book value as of 31 December 2008	**1,589**	**930**	**163**	**2,682**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2009 amounts to LTL 3,106 thousand and LTL 1,074 thousand, respectively (LTL 1,782 thousand and LTL 901 thousand in the year 2008, respectively). Amounts of LTL 2,515 thousand and LTL 1,030 thousand for the year 2009 (LTL 1,322 thousand and LTL 855 thousand for the year 2008) have been included into general and administrative expenses in the Group's and the Company's statement of comprehensive income, respectively. Meanwhile, LTL 42 thousand (LTL 46 thousand in 2008) have been included into other operating expenses in the Group's and Company's statement of comprehensive income. The remaining depreciation expenses of property, plant and equipment have been included into the cost of sales.

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 3,175 thousand and LTL 932 thousand, respectively, were fully depreciated as of 31 December 2009 (LTL 970 thousand and LTL 558 thousand as of 31 December 2008, respectively), but were still in active use.

As described in Note 14, as of 31 December 2009 buildings of the Group with a net book value of LTL 17,297 thousand were pledged to banks as collateral for the loans (LTL 8,645 thousand as of 31 December 2008).

8 Investments into subsidiaries

The Company's investments into subsidiaries stated at cost less impairment as of 31 December 2009 and 2008 are as follows:

	2009	2008
Cost of investments at the beginning of the year	30,177	17,736
Acquisition of UAB Fervėja	12,968	-
Acquisition of non-controlling interest of UAB Pempininkų Valdos	100	-
Increase of authorised share capital of OAO City Service	1,133	-
Set-off of loss of OAO City Service carried from 2008	1,785	-
Acquisition of UAB Šiaulių Butų Remonto Tarnyba*	91	-
Impairment of investment in Šiauliai	(711)	-
Impairment of investment in ZAT Kiev City Service	(124)	
Acquisition of UAB Lazdynų Būstas	-	7,551
Acquisition of UAB Vilko Pėda	-	2,740
Acquisition of UAB Šilutės Butų Ūkis	-	2,087
Transfer of UAB Šilutės Butų Ūkis shares before 1 January 2008 from other financial assets	-	73
Disposal of UAB Fervėja	-	(10)
	45,419	**30,177**

* As of 31 December 2008 UAB Šiaulių Butų Remonto Tarnyba was part of the Group, however, a subsidiary of UAB Atidumas. In 2009 it was acquired by the Company, as indicated in the table above.

More detailed information on the subsidiaries acquired and disposed is presented in Notes 1 and 4.

Payment of dividends to shareholders was an indication of impairment of investments in 2009. Impairment loss is recorded as finance expenses in the statement of comprehensive income of the Company for 2009. Recoverable value of investments was determined based on cash flow projections prepared by the management and is the value in use of investments.

There were no transaction costs related to transactions listed above.

9 Inventories

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Raw and auxiliary materials	1,873	1,766	319	1,099
Goods for resale	2,144	5,133	3	4
Other	1	1	-	-
	4,018	6,900	322	1,103
Less: net realisable value allowance	(109)	(70)	-	-
	3,909	6,830	322	1,103

Change in allowance for inventories for the year 2009 and 2008 has been included into general and administrative expenses.

10 Prepayments

Prepayments of the Group amount to LTL 13,991 thousand as of 31 December 2009 (LTL 6,532 thousand as of 31 December 2008) and mainly comprise prepayments to subcontractors for residential renovation projects in St. Petersburg amounting to LTL 12,034 thousand (none as of 31 December 2008) as described in Note 30.

11 Trade receivables

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Trade receivables, gross	85,533	62,347	33,462	36,732
Less: allowance for doubtful trade receivables				
As of 1 January	(4,451)	(2,528)	(488)	(488)
Exchange differences	236	753	-	-
Additional allowance (recognised) in the statement of comprehensive income	(6,743)	(2,676)	(882)	-
As of 31 December	(10,958)	(4,451)	(1,370)	(488)
	74,575	57,896	32,092	36,244

Change in allowance for doubtful trade receivables for the year 2009 and 2008 has been included into general and administrative expenses.

As of 31 December 2009 a part of Group's and Company's trade receivables in the amount of LTL 2,286 thousand and LTL 29 thousand, respectively, are accounted under non-current receivables caption (LTL 2,268 thousand and LTL 172 thousand as of 31 December 2008).

The Group's and the Company's accounts receivable from UAB Litesko and UAB Vilniaus Energija for heating system renovation works amount to LTL 9,693 thousand as of 31 December 2009 (LTL 12,951 thousand as of 31 December 2008). The Group's and the Company's accounts receivable from Vilnius City Municipality for maintenance and heat supply within Vilnius schools and kinder gardens amount to LTL 15,014 thousand as of 31 December 2009 (LTL 13,654 thousand as of 31 December 2008).

Trade receivables are non-interest bearing and are generally collectible on 30 - 90 days terms.

Movements in the allowance for impairment of the Group's receivables were as follows:

	Individually impaired	Collectively impaired	Total
Balance as of 31 December 2007	397	2,131	2,528
Charge for the year	697	1,979	2,676
Exchange differences	-	(753)	(753)
Balance as of 31 December 2008	1,094	3,357	4,451
Charge for the year	-	7,837	7,837
Exchange differences	-	(236)	(236)
Reversed during the year	(1,094)	-	(1,094)
Balance as of 31 December 2009	-	10,958	10,958

11 Trade receivables (cont'd)

Movements in the allowance for impairment of the Company's receivables were as follows:

	Individually impaired	Collectively impaired	Total
Balance as of 31 December 2007	284	204	488
Balance as of 31 December 2008	284	204	488
Charge for the year	-	1,166	1,166
Reversed during the year	(284)	-	(284)
Balance as of 31 December 2009	-	1,370	1,370

The ageing analysis of the Group's trade receivables (presented net of allowance for impaired receivables) as of 31 December is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	Total
2008	35,641	10,256	7,228	1,338	2,948	485	**57,896**
2009	43,421	9,109	8,193	6,180	7,672	-	**74,575**

The ageing analysis of the Company's trade receivables (presented net of allowance for impaired receivables) as of 31 December is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	Total
2008	20,620	8,561	5,449	417	1,197	-	**36,244**
2009	20,031	4,895	4,844	759	1,563	-	**32,092**

12 Cash and cash equivalents

	Group		Company	
	2009	2008	2009	2008
Cash at bank	5,303	4,531	425	603
Cash on hand	62	41	-	10
Short-term deposits	145	814	-	-
	5,510	5,386	425	613

12 Cash and cash equivalents (cont'd)

The original term of all deposits is less than three months, the weighted average annual interest rate of the Group as of 31 December 2009 was 7.7 % (same in 2008).

Short-term deposits are usually made for one month period and earn interest at the respective deposit rates. The fair value of cash and short-term deposits as of 31 December 2009 of the Group and the Company was LTL 5,510 thousand and LTL 425 thousand respectively (LTL 5,386 thousand and LTL 613 thousand in 2008, respectively).

As of 31 December 2009 the Group and the Company had utilized LTL 887 thousand (LTL 2,865 thousand unutilized as of 31 December 2008) credit limit facility in respect of which all conditions precedent had been met.

As of 31 December 2009 the Group had restricted cash of LTL 462 thousand (LTL 492 thousand as of 31 December 2008) held in the bank as a guarantee supplied by a subsidiary SIA Riga City Service to AS Latvenergo for services to be provided. The cash is accounted for under non-current receivables caption in the financial statements of the Group as of 31 December 2009 as the restrictions are expected to be released after one year period.

As of 31 December 2009 and 2008 bank accounts of the Company and its subsidiaries are pledged to banks for loans, as described further in Note 14.

13 Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 % of distributable retained earnings calculated for a statutory reporting purposes are required until the reserve reaches 10 % of the share capital. When distributing the earnings for 2008 the shareholders of the Company have transferred LTL 336 thousand to the legal reserve so that it reached 10 % of the share capital (LTL 1,911 thousand).

Other reserves

Based on the shareholder's decision other reserves of LTL 6,000 thousand were formed from the retained earnings during the year 2009 for acquisition of own shares.

Share premium

Share premium represents the excess of the share issue price over nominal value of the shares issued.

According to laws of the Republic of Lithuania share surplus cannot be distributed, it can only be converted to the share capital or used to cover accumulated losses.

14 Borrowings

The list of borrowings of the Group and the Company as of 31 December 2009 and 2008 are as follows:

Creditor	Classification in the statement of financial position	Currency of the loan	Amount of the loan (in currency of the loan)	Final repayment date	Balance as of 31 December 2009 (in LTL)	Balance as of 31 December 2008 (in LTL)
Swedbank, AB (short-term overdraft)	Current loans	EUR	1,448	25 August 2010	5,000	5,000
Swedbank, AB (short-term overdraft)	Current loans	LTL	5,000	25 August 2010	887	2,135
Swedbank, AB (long-term loan to City Service AB)	Non-current borrowings	EUR	8,331	25 August 2013	28,765	4,313
Tax loan (UAB Naujamiesčio Būstas)	Current loans	LTL	1,040	10 June 2010	416	-
Loans from subsidiaries (eliminated in the accounts of the Group)**	Payables to related parties	LTL	800	31 December 2009	800	3,950
Group account (eliminated in the accounts of the Group)*	Current loans	Unspecified	Unspecified	Unspecified	3,430	1,312
Less: Current portion of loans from subsidiaries**					(3,430)	(3,950)
Less: Current portion of other non-current borrowings of the Group and the Company					(7,116)	(4,211)
Non-current borrowings (excluding current portion) in the Company					21,649	8,549
Non-current borrowings (excluding current portion) in the Group					21,649	7,237

* On 25 August 2008 the Company and its subsidiaries operating in Lithuania signed an overdraft facility agreement with Swedbank, AB under which the Group can utilise net cash balances of the Company and its subsidiaries operating in Lithuania as inter-group borrowings. Net cash balance of subsidiaries utilised by the Company as of 31 December 2009 amounted to LTL 3,430 thousand (LTL 1,312 thousand as of 31 December 2008).
**Borrowings from subsidiaries as of 31 December 2009 and 31 December 2008 has been reported under payables to related parties caption in the Company (the amount was eliminated in consolidated accounts of the Group).

As of 31 December 2009 the Group and the Company had utilized part of Swedbank, AB overdraft facility amounting to LTL 887 thousand (LTL 2,865 thousand unutilized as of 31 December 2008).

Actual interest rates are close to effective interest rates. As of 31 December 2009 the weighted average annual interest rate of borrowings outstanding was 3.5 % (6.27 % as of 31 December 2008). In 2009 and 2008 the period of repricing of floating interest rates on borrowings was 6 months.

For all the loans of the Group and the Company variable interest rates apply. Terms of repayment of non-current debt are as follows:

	Group		Company	
Year	**As of 31 December 2009**	**As of 31 December 2008**	**As of 31 December 2009**	**As of 31 December 2008**
Within one year	7,116	4,211	7,116	8,161
In the period of five years	21,649	7,237	21,649	8,549
	28,765	11,448	28,765	16,710

14 Borrowings (cont'd)

For the loan and overdraft facility the Company and its subsidiaries have pledged to the bank real estate (net book value LTL 17,297 thousand as of 31 December 2009 (LTL 9,303 thousand as of 31 December 2008)) and bank accounts of the Company and its subsidiaries in Lithuania.

Based on the terms of the loan and overdraft agreements, the Group and the Company have to comply with certain financial and non-financial covenants, such as: debt service coverage ratio cannot be less than 1.2, financial debt to EBITDA of the Company shall be not higher than 3.5, the capital ratio of the Company shall be not less than 30 % and a minimum set volume of the Company's and certain of its subsidiaries bank transactions shall be performed through the bank.

As of 31 December 2009 the Company complied with all the mentioned debt covenants, except for the consolidated debt service coverage ratio, which was equal to (1). The latter financial liability is accounted for as current loans in the statement of financial position of the Group and the Company as of 31 December 2009. The management does not consider that the mentioned breach could result in any sanctions from the bank.

Current loans balance of the Group and the Company as of 31 December 2009 amounts to LTL 6,303 thousand and LTL 9,317 thousand respectively, and comprises short-term overdraft from Swedbank and Group cash account listed in the table above. Also the Group current loans balances include tax loan in amount LTL 416 thousand received by UAB Naujamiesčio Būstas with maturity on 10 June 2010.

15 Financial lease

The assets leased by the Group and the Company under financial lease contracts mainly consist of vehicles. Apart from the lease payments, other obligations under lease contracts are maintenance and insurance. The net book value of the vehicles acquired under financial lease amounted to LTL 952 thousand as of 31 December 2009 in the Group and LTL 533 thousand in the Company (LTL 1,692 thousand in the Group and LTL 1,226 thousand in the Company as of 31 December 2008). The terms of the financial lease agreements are from 2 to 4 years. The currencies of the financial lease agreements are EUR and LTL.

As of 31 December 2009 the interest rate on the financial lease obligations is 6 month EUR LIBOR + 1 % - 4.1 %, 3 month EUR LIBOR + 3 % or 6 month VILIBOR + 2.3 % (as of 31 December 2008 – 6 month EUR LIBOR + 1.2 % - 3.5 %).

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2009 are as follows:

	Group	**Company**
Within one year	515	282
From one to five years	238	141
Total financial lease obligations	753	423
Interest	(38)	(27)
Present value of financial lease obligations	715	396
Financial lease obligations are accounted as:		
- current	486	265
- non-current	229	131

15 Financial lease (cont'd)

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2008 are as follows:

	Group	Company
Within one year	778	564
From one to five years	568	341
Total financial lease obligations	1,346	905
Interest	(88)	(55)
Present value of financial lease obligations	1,258	850
Financial lease obligations are accounted as:		
- current	723	527
- non-current	535	323

16 Operating lease

As of 31 December 2009 and 2008 the Group and the Company had several contracts of operating lease for vehicles outstanding as disclosed in Note 23. The remaining part of the operating lease comprise office rent of offices in Vilnius, Riga and St. Petersburg. The terms of lease do not include restrictions of the activities of the Group and the Company in connection with the dividends, additional borrowings or additional lease agreements.

Minimal future lease payments according to the signed non-cancellable operating lease contracts are as follows:

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Within one year	1,021	425	354	243
From one to five years	1,962	430	1,836	186
	2,983	855	2,190	429

The Company has also entered into several vehicle operating lease agreements with employees, however, the agreements are cancellable, therefore, minimum lease payments are not disclosed.

17 Non-current employee benefits

As of 31 December 2009 the Group and Company accounted for non-current employee benefits for employees leaving the Group or the Company at the age of retirement. As of 31 December 2008 such amounts have been evaluated by the management as not material. Related expenses are included into operating expenses in the Group's and the Company's statements of comprehensive income and under the non-current employee benefits caption in the statements of financial position.

	Group	Company
As of 31 December 2008	-	-
Additions arising from acquisitions of new subsidiaries	437	-
Change during the year 2009	23	226
As of 31 December 2009	460	226

Main assumptions applied while evaluating the Group's and the Company's non-current employee benefits are as follows:

	As of 31 December 2009
Discount rate	7.67 %
Anticipated annual salary increase	3-5 %

18 Trade and other payables

Terms and conditions of the financial liabilities other than borrowings are as follows:

- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables (Note 20) are non-interest bearing and have an average term of six months.

Trade payables of the Group amount to LTL 71,927 thousand as of 31 December 2009 and have increased since the prior year mainly due to increased sales volumes and number of subsidiaries.

19 Advances received

A significant part of the Group's and the Company's advances received consists of payments received from UAB Litesko and UAB Vilniaus Energija for heating system renovation works amounting to LTL 3,009 thousand as of 31 December 2009 (LTL 5,343 thousand as of 31 December 2008). The remaining amount represents advances received from the owners of commercial and residential buildings administrated by the Group and the Company for repair and other works.

20 Other current liabilities

	Group		Company	
	As of 31 December 2009	As of 31 December 2008	As of 31 December 2009	As of 31 December 2008
Salaries and social security	3,289	2,481	860	1,353
Vacation pay accrual	4,085	2,680	1,920	1,622
Accrued expenses and deferred income	3,534	178	1,352	-
Other current liabilities	5,366	2,134	610	527
	16,274	7,473	4,742	3,502

Other current liabilities mostly represent accrued liabilities and taxes payable other than profit tax. Increase in Group amounts in 2009 mainly influenced by capital repair of houses projects commenced in St. Petersburg.

21 Sales

	Group		Company	
	2009	**2008**	**2009**	**2008**
Buildings' administration and related services	332,317	203,314	92,028	83,431
Heating system renovation and heating components installation services	31,268	56,064	31,268	56,064
Other services and goods	10,910	4,472	1,274	1,442
	374,495	263,850	124,570	140,937

The Company has a relatively significant concentration of trading counterparties. The main two customers of the Company – UAB Vilniaus Energija and UAB Litesko – in 2009 and 2008 accounted for 14.7 % and 12.2 %, respectively, of total Company's sales. Due to the ongoing development of buildings' administration and related services business within the Group comparative weight of the heating system renovation projects performed for UAB Vilniaus Energija and UAB Litesko is decreasing.

Sales volume increases are attributable to full year consolidation effect of subsidiaries acquired in 2008 and enlargement of the Group in 2009 as well as increases in activity volume in the CIS countries (Note 3).

Information about customer specific contracts in progress as of 31 December 2009 and 2008:

	Group		Company	
	2009	**2008**	**2009**	**2008**
Sales of customer specific contracts in progress, recognised in the statement of comprehensive income during year	7,549	26,369	7,549	26,369
Sales from customer specific contracts in progress, recognised to date	23,052	56,821	23,052	56,821
Expenses incurred on the customer specific contracts, recognised in the statement of comprehensive income during year	7,917	23,436	7,917	23,436
Expenses incurred on the customer specific contracts, recognised to date	17,411	47,629	17,411	47,629
(Deferred) / Accrued contract revenue (included in other current liabilities caption within the statement of financial position in 2009 and other receivables caption in 2008)	(1,352)	693	(1,352)	693
Due from customers (accounted for as trade accounts receivable)	9,693	12,951	9,693	12,951
Due to customers (accounted for as advances received)	3,009	5,343	3,009	5,343

22 Cost of sales

	Group		Company	
	2009	**2008**	**2009**	**2008**
Services of subcontractors and materials used*	250,606	175,836	83,162	101,406
Wages and salaries and social security	52,205	35,777	17,271	15,238
Cost of goods sold	5,373	4,803	630	1,049
Depreciation	569	432	2	-
Other	-	451	-	-
	308,753	217,299	101,065	117,693

*In 2009 fuel expenses used by the labour workers are included under this caption as the new accounting system implemented allowed to separate it from the total fuel costs (previously all recorded under general and administration costs).

23 General and administrative expenses

	Group		Company	
	2009	**2008**	**2009**	**2008**
Wages and salaries and social security	17,013	13,733	5,266	5,335
Allowance for and write-off of receivables	6,743	3,095	882	-
Depreciation and amortisation	3,969	1,546	1,030	914
Commissions for collection of payments	3,375	1,759	1,692	845
Consulting and similar expenses	2,041	1,961	884	1,027
Rent of premises and other assets	1,822	2,412	1,112	1,390
Vacation pay accrual	1,405	725	298	280
Communication expenses	891	853	289	459
Business trips and training	725	808	546	640
Advertising	678	846	557	602
Utilities	677	483	250	251
Computer software maintenance	608	322	44	42
Fuel expenses*	508	1,677	134	1,438
Bank payments	505	442	77	109
Insurance	487	393	226	226
Charity and support	453	351	443	348
Transportation	445	562	209	381
Taxes other than income tax	354	234	22	96
Representational costs	204	183	127	162
Other	2,643	1,891	1,789	913
	45,546	34,276	15,878	15,458

*Fuel expenses were presented differently in 2008 and 2009: as noted in Note 22, after the new accounting system implementation in the Company in 2009 fuel expenses only of administrative staff are accounted for under general and administrative expenses caption.

The Group's and the Company's rent of premises and other assets in 2009 and 2008 mainly represents office space (LTL 728 thousand; LTL 622 thousand in 2008) and vehicles operating lease expenses. The operating lease of the office is provided mainly by UAB ICOR, a related party. Vehicles are leased from third parties. Rent of part of vehicles is uncancellable, therefore, related future minimum lease payments are disclosed in Note 16.

24 Other operating income (expenses), net

	Group		Company	
	2009	**2008**	**2009**	**2008**
Income from rent (net)	483	707	162	285
Gain (loss) on disposal of property, plant and equipment	46	17	4	2
Fines and overdue payment penalty income	1,018	14	-	-
Depreciation of rented assets	(62)	(46)	(42)	(46)
Fines and overdue payment penalty expense	(886)	(190)	-	-
Other income (expenses), net	(207)	(337)	(77)	(36)
	392	165	47	205

Growth in income and expenses of fines and overdue payments mainly due to acquisitions of new subsidiaries in St. Petersburg.

25 Finance income and (expenses), net

	Group		Company	
	2009	**2008**	**2009**	**2008**
Interest income	215	420	1,768	1,446
Dividend income *	-	-	5,225	840
Foreign currency exchange gain	75	5	71	5
Gain on sales of investments (Note 1)	426	-	-	-
Other financial income	174	158	31	51
Total finance income	**890**	**583**	**7,095**	**2,342**
Interest (expenses)	(2,796)	(226)	(1,179)	(386)
Foreign currency exchange loss	(1,078)	(1,710)	(206)	(4)
Impairment of investments	-	-	(835)	-
Discounting effect of long-term loans	(240)	-	-	-
Other financial (expenses)	(379)	(144)	(28)	(87)
Total finance (expenses)	**(4,493)**	**(2,080)**	**(2,248)**	**(477)**

* The Company's dividend income in 2009 represents dividends from subsidiaries (namely, UAB Atidumas, UAB Buitis Be Rūpesčių, UAB Lazdynų būstas, UAB Marių Valdos, UAB Mūsų Namų Valdos, UAB Pempininkų Valdos, UAB Šilutės butų ūkis, UAB Ūkvedys, UAB Vingio Valdos, UAB Žaidas) amounting to LTL 5,225 thousand.

26 Income tax

	Group		Company	
	2009	**2008**	**2009**	**2008**
Components of the income tax expenses				
Current income tax	4,245	3,027	2,182	1,359
Deferred income tax (income)	(2,513)	(679)	(326)	(123)
Income tax expenses recorded in the statement of comprehensive income	1,732	2,348	1,856	1,236

26 Income tax (cont'd)

	Group		Company	
	2009	**2008**	**2009**	**2008**
Deferred income tax asset				
Allowance for accounts receivable	5,823	1,550	205	98
Allowance for inventories	17	67	-	-
Accruals and similar temporary differences	1,040	783	322	324
Deferred income (percentage of completion method)	203	-	203	-
Impairment of investments	-	-	125	-
Tax loss carry forward	3,077	588	-	-
Deferred income tax asset before valuation allowance	10,160	2,988	855	422
Less: valuation allowance	(5,113)	(98)	(205)	(98)
Deferred income tax asset, net of valuation allowance	5,047	2,890	650	324
Deferred income tax liability				
Property, plant and equipment and intangible assets	(13,500)	(3,791)	-	-
Accrued income and other	(2,177)	(319)	-	-
Deferred income tax liability	(15,677)	(4,110)	-	-
Deferred income tax, net	(10,630)	(1,220)	650	324
Presented in the statement of financial position as follows:				
Deferred income tax asset	2,630	2,325	650	324
Deferred income tax liability	(13,260)	(3,545)	-	-

The Group's deferred tax asset and liability were set-off to the extent they related to the same tax administration institution and the taxable entity.

Tax loss carry forward can be utilised as follows: in Lithuania (LTL 12,060 thousand as of 31 December 2009) – indefinitely, in Russia (LTL 6,340 thousand as of 31 December 2009) – mainly until the year 2018.

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15 % rate in 2009 and 20 % 2008. The deferred tax of companies operating in Russia, Ukraine and Latvia was calculated using 20 %, 25 % and 15 % tax rates, respectively in 2009 (same as in 2008).

UAB Būsto Investicijų Valdymas was merged into UAB Naujamiesčio Būstas (Note 1) and discontinued its operations as a legal entity on 31 December 2009. This merger will create a tax goodwill as of the merger date, i.e. 31 December 2009, however, the management has not yet finalized the calculations of this tax goodwill and, consequently, the respective deferred tax asset arising on this transaction was not recorded in the Group's financial statements as of 31 December 2009. The calculations of the tax goodwill will be finalized in 2010 and the related deferred tax asset will be recognized in 2010 when the amount of the tax goodwill is determined.

26 Income tax (cont'd)

The changes of temporary differences before and after tax effect in the Group were as follows:

	Balance as of 31 December 2008	Recognised in statement of compre-hensive income	Exchange differences	Acquired subsidiaries	Balance as of 31 December 2009
Allowance for accounts receivable	7,750	6,710	(20)	16,245	30,685
Allowance for inventories	335	(275)	-	25	85
Accruals and similar temporary differences	3,915	(5,058)	(4)	7,350	6,203
Deferred income (percentage of completion)	-	1,352	-	-	1,352
Tax loss carry forward	3,259	(626)	(8)	15,775	18,400
Property, plant and equipment and intangible assets	(18,956)	1,953	2	(62,854)	(79,855)
Accrued income and other	(1,595)	(3,732)	7	(5,595)	(10,915)
Total temporary differences before valuation allowance	(5,292)	324	(23)	(29,054)	(34,045)
Valuation allowance	(1,003)	4,865	-	(30,565)	(26,703)
Total temporary differences	(6,295)	5,189	(23)	(59,619)	(60,748)
Deferred income tax, net	(1,220)	2,513	(5)	(11,918)	(10,630)

	Balance as of 31 December 2007	Recognised in statement of compre-hensive income	Exchange differences	Acquired subsidiaries	Balance as of 31 December 2008
Allowance for accounts receivable	4,760	2,967	(769)	792	7,750
Allowance for inventories	1,482	(1,104)	(43)	-	335
Accruals and similar temporary differences	4,563	(705)	(73)	130	3,915
Tax loss carry forward	1,127	2,399	(267)	-	3,259
Property, plant and equipment and intangible assets	(10,563)	3,213	57	(11,663)	(18,956)
Accrued income and other	(113)	(1,704)	222	-	(1,595)
Total temporary differences before valuation allowance	1,256	5,066	(873)	(10,741)	(5,292)
Valuation allowance	(1,598)	595	-	-	(1,003)
Total temporary differences	(342)	5,661	(873)	(10,741)	(6,295)
Deferred income tax, net	294	679	(185)	(2,008)	(1,220)

26 Income tax (cont'd)

The changes of temporary differences before and after tax effect in the Company were as follows:

	Balance as of 31 December 2008	Recognised in statement of compre-hensive income	Balance as of 31 December 2009
Allowance for accounts receivable	488	882	1,370
Accruals and similar temporary differences	1,622	525	2,147
Deferred income (percentage of completion method)	-	1,352	1,352
Impairment of investments	-	835	835
Total temporary differences	2,110	3,594	5,704
Valuation allowance	(488)	(882)	(1,370)
Total temporary differences	1,622	2,712	4,334
Deferred income tax, net	324	326	650

	Balance as of 31 December 2007	Recognised in statement of compre-hensive income	Balance as of 31 December 2008
Allowance for accounts receivable	488	-	488
Accruals	1,342	280	1,622
Total temporary differences	1,830	280	2,110
Valuation allowance	(488)	-	(488)
Total temporary differences	1,342	280	1,622
Deferred income tax, net	201	123	324

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pre tax income as follows:

	Group		Company	
	2009	2008	2009	2008
Income tax expenses computed at 20 % in 2009 and 15 % in 2008	3,405	1,655	2,504	1,478
Effect of different tax rate applicable to foreign subsidiaries	-	230	-	-
Effect of change in tax rate	(1,185)	209	217	(14)
Change in deferred tax asset valuation allowance	(1,187)	119	(107)	25
Permanent differences	699	135	(758)	(253)
Income tax expenses reported in the statement of comprehensive income	1,732	2,348	1,856	1,236

27 Basic and diluted earnings per share (LTL)

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year. The Company has no diluting instruments, therefore basic and diluted earnings per share are equal. Calculation of basic and diluted earnings per share is presented below:

	Group	
	2009	**2008**
Net profit (loss) attributable to the shareholders	15,287	8,660
Number of shares (thousand), opening balance	19,110	19,110
Number of shares (thousand), closing balance	19,110	19,110
Weighted average number of shares (thousand)	19,110	19,110
Basic and diluted earnings per share (LTL)	0.80	0.45

As further disclosed in Note 33, on 15 January 2010 the share capital of the Company was increased up to LTL 31,610 thousand. The authorized share capital of the Company is divided into 31,610 thousand ordinary registered shares with the nominal value of LTL 1 each.

28 Dividends per share

	2009	**2008**
Approved dividends*	2,102	3,058
Number of shares (in thousand)**	19,110	19,110
Approved dividends per share (LTL)	0.11	0.16

* The year when the dividends are approved.
** At the date when dividends are approved.

29 Financial assets and liabilities and risk management

Credit risk

The Group's and the Company'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. Furthermore, the credit risk of the main two customers of the Company, regarding which there is a trading and credit risk concentration (Note 21), is managed by trying to get partial prepayments from these customers. Receivables from UAB Vilniaus Energija and Vilnius City Municipality as of 31 December 2009 amounted to 33 % and 77 % of the Group's and the Company's total trade accounts receivable, respectively (to 46 % and 74 % as of 31 December 2008, respectively).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, consequently, the Company's management considers that its maximum exposure is reflected by the amount of trade and other receivables, net of allowance for doubtful accounts recognised at the date of the statement of financial position.

Interest rate risk

The major part of the Group's and the Company's borrowings (loans and financial lease obligations) are subject to variable rates, related to EUR LIBOR and VILIBOR, which creates an interest rate risk (Notes 14 and 15). There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2009 and 2008.

29 Financial assets and liabilities and risk management (cont'd)

Interest rate risk (cont'd)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity, other than current year profit impact.

2009	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(338)
EUR	-100	338
LTL	+100	(9)
LTL	-100	9
2008		
EUR	+100	(105)
EUR	-100	105
LTL	+100	(21)
LTL	-100	21

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Company's equity, other than current year profit impact.

2009	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(338)
EUR	-100	338
LTL	+100	(9)
LTL	-100	9
2008		
EUR	+100	(101)
EUR	-100	101
LTL	+100	(21)
LTL	-100	21

29 Financial assets and liabilities and risk management (cont'd)

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as of 31 December 2009 were 0.85 and 0.82 respectively (1.33 and 1.23 as of 31 December 2008 respectively). The Company's liquidity and quick ratios as of 31 December 2009 were 1.88 and 1.87 respectively (1.71 and 1.69 as of 31 December 2008 respectively).

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed overdraft and loans to meet their commitments at a given date.

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2009 and 2008 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing loans and borrowings	-	-	-	22,800	-	22,800
Current portion of non-current interest bearing loans and borrowings	-	2,024	5,965	-	-	7,989
Current loans	947	222	5,333	-	-	6,502
Financial lease obligations	-	80	430	238	-	748
Trade payables	162	26,803	44,962	-	-	71,927
Payables to related parties	196	11,331	844	76	-	12,447
Other current liabilities	-	24	-	-	-	24
Balance as of 31 December 2009	**1,305**	**40,484**	**57,534**	**23,114**	**-**	**122,437**
Non-current interest bearing loans and borrowings	-	72	217	7,430	-	7,719
Financial lease obligations	-	220	558	568	-	1,346
Current portion of non-current interest bearing loans and borrowings	-	1,095	3,222	-	-	4,317
Trade payables	1,887	36,662	805	23	-	39,377
Payables to related parties	-	5,806	-	-	-	5,806
Other current liabilities	-	2	-	-	-	2
Balance as of 31 December 2008	**1,887**	**43,857**	**4,802**	**8,021**	**-**	**58,567**

29 Financial assets and liabilities and risk management (cont'd)

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2009 and 2008 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing loans and borrowings	-	-	-	22,800	-	22,800
Current portion of non-current interest bearing loans and borrowings	-	2,024	5,965	-	-	7,989
Current loans	4,645	-	5,102	-	-	9,747
Financial lease obligations	-	71	212	141	-	424
Trade payables	-	8,911	-	-	-	8,911
Payables to related parties	-	11,331	844	-	-	12,175
Other current liabilities	-	24	-	-	-	24
Balance as of 31 December 2009	**4,645**	**22,361**	**12,123**	**22,941**	**-**	**62,070**
Non-current interest bearing loans and borrowings	-	72	217	7,430	-	7,719
Current portion of non-current interest bearing loans and borrowings	-	1,095	3,222	-	-	4,317
Financial lease obligations	-	170	394	341	-	905
Trade payables	-	22,199	-	-	-	22,199
Payables to related parties	-	9,921	-	-	-	9,921
Other current liabilities	-	2	-	-	-	2
Balance as of 31 December 2008	**-**	**33,459**	**3,833**	**7,771**	**-**	**45,063**

Foreign exchange risk

The Company's monetary assets and liabilities as of 31 December 2009 and 2008 are denominated in LTL or EUR, to which LTL is pegged, consequently the management of the Company believes that foreign exchange risk on EUR is insignificant.

Monetary assets and liabilities of the Group denominated in various currencies as of 31 December 2009 and 2008 were as follows:

	2009		2008	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	56,931	40,879	60,185	41,253
RUB	32,382	63,347	19,003	13,537
LVL	678	810	679	573
EUR	-	33,765	-	10,571
	89,991	138,801	79,867	65,934

29 Financial assets and liabilities and risk management (cont'd)

Foreign exchange risk (cont'd)

The following table demonstrates the sensitivity to a reasonably possible change in respect of currency exchange rate, with all other variable held constant of the Group's profit before tax (due to change in the fair value of monetary assets and liabilities):

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2009		
EUR	+ 15.00 %	(1,835)
EUR	- 15.00 %	1,835
2008		
EUR	+ 15.00 %	(1,585)
EUR	- 15.00 %	1,585

Fair value of financial instruments

The Group's and the Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

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

Set out is a comparison by class of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2009	**2008**	**2009**	**2008**
Financial assets				
Cash	5,510	5,386	5,510	5,386
Receivables from related parties (including loans granted)	5,065	7,645	5,065	7,645
Trade receivables	74,575	60,656	74,575	60,656
Other receivables	2,093	756	2,093	756
Non-current receivables	2,748	2,760	2,748	2,760
Financial liabilities				
Interest bearing loans and borrowings	35,068	11,448	35,068	11,448
Financial lease obligations	715	1,258	715	1,258
Trade payables	72,179	39,489	72,179	39,489
Payables to related parties	12,447	5,806	12,447	5,806
Other current liabilities	24	2	24	2

29 Financial assets and liabilities and risk management (cont'd)

Fair value of financial instruments (cont'd)

Set out is a comparison by class of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements:

	Carrying amount		Fair value	
	2009	**2008**	**2009**	**2008**
Financial assets				
Cash	425	613	425	613
Receivables from related parties (including loans granted)	53,476	34,510	53,476	34,510
Trade receivables	32,092	36,244	32,092	36,244
Other receivables	843	2,233	843	2,233
Available for sale investments	-	2,000	-	2,000
Non-current receivables	29	172	29	172
Financial liabilities				
Interest bearing loans and borrowings	38,082	11,447	38,082	11,447
Financial lease obligations	396	850	396	850
Trade payables	8,911	22,199	8,911	22,199
Payables to related parties	12,130	9,880	12,130	9,880
Other current liabilities	24	2	24	2

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade and other accounts receivable, current trade and other accounts payable and short-term borrowings approximates fair value.
(b) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

30 Commitments and contingencies

Acquisition of UAB Lazdynų Būstas

On 19 February 2009 the Appeal Court of the Republic of Lithuania resumed the litigation process on privatization of UAB Lazdynų Būstas 100 % shares, which previously ended by concluding a peace treaty approving the share purchase – sale agreement between the Company and Vilnius municipality. On 6 October 2009 Vilnius regional court after renewed consideration has passed the ruling to leave unchanged the previous Vilnius regional court decision, enacted on 15 February 2008, to approve the peace treaty between the parties. However, the Appeal Court of the Republic after the separate complaint of general prosecutor of Republic of Lithuania returned the case for the new consideration in Vilnius regional court. First hearing session is announced to take place on the 27 May 2010.

In case the court shall decide that 100 % of Lazdynų Būstas UAB shares could not be transferred to the Company in the public auction by Vilnius municipality, restitution in full would be applied. Firstly Vilnius municipality shall be obliged to return all the Company's consideration paid – LTL 7,551 thousand – in order to re-acquire the above mentioned shares from the Company. It should be mentioned that the Company shall transfer Lazdynų Būstas UAB shares only after the above mentioned sum would be paid to the Company. Considering the fact that in practice there is no occurrence of such cases that after a public auction state or municipal authority would return paid amounts of money to the purchaser in order to re-acquire the shares as well as other circumstances, it is unlikely that the final court decision will require to apply the restitution in full. The Company is committed not to transfer controlled UAB Lazdynų Būstas shares to third parties till the end of the litigation. The net assets of UAB Lazdynų Būstas included in the consolidated financial statements of the Group as of 31 December 2009 amount to LTL 1,902 thousand.

30 Commitments and contingencies (cont'd)

Acquisition of UAB Ažuolyno Valda

The Company is a plaintiff in a case against Klaipėda city municipality administration due to a loss suffered during the process of privatisation of UAB Ažuolyno Valda in 2007 because of the lack of information and improper conditions of acquisition. Court decision dated 9 March 2010 was in favour of the Company (LTL 842 thousand) with immediate effect of 5 % of annual interest, which should be paid to the Company. However, the mentioned decision can still be appealed by Klaipėda city municipality. As the outcome of the case is not yet final until the expiry of the term for the appeal, the Company and the Group has not recorded any receivables in respect of the amounts awarded by the court in the financial statements as of 31 December 2009.

UAB Vilko Pėda litigation

UAB Vilko Pėda, acquired in August 2008, participates in a litigation process with UAB Viva. It is claimed that UAB Viva has incorrectly performed their obligations as the technical services supplier in the apartment buildings managed by UAB Vilko Pėda and essential defects of works performed by UAB Viva were noted. Therefore, UAB Vilko Pėda did not pay for the last 2 months of services provided, in total LTL 155 thousand. UAB Viva on 26 June 2009 sued UAB Vilko Pėda to Vilnius regional court for the debt and forfeit, all together amounting to LTL 210 thousand. UAB Vilko Pėda on 3 November 2009 applied with a counter lawsuit for improper services and damages for of up to LTL 514 thousand that have been suffered by UAB Vilko Pėda and owners of the apartment buildings managed by UAB Vilko Pėda. The Company expects that the litigation shall end in favour of UAB Vilko Pėda as the documents and other evidence proves the improper service. The Company expects that even if not all damage shall be compensated, the amount shall be not less than the debt for the improper service. Therefore, no additional liability was recorded in the Company's financial statements for the amounts claimed by UAB Viva.

Other contingencies

In 2009 OAO City Service, ZAO City Service and ООО Жилкомсервис № 2 Невского района started to participate in residential renovation projects, whose funding is largely covered by the state by signing financing agreements with local government bodies, called Housing Committees. The implementation costs of these residential renovation projects are covered by the state funds. Group companies have committed to implement projects until letters of credit in bank accounts under the contracts for these projects expire. On 15 December 2009 the letters of credit were extended since the contractors hadn't completed renovation projects on time. For extension of those letters of credit written authorization of the Housing Committee was not obtained before the year end, however, before the release date of these financial statements the majority of the funds under the contract has already been used for paying the contractors' work. Therefore, the Management of the Group does not think that the extension of letters of credit without the written permission of the Housing Committee is a significant breach of the contract and that any sanctions against the Group are probable.

ООО Жилкомсервис № 3 Фрунзенского района, ООО Жилкомсервис № 2 Невского района and ZAO City Service leased space free of charge from the State authorities ('State Property Management Committee'). Under Russian tax legislation regarding the lease, it may be assessed as an extra income and thus taxed of VAT and income taxes. The Group management, however, believes that due to the lack of the taxation practices and clear legislative requirements, this tax exposure is remote and cannot be reliably assessed; therefore, no additional taxes have been accrued in respect of this matter in the Group's financial statements as of 31 December 2009.

In October 2007 the Company signed a contract #103 with GUZA, Kirovskiy district for compensation of heating expenses. Based on the terms of this contract GUZA, Kirovskiy district filed a claim in Arbitrazh court against the Company with the requirement to set-off overdue debt in the amount of LTL 258 thousand for December 2008 – February 2009. In December 2009 Arbitrazh court dismissed the claim. GUZA is expected to try to challenge the court decision on 15 April 2009. However, the Company's legal department considers that the Company's chances to win the case are probable (>50%). Therefore, the Company did not record any provision for penalties in 2009. The principal part of the liability is recorded in the financial statements of the Group as of 31 December 2009.

31 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group and the Company and transactions with them in 2009 and 2008 were as follows (see also the table below):

- UAB ICOR - former UAB Rubicon Group (the shareholder of the Company);
- Subsidiaries of UAB ICOR (same ultimate controlling shareholder);
- Subsidiaries of AB City Service (subsidiaries, see also Note 1 for details);
- Mr. Ž. Lapinskas (general director of the Company).

Transactions with related parties include sales and purchases of goods and services in the ordinary course of business, as well as sales and purchases of subsidiaries from UAB ICOR as disclosed further in the note, and acquisitions and disposals of property, plant and equipment.

The sales price for the intercompany subsidiary purchase and sale transactions are established by the management and shareholders of the UAB ICOR and AB City Service considering the results of independent valuations, if any, undertaken for the purposes of the transfer pricing regulations - which may not always be at their fair value.

Property, plant and equipment to related parties in 2009 and 2008 were sold for the net book value.

There are no guarantees or pledges given or received in respect of the related party payables and receivables. Related party receivables and payables are expected to be settled in cash or set-off against payables / receivables to / from a respective related party.

2009

Group	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables**
UAB ICOR (former UAB Rubicon Group)	2,454	58	1,160	-	37
Subsidiaries of UAB ICOR:					
AB Axis Industries	18,699	1,122	48	-	10,525
Other subsidiaries of UAB ICOR	9,648	4,710	3,642	36	1,885
Management of the Company	-	8	9	150	-
Shareholders of the Company	-	4	20	-	-
	30,801	**5,902**	**4,879**	**186**	**12,477**

2009

Company	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables**
UAB ICOR (former UAB Rubicon Group)	2,176	58	1,160	-	-
Subsidiaries of UAB ICOR:					
AB Axis industries	18,615	1,108	3	-	10,584
Other subsidiaries of UAB ICOR	1,141	3,785	3,847	36	39
Subsidiaries of the Company	6,456	21,353	6,719	41,532	1,507
Management of the Company	-	8	9	150	-
Shareholders of the Company	-	4	20	-	-
	28,388	**26,316**	**11,758**	**41,718**	**12,130**

Purchases from UAB Axis Industries include purchases of goods and services mainly related with heating facility infrastructure renovation.

Payables to related parties mostly represent payables for heating system components, installation and automation services of heating system components.

31 Related party transactions (cont'd)

2008

Group	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables**
UAB ICOR (former UAB Rubicon Group)	2,438	97	5,158	-	36
Subsidiaries of UAB ICOR:					
AB Axis Industries	24,871	1,734	-	-	2,704
Other subsidiaries of UAB ICOR	8,157	5,483	2,487	-	3,066
Management of the Company	-	17	134	150	-
Shareholders of the Company	-	33	37	-	-
	35,466	7,364	7,816	150	5,806

2008

Company	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables**
UAB ICOR (former UAB Rubicon Group)	2,250	97	5,158	-	-
Subsidiaries of UAB ICOR:					
AB Axis Industries	24,660	1,715	-	-	2,675
Other subsidiaries of UAB ICOR	4,517	3,384	2,395	-	2,610
Subsidiaries of the Company	4,759	9,668	3,919	23,037	4,595
Management of the Company	-	17	134	150	-
Shareholders of the Company	-	33	37	-	-
	36,186	14,914	11,643	23,187	9,880

The ageing analysis of receivables from related parties as of 31 December 2009 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 360 days**	**More than 360 days**	**Total**
Company	3,865	1,436	737	457	3,092	2,171	11,758
Group	3,865	1,014	-	-	-	-	4,879

The ageing analysis of receivables from related parties as of 31 December 2008 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 360 days**	**More than 360 days**	**Total**
Company	1,293	643	616	434	2,790	5,595	11,371
Group	508	248	161	143	1,197	5,287	7,544

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 2,334 thousand and LTL 1,411 thousand in 2009, respectively (LTL 1,359 thousand and LTL 1,111 thousand in 2008, respectively). The outstanding balance of the loan granted by the Company to the General Director is disclosed in the tables above under Management of the Company heading (interest on the loan is 4 %). Non-current employee benefit accrual for the management of the Group and the Company amounted to LTL 19 thousand and LTL 1 thousand respectively as of 31 December 2009 (not recorded as of 31 December 2008 as evaluated as not material by the management). In 2009 and 2008 the management of the Company did not receive any guarantees; no other payments or property transfers were made or accrued. No impairment of loans granted to the management of the Company has been recorded as of 31 December 2009 and 2008.

32 Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company complies with externally imposed capital requirements and that the Group and the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value (capital in the meaning of IAS 1 comprises equity presented in the financial statements).

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years end 31 December 2009 and 2008.

The Group and the Company is obliged to upkeep its equity at not less than 50 % of its share capital (comprised of share capital and share surplus), as imposed by the Law on Companies of the Republic of Lithuania. In addition, as disclosed in Note 14, the Company has committed to its lenders to maintain a capital ratio of the Company at not less than 30 %. There were no other externally imposed capital requirements on the Group and the Company. As of 31 December 2009 and 2008 the Group and the Company were not in breach of the above mentioned requirements.

On 28 April 2007 the shareholders of the Company decided while distributing current and subsequent year's results (starting from the distribution of the results for 2007) to pay out 25 % dividends from the total amount of the current year's net profit less prior year losses (if any) and mandatory transfers to reserves.

The Group and the Company monitors capital using debt to equity ratio. Capital includes ordinary shares, reserves, retained earnings attributable to the equity holders of the parent. There is no specific debt to equity ratio target set out by the Group's and the Company's management, however current ratios presented below are treated as quite good performance indicators.

	Group		**Company**	
	2009	**2008**	**2009**	**2008**
Non-current liabilities (including deferred tax and grants)	35,850	11,429	22,006	8,872
Current liabilities	127,781	68,483	46,595	46,309
Liabilities	**163,631**	**79,912**	**68,601**	**55,181**
Equity	**72,479**	**59,257**	**68,251**	**59,688**
Debt to equity ratio	**226 %**	**135 %**	**100 %**	**92 %**

33 Subsequent events

Acquisition of new subsidiaries and investments after 31 December 2009

On 5 January 2010, the Company via a 100 % owned subsidiary acquired the title to 100 % shareholding interest in UAB Ecoservice, legal entity code 123044722, from a related party UAB Bionovus (a subsidiary of UAB ICOR). Total purchase price is LTL 55 million, of which LTL 7,856 thousand will be paid in cash and LTL 47,144 thousand shall be paid by issuing ordinary shares of the Company (9,316,931 units).

UAB Ecoservice has two subsidiaries: UAB Specialus Autotransportas, legal entity code 140026178, and UAB Trakų Rajono Komunalinių Įmonių Kombinatas, legal entity code 181212948, and the group performs its operations (waste collection business) in the regions of Vilnius, Klaipėda and Trakai.

33 Subsequent events (cont'd)

In addition, on 23 March 2010 the Company acquired 49 % share stock of UAB Economus, company code 300582646, for LTL 535 thousand, and with the shareholders of UAB Economus signed shareholders' agreement of company control. UAB Economus provides individual residential house maintenance and environmental care services.

The financial information on the acquired UAB Ecoservice group and UAB Economus as of 31 December 2009 is only available unaudited as of the date of the release of these financial statements and is presented below. The fair values of the net assets acquired have not yet been assessed by the Group.

	UAB Ecoservice group	**UAB Economus**
	31 December 2009 (unaudited)	**31 December 2009 (unaudited)**
Carrying values:		
Assets	31,425	206
Liabilities	18,997	183
Net assets	12,428	22
Revenue	34,118	1,256
Net profit (loss)	4,278	(82)

<u>Increase in share capital</u>

On 15 January 2010, new Articles of Association of the Company were registered as the share capital was increased up to LTL 31,610,000. The authorised share capital of the Company was divided into 31,610 thousand ordinary registered shares with the nominal value of LTL 1 each.

The share capital was increased based on the shareholders decision dated 5 October 2009 to increase the authorized share capital by issuing new emission of 12,500 thousand shares. As per Board decision dated 21 December 2009 the price of the new emission was set at LTL 5.06 per share, distribution period – from 28 December 2009 to 13 January 2010.

After having successfully issued the new share emission, trade of the new shares of the Company in NASDAQ OMX Vilnius Stock Exchange started on 21 January 2010.

<u>Changes in the shareholders of the Company</u>

Since 18 January 2010, the name of the controlling shareholder of the Company - UAB Rubicon Group - was changed into a new one – UAB ICOR. The replacement of the name is related to changes in the structure of the shareholders: three former shareholders of the group Mr. Rimantas Bukauskas, Mr. Arūnas Mačiuitis and Mr. Remigijus Lapinskas sold to the remaining four shareholders their holdings.

On 18 January 2010 Mr. Arūnas Mačiuitis, former Board member of AB City Service, resigned from the Board. This decision is related to the fact of sales of his holdings to the other shareholders.

On 12 March 2010 the Company received East Capital Asset Management AB report on the acquisition, based on which 9.60 percent of shares and voting rights in AB City Service were acquired by it.

33 Subsequent events (cont'd)

After the new share emission and changed structure of the owners of the Company, the shareholders' ownership structure is the following at the date of preparation of these financial statements:

	Number of shares held	Owned percentage of the share capital and votes, %
UAB ICOR	19,312,249	61.09 %
Shareholders of UAB Rubicon Group:		
Mr. Andrius Janukonis	242,218	0.77 %
Mr. Gintautas Jaugielavičius	242,214	0.77 %
Mr. Linas Samuolis	242,214	0.77 %
East Capital Asset Management AB	3,035,009	9.60 %
Other private and institutional shareholders	8,536,096	27 %
Total	**31,610,000**	**100 %**

<u>Other subsequent events</u>

In January 2010 the Group signed a cooperation agreement with the largest bank in Russia – Sberbank. According to the agreement, a development coordination group will be formed consisting of 6 people - 3 representatives of the Group and 3 representatives of Sberbank. Within the following six months the Group will prepare projects and will implement them together with Sberbank in the specific cities and regions of Russia.

On 28 of December 2009 the Company, as a sole shareholder of UAB Šiaulių Butų Remonto Tarnyba, decided to increase share capital of UAB Šiaulių Butų Remonto Tarnyba from LTL 91 thousand to LTL 55,091 thousand by additional monetary contributions of a sole shareholder. The statutes were registered at State Company Register Centre on 27 January 2010.

On 22 March 2010 the Company decided to increase share capital of UAB Naujamiesčio Būstas from LTL 1,107 thousand to LTL 25,050 thousand, by additional ordinary share issue of 23,943 thousand shares. The nominal value of each share is LTL 1. It was decided to pay for the new share issue by setting-off opposite claim rights to UAB Naujamiesčio Būstas according to intercompany loan agreements.

At the date of the presentation of these financial statements the management of the Company has not yet prepared a draft of the profit distribution for 2009. However, the Board of the Company will propose to the Ordinary Shareholders Meeting to pay dividends in the amount of LTL 2,666 thousand.