AB CITY SERVICE

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 December 2011,
prepared in accordance with International Financial Reporting Standards,
as adopted by the European Union,
presented together with Independent Auditor's report

ERNST & YOUNG

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PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Independent auditor's report to the shareholders of AB City Service

Report on the Financial Statements

We have audited the accompanying 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 at 31 December 2011, 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 information).

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing 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 about 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 present fairly, in all material respects, the financial position of AB City Service and the Group as at 31 December 2011, 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 accompanying consolidated Management Annual Report for the year ended 31 December 2011 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2011.

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

Asta Štreimikienė
Auditor's licence
No. 000382

The audit was completed on 6 April 2012.

Statements of financial position

		Notes	Group As of 31 December 2011	Group As of 31 December 2010	Company As of 31 December 2011	Company As of 31 December 2010
	ASSETS					
A.	**Non-current assets**					
I.	Intangible assets					
I.1.	Goodwill	4	68,157	64,184	-	-
I.2.	Other intangible assets	5	78,692	74,658	1,186	784
	Total intangible assets		146,849	138,842	1,186	784
II.	Property, plant and equipment	7				
II.1.	Buildings		21,191	21,050	-	-
II.2.	Vehicles		20,033	15,943	2,881	1,590
II.3.	Other property, plant and equipment		11,479	9,254	1,163	1,168
II.4.	Construction in progress		48	1,567	-	242
	Total property, plant and equipment		52,751	47,814	4,044	3,000
III.	Investment property	6	382	589	-	-
IV.	Non-current financial assets					
IV.1.	Investments into subsidiaries	8	-	-	127,913	127,774
IV.2.	Investments into associates	1	578	386	-	220
IV.3.	Non-current receivables	11, 12, 13, 33	10,905	3,143	6,733	744
IV.4.	Other financial assets		55	5	-	-
	Total non-current financial assets		11,538	3,534	134,646	128,738
V.	Deferred income tax asset	28	9,243	7,025	736	560
	Total non-current assets		**220,763**	**197,804**	**140,612**	**133,082**
B.	**Current assets**					
I.	Inventories and prepayments					
I.1.	Inventories	9	4,040	3,186	701	529
I.2.	Prepayments	10	8,911	11,125	252	243
	Total inventories and prepayments		12,951	14,311	953	772
II.	Accounts receivable					
II.1.	Trade receivables	11	77,174	95,483	20,558	38,335
II.2.	Receivables from related parties (including loans granted)	33	1,511	6,445	35,284	36,605
II.3.	Other receivables	12	5,065	14,615	2,580	9,768
	Total accounts receivable		83,750	116,543	58,422	84,708
III.	Prepaid income tax		1,845	460	1,500	460
IV.	Other current assets		206	139	116	95
V.	Cash and cash equivalents	13	25,050	17,435	216	296
	Total current assets		**123,802**	**148,888**	**61,207**	**86,331**
	Total assets		**344,565**	**346,692**	**201,819**	**219,413**

(cont'd on the next page)

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

Statements of financial position (cont'd)

	Notes	Group As of 31 December 2011	Group As of 31 December 2010	Company As of 31 December 2011	Company As of 31 December 2010
EQUITY AND LIABILITIES					
C. Equity					
I. Share capital	1	31,610	31,610	31,610	31,610
II. Share premium	14	73,830	73,830	73,830	73,830
III. Legal reserve	14	3,172	2,455	3,161	2,444
IV. Other reserves	14	6,000	6,000	6,000	6,000
V. Foreign currency translation reserve	2.2.	(1,824)	(1,712)	-	-
VI. Retained earnings		63,451	43,346	33,087	29,604
Equity attributable to equity holders of the parent		**176,239**	**155,529**	**147,688**	**143,488**
Non-controlling interests		2,231	1,396	-	-
Total equity		**178,470**	**156,925**	**147,688**	**143,488**
D. Liabilities					
I. Non-current liabilities					
I.1. Non-current borrowings	15	18,497	21,877	18,417	20,659
I.2. Financial lease obligations	17	6,207	5,454	1,596	450
I.3. Deferred income tax liability	28	15,306	14,221	-	-
I.4. Provisions for employee benefits	19	419	724	143	312
I.5. Non-current payables	16	6,232	48	360	-
Total non-current liabilities		**46,661**	**42,324**	**20,516**	**21,421**
II. Current liabilities					
II.1. Current loans	15	856	10,853	3,148	14,418
II.2. Current portion of non-current borrowings	15	8,103	7,116	7,116	7,116
II.3. Current portion of financial lease obligations	17	3,859	3,662	569	285
II.4. Trade payables and payables to related parties	20, 33	72,247	92,785	17,893	22,843
II.5. Advances received	21	14,047	13,703	1,490	4,667
II.6. Income tax payable		821	1,555	-	-
II.7. Provisions for employee benefits	19	331	-	185	-
II.8. Other current liabilities	22	19,170	17,769	3,214	5,175
Total current liabilities		**119,434**	**147,443**	**33,615**	**54,504**
Total equity and liabilities		**344,565**	**346,692**	**201,819**	**219,413**

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

General Manager	Žilvinas Lapinskas		6 April 2012
Finance Director	Jonas Janukėnas		6 April 2012

Statements of comprehensive income

			Group		Company	
		Notes	**2011**	**2010**	**2011**	**2010**
I.	Sales	3, 23	547,843	541,846	115,556	118,151
II.	Cost of sales	24	(434,595)	(450,557)	(84,447)	(86,819)
III.	**Gross profit**		**113,248**	**91,289**	**31,109**	**31,332**
IV.	General and administrative expenses	25	(75,883)	(69,874)	(19,879)	(16,544)
V.	Other operating income	26	5,461	7,447	625	550
VI.	Other operating expenses	26	(8,456)	(4,138)	(539)	(522)
VII.	**Profit from operations**		**34,370**	**24,724**	**11,316**	**14,816**
VIII.	Finance income	27	2,376	2,353	4,795	3,942
IX.	Finance expenses	27	(2,821)	(1,841)	(2,574)	(1,509)
X.	Share of profit of associates		15	38	-	-
XI.	**Profit before tax**		**33,940**	**25,274**	**13,537**	**17,249**
XII.	Income tax	28	(4,453)	196	(1,434)	(2,199)
XIII.	**Net profit**		**29,487**	**25,470**	**12,103**	**15,050**
	Other comprehensive income					
XIV.	Exchange differences on translation of foreign operations		(112)	(1,511)	-	-
	Total comprehensive income for the year, net of tax		**29,375**	**23,959**	**12,103**	**15,050**
	Net profit attributable to:					
XV.	The shareholders of the Company		28,725	24,935	12,103	15,050
XVI.	Non-controlling interests		762	535	-	-
			29,487	**25,470**	**12,103**	**15,050**
	Total comprehensive income attributable to:					
XVII.	The shareholders of the Company		28,613	23,714	12,103	15,050
XVIII.	Non-controlling interests		762	245	-	-
			29,375	**23,959**	**12,103**	**15,050**
	Basic and diluted earnings per share (LTL)	29	0.91	0.80		

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

General Manager	Žilvinas Lapinskas		6 April 2012
Finance Director	Jonas Janukėnas		6 April 2012

Statements of changes in equity

Group	Notes	Equity attributable to equity holders of the parent: Share capital	Share premium	Legal reserve	Foreign currency translation reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interest	Total
Balance as of 1 January 2010		**19,110**	**23,456**	**1,922**	**(491)**	**6,000**	**21,631**	**71,628**	**851**	**72,479**
Net profit for the year		-	-	-	-	-	24,935	24,935	535	25,470
Other comprehensive income		-	-	-	(1,221)	-	-	(1,221)	(290)	(1,511)
Total comprehensive income		-	-	-	(1,221)	-	24,935	23,714	245	23,959
Increase of share capital	1	12,500	50,374	-	-	-	-	62,874	-	62,874
Transfer to legal reserve		-	-	533	-	-	(533)	-	-	-
Dividends declared	30	-	-	-	-	-	(2,687)	(2,687)	(5)	(2,692)
Acquisition of subsidiary	4	-	-	-	-	-	-	-	25	25
Disposal of subsidiary	4	-	-	-	-	-	-	-	280	280
Balance as of 31 December 2010		**31,610**	**73,830**	**2,455**	**(1,712)**	**6,000**	**43,346**	**155,529**	**1,396**	**156,925**
Net profit for the year		-	-	-	-	-	28,725	28,725	762	29,487
Other comprehensive income		-	-	-	(112)	-	-	(112)	-	(112)
Total comprehensive income		-	-	-	(112)	-	28,725	28,613	762	29,375
Transfer to legal reserve		-	-	717	-	-	(717)	-	-	-
Acquisition of subsidiary	4	-	-	-	-	-	-	-	73	73
Dividends declared	30	-	-	-	-	-	(7,903)	(7,903)	-	(7,903)
Balance as of 31 December 2011		**31,610**	**73,830**	**3,172**	**(1,824)**	**6,000**	**63,451**	**176,239**	**2,231**	**178,470**

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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 1 January 2010		**19,110**	**23,456**	**1,911**	**6,000**	**17,774**	**68,251**
Net profit for the year		-	-	-	-	15,050	15,050
Total comprehensive income		-	-	-	-	15,050	15,050
Increase in share capital	1	12,500	50,374	-	-	-	62,874
Transfer to legal reserve		-	-	533	-	(533)	-
Dividends declared	30	-	-	-	-	(2,687)	(2,687)
Balance as of 31 December 2010		**31,610**	**73,830**	**2,444**	**6,000**	**29,604**	**143,488**
Net profit for the year		-	-	-	-	12,103	12,103
Total comprehensive income		-	-	-	-	12,103	12,103
Transfer to legal reserve		-	-	717	-	(717)	-
Dividends declared	30	-	-	-	-	(7,903)	(7,903)
Balance as of 31 December 2011		**31,610**	**73,830**	**3,161**	**6,000**	**33,087**	**147,688**

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

General Manager	Žilvinas Lapinskas		6 April 2012
Finance Director	Jonas Janukėnas		6 April 2012

Statements of cash flows

		Notes	Group		Company	
			2011	2010	2011	2010
I.	**Cash flows from (to) operating activities**					
I.1.	Net profit		29,487	25,470	12,103	15,050
	Adjustments for non-cash items:					
I.2.	Income tax expenses	28	4,453	(196)	1,434	2,199
I.3.	Depreciation and amortisation	5, 6, 7	12,699	10,979	1,529	1,185
I.4.	Impairment and write-off of accounts receivable	25	5,946	11,359	641	74
I.5.	Gain from bargain purchase	27	(1,156)	-	-	-
I.6.	Loss (gain) on disposal of property, plant and equipment	26	(636)	(556)	(3)	84
I.7.	Discounting effect of long-term trade receivables		-	(52)	-	-
I.8.	Dividend (income)	27	-	-	(2,957)	(1,930)
I.9.	Profit from sale of investments	27	-	(346)	-	(287)
I.10.	Impairment of investments into subsidiaries	8	-	-	789	-
I.11.	Interest (income)	27	(717)	(687)	(1,757)	(1,683)
I.12.	Interest expenses	27	1,724	1,611	1,664	1,379
I.13.	Share of net profit of associate		(15)	(38)	-	-
			51,785	47,544	13,443	16,071
	Changes in working capital:					
I.14.	Decrease (increase) in inventories		(506)	1,099	(172)	(207)
I.15.	(Increase) decrease in trade receivables, receivables from related parties, other receivables and other current assets		25,269	(26,530)	24,971	2,273
I.16.	Decrease (increase) in prepayments		2,596	1,060	(9)	(97)
I.17.	(Decrease) increase in trade payables and payables to related parties		(23,206)	11,966	(4,759)	1,888
I.18.	Income tax (paid)		(4,318)	(4,288)	(2,650)	(2,418)
I.19.	(Decrease) increase in advances received and other current liabilities		(177)	(402)	(4,953)	986
	Net cash flows from (to) operating activities		**51,443**	**30,449**	**25,871**	**18,496**
II.	**Cash flows from (to) investing activities**					
II.1.	(Acquisition) of non-current assets	5, 6, 7	(7,951)	(5,878)	(843)	(2,121)
II.2.	Proceeds from sale of non-current assets		636	1,658	37	748
II.3.	(Acquisition) of investments in subsidiaries (net of cash acquired in the Group) and associates	1, 4, 8	(7,453)	(11,320)	(707)	(8,160)
II.4.	Disposal of investments in subsidiaries	1	-	(916)	-	3,413
II.5.	Dividends received		-	-	2,957	1,930
II.6.	Interest received		55	52	76	592
II.7.	Loans repaid		-	-		36
II.8.	Loans (granted)	33	(249)	(8,705)	(3,656)	(30,576)
	Net cash flows (to) investing activities		**(14,962)**	**(25,109)**	**(2,136)**	**(34,138)**

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

Statements of cash flows (cont'd)

		Note	Group		Company	
			2011	2010	2011	2010
III.	**Cash flows from (to) financing activities**					
III.1.	Dividends (paid)		(7,903)	(2,692)	(7,903)	(2,687)
III.2.	Contributions from shareholders	1	-	15,729	-	15,729
III.3.	Proceeds from loans		4,861	13,272	4,861	7,916
III.4.	Loans (repaid)		(18,817)	(9,417)	(18,386)	(3,804)
III.5.	Interest (paid)		(1,664)	(1,229)	(1,651)	(1,376)
III.6.	Financial lease (payments)		(5,343)	(9,078)	(736)	(265)
	Net cash flows from financing activities		**(28,866)**	**6,585**	**(23,815)**	**15,513**
IV.	**Net increase (decrease) in cash and cash equivalents**		**7,615**	**11,925**	**(80)**	**(129)**
V.	**Cash and cash equivalents at the beginning of the year**		**17,435**	**5,510**	**296**	**425**
VI.	**Cash and cash equivalents at the end of the year**		**25,050**	**17,435**	**216**	**296**

	Note	Group 2011	Group 2010	Company 2011	Company 2010
Supplemental information of cash flows:					
Non-cash investing activity:					
Property, plant and equipment acquisitions financed by finance leases		6,115	3,518	1,892	601
Non-cash acquisition of subsidiaries	1, 4	-	47,144	-	47,144
Non-cash increase in share capital of subsidiaries	8	-	-	-	30,177

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

General Manager	Žilvinas Lapinskas		6 April 2012
Finance Director	Jonas Janukėnas		6 April 2012

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 registered office:	The Company's address of residence:
Konstitucijos Ave. 7,	Smolensko Str. 12,
Vilnius, Lithuania.	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. The Board of the Company in its meeting of 29 December 2011 adopted the decision that the Company activity shall be a holding enterprise – public company which controls facility management, maintenance, waste management companies in Lithuania and in other countries (see also Note 35).

As of 31 December 2011 the number of employees of the Group was 3,434 (as of 31 December 2010 – 3,008).
As of 31 December 2011 the number of employees of the Company was 855 (as of 31 December 2010 – 783).

The shares of AB City Service are traded in the main list of NASDAQ OMX stock exchange since 8 June 2007.

As of 31 December 2011 and 2010 the shareholders of the Company were:

	2011		**2010**	
	Number of shares held	**Owned percentage of the share capital and votes, %**	**Number of shares held**	**Owned percentage of the share capital and votes, %**
UAB ICOR	20,205,595	63.92 %	19,751,547	62.50 %
AB East Capital Asset Management	3,167,722	10.02 %	3,035,009	9,60 %
Genesis Asset Managers LLP	1,644,183	5.20 %	1,644,183	5.20 %
Other private and institutional shareholders	6,592,500	20.86 %	7,179,261	22.70 %
Total	**31,610,000**	**100 %**	**31,610,000**	**100 %**

The ultimate parent of the Company is UAB Lag&d, a holding company registered in Lithuania.

The parent of AB City Service, UAB ICOR, has pledged part of the Company's shares, i.e. 13,486,275 units, which constitutes 42.66 % 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 31,610 thousand as of 31 December 2011 and 2010. It is divided into 31,610,000 ordinary registered book-entry shares with the nominal value of LTL 1 each.

On 5 October, 2009 the Extraordinary General meeting of shareholders had adopted the decision to increase the share capital of the Company by additional cash contribution from the Company's shareholders. On 13 January, 2010 the distribution of the new emission of shares was completed successfully. The scope of the new emission was 12,500,000 ordinary registered shares, which nominal value of one share – LTL 1 each. The price of the new emission was set at LTL 5.06 per share. The difference between the nominal and the fair value of each share was LTL 4.06; therefore the share premium amounted in LTL 50,374,000, net of transaction costs. A part of new share issue was covered by setting-off an obligation to UAB ICOR in total amount of LTL 47,144 thousand. After the new emission had been distributed all 31,610,000 ordinary registered shares of the Company were included into Official List of Vilnius Stock Exchange, nominal value of one share – LTL 1 each. Trading of the new shares of the Company in NASDAQ OMX Vilnius Stock Exchange started on 21 January 2010. Transaction costs recognized directly in equity amounted to LTL 376 thousand.

1 General information (cont'd)

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 2011 and 2010.

Structure of the Group

On 31 December the AB City Service group consists of AB City Service and the following directly and indirectly controlled subsidiaries (hereinafter – the Group):

Company	Country	Share of the stock held by the Group as of 31 Dec 2011	Share of the stock held by the Group as of 31 Dec 2010	Main activities
UAB Žaidas	Lithuania	99.33%	99.33%	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 Ąžuolyno valda	Lithuania	100%	100%	Administration of dwelling-houses
UAB Marių valdos	Lithuania	100%	100%	Administration of dwelling-houses
UAB Pempininkų valdos	Lithuania	100%	100%	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 Pašilaičių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Saulės valda	Lithuania	100%	100%	Administration of dwelling-houses
UAB Lazdynų būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Vilkpėdės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Šilutės butų ūkis	Lithuania	99.84%	99.84%	Administration of dwelling-houses
UAB Antakalnio būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Karoliniškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Naujamiesčio būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Viršuliškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Radviliškio komunalinės paslaugos	Lithuania	100%	100%	Administration of dwelling-houses
UAB Justiniškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Economus	Lithuania	100 %	49 %	Administration of dwelling-houses
UAB Baltijos pastatų valdymas	Lithuania	100%	-	Administration of dwelling-houses
UAB Baltijos būsto priežiūra	Lithuania	100%	100%	Administration of dwelling-houses
UAB Aukštaitijos būstas	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Būsto administravimo agentūra	Lithuania	100 %	37.2 %	Administration of dwelling-houses
UAB Ecoservice	Lithuania	100%	100%	Collection and removal of waste
UAB Specialus autotransportas	Lithuania	100%	100%	Collection and removal of waste
UAB Trakų rajono komunalinių įmonių kombinatas	Lithuania	99.71%	99.71%	Collection and removal of waste
UAB Lazdijų komunalinis ūkis	Lithuania	100 %	-	Collection and removal of waste
UAB Tvar.com	Lithuania	100 %	-	Collection and removal of waste
UAB Eco holding	Lithuania	-	100%	Development of ecological utilities
UAB Šiaulių liftas	Lithuania	95.76%	95.76%	Elevator installing & techn. support
UAB Baltijos liftai	Lithuania	100%	100%	Elevator installing & techn. support
UAB City Service LT	Lithuania	100%	100%	Commercial real estate management and building
UAB Skolos LT	Lithuania	100%	100%	Debt collection services
UAB Pagėgių savivaldybės komunalinis ūkis	Lithuania	66%	66%	Dormant

1 General information (cont'd)

Company	Country	Share of the stock held by the Group as of 31 Dec 2011	Share of the stock held by the Group as of 31 Dec 2010	Main activities
ОАО Сити Сервис	Russia, St. Petersburg	100%	100%	Administration of dwelling-houses
ЗАО Сити Сервис	Russia, St. Petersburg	100%	100%	Administration of dwelling-houses
ООО Жилкомсервис № 3 Фрунзенского района	Russia, St. Petersburg	80%	80%	Administration of dwelling-houses
ООО Жилкомсервис № 2 Невского района	Russia, St. Petersburg	80%	80%	Administration of dwelling-houses
ООО «Управляющая компания -1»	Russia, Stavropol	76%	-	Administration of dwelling-houses
ООО «ПРОМИНТЕР - управление проектами»	Russia, Stavropol	100%	-	Administration of dwelling-houses
ООО «Управляющая компания -2»	Russia, Stavropol	76%	-	Administration of dwelling-houses
ООО «Управляющая компания -3»	Russia, Stavropol	76%	-	Administration of dwelling-houses
ООО «Управляющая компания -4»	Russia, Stavropol	76%	-	Administration of dwelling-houses
ООО «Управляющая компания -5»	Russia, Stavropol	76%	-	Administration of dwelling-houses
ООО «УК -5»	Russia, Stavropol	100%	-	Administration of dwelling-houses
ООО «Управляющая компания -6» (legal entity code 2635085674)	Russia, Stavropol	76%	-	Administration of dwelling-houses
ООО «Управляющая компания -6» (legal entity code 2635105070)	Russia, Stavropol	100%	-	Administration of dwelling-houses
ООО «Жилищная Управляющая компания № 6»	Russia, Stavropol	100%	-	Administration of dwelling-houses
ООО «Объединенная управляющая компания-7»	Russia, Stavropol	100%	-	Administration of dwelling-houses
ООО «Обслуживающая управляющая компания-7»	Russia, Stavropol	100%	-	Administration of dwelling-houses
ООО «Управляющая компания – 8» (legal entity code 2635105218)	Russia, Stavropol	100%	-	Administration of dwelling-houses
ООО «Управляющая компания – 8» (legal entity code 2635085459)	Russia, Stavropol	76%	-	Administration of dwelling-houses
ООО «Управляющая компания – 10»	Russia, Stavropol	100%	-	Administration of dwelling-houses
ОАО Специализированное ремонтно-наладочное управление	Russia, St. Petersburg	100%	100%	Construction and engineering
ООО «Чистый дом»	Russia, St. Petersburg	100 %	-	Maintenance and cleaning of territories
SIA Riga City Service	Latvia	100%	100%	Administration of dwelling-houses
ТОВ Київ Сіті Сервіс	Ukraine	100%	100%	Administration of dwelling-houses
INTERBUD MAX SP. Z.O.O	Poland, Krakow	100%	-	Dormant

<u>Changes in the Group in 2011</u>

In 2011 the Group acquired several new subsidiaries in Lithuania, Russia and Poland:

- During January – February 2011 the Group acquired a group of private companies in the city of Stavropol, Russia. The group consists of 15 separate companies. The value of the contract is RUB 68.5 million (equivalent of LTL 5,871 thousand). The acquired companies manage approximately 2 million square meters of residential buildings.

1 General information (cont'd)

Changes in the Group in 2011 (cont'd)

- On the 1 February 2011 the Company's subsidiary „Eco holding" UAB has acquired 100 % shares of .A.S.A. Vilnius UAB (now Tvar.com UAB), legal entity code 300730461, which provides services of collection and removal of waste. Acquisition cost of the subsidiary is LTL 91 thousand.
- On 1 July 100 % of OOO «Чистый дом», legal entity code 7804437890, shares were acquired. OOO «Чистый дом» provides services of maintenance and cleaning of territories in St. Petersburg city (Russia). The value of the contract is RUB 10 thousand (equivalent of LTL 1 thousand at the date of acquisition).
- As of 31 December 2010 the Company owned 37.2% of shares of Būsto Administravimo Agentūra UAB (acquisition cost of LTL 221 thousand). On 27 July 2011 City Service AB has acquired 5,676 (49.92 %) shares of Būsto Administravimo Agentūra UAB. The shares were acquired after receipt of authorization from the Competition Council of the Republic of Lithuania under the share purchase agreement. On 19th of September, 2011 City Service AB has acquired the remaining part of Būsto Administravimo Agentūra UAB shares (12,88 percent). The total amount of shares acquired in 2011 is LTL 689 thousand. Currently City Service AB owns 100 % of Būsto Administravimo Agentūra UAB shares. Būsto Administravimo Agentūra UAB manages 220 thousand sq. m. of apartment buildings in Kaunas city (Lithuania).
- On the 2 November 2011 the Company's subsidiary has acquired 100 % shares of Lazdijų komunalinis ūkis UAB, legal entity code 265102040, which provides services of collection and removal of waste in Lazdijai district. Acquisition cost of the subsidiary is LTL 1,539 thousand.
- On 28 December 100 % of INTERBUD MAX SP. Z.O.O, legal entity code 122420503, shares were acquired. The acquired company is registered in Krakow (Poland). The value of the contract is the PLN 6.5 thousand (equivalent of LTL 5 thousand at the date of acquisition).

In addition, in 2011 there were several reorganizations (changes in the legal structure of the Group) performed as outlined below:

- During December 2011 the names of the five companies of the Group have been changed. Antakalnio ūkis UAB, Fervėja UAB, Litmilma UAB, Pašilaita UAB and Vilko pėda UAB have been renamed respectively into Antakalnio būstas UAB, City Service LT UAB, Justiniškių būstas UAB, Pašilaičių būstas UAB and Vilkpėdės būstas UAB.
- During December 2011 reorganization of Eco holding UAB group which is controlled by the Company was completed. As a result, Eco holding UAB was merged into its wholly owned subsidiary Ecoservice UAB. On 4 January 2012 Eco holding UAB was removed from the company register, whereas all the rights and obligations were taken over by Ecoservice UAB.
- During November-December 2011 reorganization of recently acquired Lazdijų komunalinis ūkis UAB was performed. As a result, Lazdijų komunalinis ūkis UAB was merged into Trakų komunalinių įmonių kombinatas UAB. On 23 January 2012 Lazdijų komunalinis ūkis UAB was removed from the company register, whereas all the rights and obligations were taken over by Trakų komunalinių įmonių kombinatas UAB. On 20 January 2012 the title of Trakų komunalinių įmonių kombinatas UAB has been changed into Komunalinių įmonių kombinatas UAB.

More information on the subsidiaries acquired and disposed in 2011 is presented in Note 4 and Note 8.

Changes in the Group in 2010

In 2010 the Group acquired several new subsidiaries and sold one:

- On 5 January 2010, the Company via a 100 % owned subsidiary acquired the title to 100 % shareholding interest in UAB Ecoservice, from a related party UAB Bionovus (a subsidiary of ICOR UAB). UAB Ecoservice has two active subsidiaries: UAB Specialus Autotransportas and UAB Trakų Rajono Komunalinių Įmonių Kombinatas, performing its operations (waste collection business) in the regions of Vilnius, Klaipėda and Trakai. Additionally, UAB Ecoservice has one dormant subsidiary – UAB Pagėgių Savivaldybės Komunalinis Ūkis.
- On 23 March, 2010 AB City Service acquired 49 % share stock of UAB Economus for LTL 481 thousand, and with the shareholders of UAB Economus signed shareholders' agreement, according to which actual control of the subsidiary is transferred to AB City Service. UAB Economus provides individual residential house maintenance and environmental care services.
- In May 2010 a subsidiary of AB City Service won the auction of the privatisation of UAB Radviliškio Komunalinės Paslaugos and on 23 July 2010 the 100 % of UAB Radviliškio Komunalinės Paslaugos shares were acquired.
- On 17 August 2010 AB City Service, through its subsidiary company, has acquired 100 percent of UAB Litmilma shares.
- On 8 November 2010 the subsidiary of City Service has acquired 95.76 % of UAB Šiaulių Liftas shares. UAB Šiaulių Liftas provides the elevator installing and technical support services.
- On 22 March 2010 the Board of AB City Service decided to establish four new subsidiaries: UAB Baltijos Liftai, UAB Baltijos Pastatų Valdymas, UAB Baltijos Būsto Priežiūra and UAB Skolos LT.

1 General information (cont'd)

Changes in the Group in 2010 (cont'd)

- On 23 December 2010 the Company's subsidiary ОАО Сити Сервис sold the shares of the company operating in Lomonosov town of Leningrad district ООО Жилкомсервис г. Ломоносов. Information about the disposed subsidiary is summarized in the table below:

Date of disposal	ООО Жилкомсервис г. Ломоносов 23 December, 2010
Goodwill	1,948
Non-current assets other than goodwill	3,978
Current assets other than cash and cash equivalents	5,121
Cash and cash equivalents	1,173
Non-current and current liabilities	(12,851)
Total net liability disposed of	
attributable to equity holders of the parent	(341)
attributable to non-controlling interests	(290)
Currency translation reserve realized on sales	252
Total consideration received, all consisting of cash and cash equivalents	257

The Group recorded the net profit of LTL 346 thousand from the sale of shares of the subsidiary.

In addition, in 2010 there were several reorganizations (changes in the legal structure of the Group) performed as outlined below:

- During June – July 2010 a reorganisation of UAB Sinsta, which is controlled by AB City Service was performed: UAB Sinsta was merged into UAB Namų Priežiūros Centras. On 27 July 2010 UAB Sinsta was removed from the official company register, whereas all the rights and obligations were taken over by UAB Namų Priežiūros Centras.
- During October 2010 a reorganisation of UAB Ūkvedys, which is controlled by AB City Service, was performed: UAB Ūkvedys was merged into UAB Atidumas. On 2 November 2010 UAB Ūkvedys was removed from the official company register, whereas all the rights and obligations were taken over by UAB Atidumas. In addition, on 9 December 2010 UAB Atidumas was renamed into UAB Saulės Valda.
- On 14 October 2010 according to the decision of the Board of the Company the title and the type of activities of UAB Šiaulių Butų Ūkio Remonto Tarnyba has been changed and UAB Eco Holding was formed. UAB Eco Holding will execute active development of public utility and environmental business in Lithuania and foreign markets by acquiring and developing enterprises of this sector. UAB Eco Holding will manage UAB Ecoservice and its subsidiaries, which were acquired in 2010 as noted above.

Investments into associates

The Group's and the Company's investment in an associate as of 31 December 2011 included an investment in Marijampolės butų ūkis UAB (34% of the share capital), which was acquired on 16 May 2011. The value of the contract is LTL 563 thousand. The Group's and the Company's investments into associates as of 31 December 2010 included an investment in Būsto Administravimo Agentūra UAB (37 % of share capital), which became a subsidiary in 2011 as outlined above.

The Group accounted for the associate's results attributable to the Group amounting to respectively LTL 15 thousand and LTL 38 thousand in the statement of comprehensive income for the year ended 31 December 2011 and 2010.

1 General information (cont'd)

Investments into associates (cont'd)

Summarized financial information of associates as of 31 December (unaudited):

	UAB Būsto Administravimo Agentūra 2010	UAB Marijampolės butų ūkis 2011
Assets	1,357	1,596
Liabilities	310	946
Net assets	1,047	650
Revenue	163	2,346
Net profit	94	44

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 6 April 2012. 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 IFRIC interpretations

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

- **IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)**
- **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**
- **IAS 24 Related Party Disclosures (Amended)**
- **IAS 32 Classification on Rights Issues (Amended)**
- **Improvements to IFRSs (May 2010)**

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group and the Company, its impact is described below:

- **Improvements to IFRSs**

In May 2010, the IASB issued its third 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 resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- ***IFRS 3 Business Combinations****:* The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

  This improvement clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

2 Accounting policies (cont'd)

Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.

2.1. Basis of preparation (cont'd)

- ***IFRS 7 Financial Instruments - Disclosures****:* The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- ***IAS 27 Consolidated and Separate Financial Statements****:* This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after 1 July 2009 or earlier when IAS 27 is applied earlier.
- ***IAS 34 Interim Financial Reporting****:* This improvement requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements.

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

- IAS 1 Presentation of Financial Statements
- IFRIC 13 Customer Loyalty Programmes

Standards issued but not yet effective

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

- **IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income**

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

- **IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets**

The amendment is effective for annual periods beginning on or after 1 January 2012.The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. This amendment has not yet been endorsed by the EU. Management considers that the amendment will not have significant impact on the consolidated and the Company's financial statements, as the Group and the Company does not have significant balances of investment properties.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- **IAS 19 Employee Benefits (Amended)**

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of this amendment on the financial position or performance of the Group and the Company.

- **IAS 27 Separate Financial Statements (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Company is in the process of assessing the impact of this amendment on the financial position or performance of the Company.

- **IAS 28 Investments in Associates and Joint Ventures (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the financial position or performance of the Group.

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the amendment on the financial position or performance of the Group and the Company.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements**

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2013.The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the amendment on the financial position or performance of the Group and the Company.

- **IFRS 9 Financial Instruments - Classification and Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities at fair value trough profit or loss. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- **IFRS 10 Consolidated Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

- **IFRS 11 Joint Arrangements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRS 12 Disclosures of Involvement with Other Entities**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRS 13 Fair Value Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. This standard has not yet been endorsed by the EU. The Group and the Company is in the process of assessing the impact of the new standard on the financial position or performance of the Group and the Company.

- **IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine**

The interpretation is effective for annual periods beginning on or after 1 January 2013.This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). IFRIC 20 has not yet been endorsed by the EU. This IFRIC will not have an impact on the consolidated and the Company's financial statements as the Group is not engaged in mining activities.

The Group and the Company will adopt these standards once they become effective and are endorsed by EU.

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), rounded to LTL thousand, unless otherwise stated.

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.

2 Accounting policies (cont'd)

2.2. Measurement and presentation currency (cont'd)

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.

Non-current 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 interests are shown separately in the statement of financial position and the statement of comprehensive income.

From 1 January 2010 losses of a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. Prior to 1 January 2010 losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these losses. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

Acquisitions and disposals of non-controlling interest by the Group are accounted as equity transaction: the difference between the carrying value of the net assets acquired from/disposed to the non-controlling interests in the Group's financial statements and the acquisition price/proceeds from disposal 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.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

2 Accounting policies (cont'd)

2.3. Principles of consolidation (cont'd)

If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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	6 years
Customer relationships	10-40 years
Other intangible assets	3-10 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 and investment property 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 (including investment property)	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 and investment property.

An item of property, plant and equipment and investment property 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 financial 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 does not have any held-to-maturity investments as of 31 December 2011 and 2010.

2 Accounting policies (cont'd)

2.7. Financial assets (cont'd)

Loans and receivables

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.

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 is fully written-off.

2 Accounting policies (cont'd)

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.

2.11. 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 2011 and 2010.

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.

Financial lease

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. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets cannot 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.

Operating lease

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. Provision for 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.

2 Accounting policies (cont'd)

2.13. Provision for employee benefits (cont'd)

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 statement of comprehensive income as incurred.

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 15 % in 2011 and 2010. Income tax rate in 2011 and 2010 in Ukraine, Russia and Latvia was 25 %, 20 % and 15 %, respectively.

Tax losses in Lithuania 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.

Comparatively, tax losses in Russia can be carried forward for ten years.

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.

2 Accounting policies (cont'd)

2.16. Revenue recognition (cont'd)

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.

Interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. It is included in finance income or expenses in the income statement.

2.17. Impairment of assets

Financial assets

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.

Other assets (excluding goodwill)

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 23), provision for employee benefits (Note 2.13 and Note 19), impairment evaluation of goodwill, including allocation of Group assets to cash generating units (Note 2.3. and Note 4) other assets (Note 2.17., Note 5, Note 7, Note 8, Note 9, Note 10, Note 11 and Note 12) and contingencies related to foreign subsidiaries (Note 32). 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.

2 Accounting policies (cont'd)

2.18. Use of estimates in the preparation of financial statements (cont'd)

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 useful life of customer relationships intangible assets, which are accounted for under other intangible assets and their acquisition value amounts to LTL 83,908 thousand as of 31 December 2011 and LTL 77,990 thousand as of 31 December 2010 (Note 5). The management amortises these customer relationship intangible assets over the estimated validity period of existing contracts, which is 10-40 years. The management estimated the expected validity term of customer relationships based on the current development of the operations, i.e. already concluded contracts 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 cannot be reasonably estimated at the date of these financial statements. The net book value of these intangible assets of the Group amount to LTL 76,879 thousand as of 31 December 2011 and LTL 73,648 thousand as of 31 December 2010.

2.19. Contingencies

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

2.20. 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 services provided and have three reportable segments as follows:

- Heating infrastructure renovation
- Buildings' administration
- Waste management

Segment of Heating infrastructure renovation includes services of renovation, modernisation of heating infrastructure and equipment. Since 1 January 2012 the Group is no longer involved in these activities.

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. The segment information is presented as analysed by chief operating decision maker of the Group (the Board), i.e. allocated to Baltic states and CIS states.

As disclosed in Note 32, starting July 2012, the Group's activity to engage into buildings' administration activities might be affected by changed legal regulations.

As disclosed in Note 35, the Company transferred the majority of its buildings' administration activity into sub-holding company and plans no longer to be directly involved in this activity itself.

Segment of Waste management includes services of collecting and processing of waste.

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

3 Segment information (cont'd)

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 based on the prices set by the management, which management considers to be similar to transactions with the third parties.

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:

Year ended 31 December 2011	Group					Company		
	Heating infrastructure renovation	Buildings' administration		Waste management	Total	Heating infrastructure renovation	Buildings' administration	Total
		Baltic states	CIS states					
Revenue	6,748	154,915	337,395	47,537	546,595	6,748	107,560	114,308
Unallocated income					1,248[1]			1,248[1]
Total revenue					**547,843**			**115,556**
Segment results	372	22,627	12,111	4,354	39,464	372	16,038	16,410
Unallocated expenses					(5,094)[2]			(5,094)[2]
Profit from operations					**34,370**			**11,316**
Net financial income					(430)[3]			2,221[3]
Profit / (loss) before income tax					33,940			13,537
Income tax expenses					(4,453)[3]			(1,434)[3]
Net profit for the year					**29,487**			**12,103**
Other segment information								
Capital expenditure	-	6,783	2,180	5,114	**14,077**	-	3,008	**3,008**

[1] Unallocated income includes other income not attributable to either of the listed segments, namely IT services (LTL 1,148 thousand) and other (LTL 100 thousand).
[2] Unallocated expenses include general and administrative expenses (LTL 5,094 thousand) identifiable as costs managed on a group basis.
[3] Financing of the Group and the Company (including finance costs and finance income) (LTL 430 thousand, including share of profit of associates, and LTL 2,221 thousand, respectively) and income taxes (LTL 4,453 thousand and LTL 1,434 thousand respectively) are managed on a group basis and are not allocated to operating segments.

3 Segment information (cont'd)

Year ended 31 December 2010	**Group**					**Company**		
	Heating infrastructure renovation	**Buildings' administration**		**Waste management**	**Total**	**Heating infrastructure renovation**	**Buildings' administration**	**Total**
		Baltic states	**CIS states**					
Revenue	19,157	141,553	342,487	37,317	540,514	19,157	97,662	116,819
Unallocated income					1,332[1]			1,332[1]
Total revenue					**541,846**			**118,151**
Segment results	474	24,598	5,844[2]	4,561	35,477	474	25,095	25,569
Unallocated expenses					(10,753)[3]			(10,753)[3]
Profit from operations					**24,724**			**14,816**
Net financial costs					550[4]			2,433[4]
Profit before income tax					25,274			17,249
Income tax expenses					196			(2,199)
Net profit for the year					**25,470**			**15,050**
Other segment information								
Capital expenditure	-	2,722	-	8,784	**11,506**	-	2,722	**2,722**

[1] Unallocated income includes other income not attributable to either of the listed segments, namely IT services (LTL 1,332 thousand).
[2] Segment results include allowance for doubtful trade receivables expensed in subsidiaries in Russia (LTL 9,467 thousand).
[3] Unallocated expenses include costs related to unallocated income (LTL 1,360 thousand), general and administrative expenses (LTL 9,375 thousand) and other expenses (LTL 18 thousand) identifiable as costs managed on a group basis.
[4] Financing of the Group and the Company (including finance costs and finance income) (LTL 550 thousand, including share of profit of associates, and LTL 2,433 thousand respectively) and income taxes (LTL 196 thousand and LTL 2,199 thousand respectively) are managed on a group basis and are not allocated to operating segments.

3 Segment information (cont'd)

Geographical information

The following tables present Group's 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:

2011	**Baltic states**	**CIS states**	**Total**
Revenue			
Sales to external customers	210,448	337,395	547,843
Segment revenue	**210,448**	**337,395**	**547,843**

2010	**Baltic states**	**CIS states**	**Total**
Revenue			
Sales to external customers	199,359	342,487	541,846
Segment revenue	**199,359**	**342,487**	**541,846**

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

2011	**Baltic states**	**CIS states**	**Total**
Non-current assets			
Segment assets	169,033	51,730	220,763
Total assets	**169,033**	**51,730**	**220,763**

2010	**Baltic states**	**CIS states**	**Total**
Non-current assets			
Segment assets	147,623	50,181	197,804
Total assets	**147,623**	**50,181**	**197,804**

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

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 32,535 thousand (LTL 32,204 thousand in 2010), arising from sales to Vilnius Municipality and is accounted in the buildings' administration segment. Sales to this customer exceed 10 % of sales of the Company, but compose only approximately 6 % in the Group. There are no other individual customers exceeding 10 % of segment sales.

4 Goodwill

	Group
Cost:	
Balance as of 1 January 2010	38,074
Additions	27,800
Disposals	(1,948)
Exchange differences	548
Balance as of 31 December 2010	64,474
Additions	4,076
Exchange differences	(103)
Balance as of 31 December 2011	68,447
Impairment:	
Balance as of 1 January 2010	290
Impairment for the year	-
Balance as of 31 December 2010	290
Impairment for the year	-
Balance as of 31 December 2011	290
Net book value as of 31 December 2011	**68,157**
Net book value as of 31 December 2010	**64,184**

<u>Acquisitions during 2011</u>

As described in Note 1, during 2011 the Group acquired the following entities:

Name of entity acquired	Acquisition cost	Notes
A group of private companies in the city of Stavropol, Russia	RUB 68.5 million	All paid in cash and included in the cost of investment
.A.S.A. Vilnius UAB (currently Tvar.com UAB)	LTL 91 thousand	All paid in cash and included in the cost of investment
ООО «Чистый дом»	RUB 10 thousand	All paid in cash and included in the cost of investment
Būsto Administravimo Agentūra UAB	LTL 689 thousand	All paid in cash and included in the cost of investment
Lazdijų komunalinis ūkis UAB	LTL 1,539 thousand	All paid in cash and included in the cost of investment
INTERBUD MAX SP. Z.O.O	PLN 6.5 thousand	All paid in cash and included in the cost of investment

All the costs related to acquisitions above have been expensed, in total amount of LTL 110 thousand. At the acquisition of these subsidiaries goodwill of LTL 4,150 thousand has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from vertical expansion of business.

Also a gain of LTL 1,156 thousand from a bargain purchase was recognised in the Group's statement of comprehensive income in 2011. Gain from a bargain purchase appeared because the acquired subsidiaries were loss making.

Amount of LTL 17,100 thousand of goodwill created on mergers, as described in Note 1, is considered to be tax deductible in the future.

4 Goodwill (cont'd)

The Group has elected to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. The fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2011 were as follows:

Fair value of assets, liabilities and contingent liabilities	**Group of companies in Stavropol**	**.A.S.A. Vilnius UAB**	**OOO «Чистый дом»**	**Būsto adminis-travimo agentūra UAB**	**Lazdijų komunalinis ūkis UAB**	**Interbud Max Sp. Z.o.o**
Date of acquisition	**1 February**	**1 February**	**1 July**	**27 July**	**2 November**	**28 December**
Intangible assets	5,978	28	-	347	-	-
Property, plant and equipment	143	1,045	-	103	1,937	-
Other non-current assets	1,177	697	-	96	-	-
Trade receivables	2,644	1,005	137	356	291	-
Other current assets	1,814	110	-	301	358	5
Total assets	**11,756**	**2,885**	**137**	**1,203**	**2,586**	**5**
Interest bearing financial liabilities	96	1,416	-	21	157	-
Deferred tax liability	1,196	-	-	51	-	-
Trade payables	5,942	278	-	198	201	-
Other current liabilities	2,617	362	136	133	271	-
Total liabilities	**9,851**	**2,056**	**136**	**403**	**629**	**-**
Total identifiable net assets at fair value	**1,905**	**829**	**1**	**800**	**1,957**	**5**
attributable to equity holders of the parent	1,832	829	1	800	1,957	5
attributable to non-controlling interests	73	-	-	-	-	-

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

Book value	**Group of companies in Stavropol**	**.A.S.A. Vilnius UAB**	**OOO «Чистый дом»**	**Būsto admi-nistravimo agentūra UAB**	**Lazdijų komunalinis ūkis UAB**	**Interbud Max Sp. Z.o.o**
Date of acquisition	**1 February**	**1 February**	**1 July**	**27 July**	**2 November**	**28 December**
Intangible assets	-	28	-	6	-	-
Property, plant and equipment	143	1,045	-	103	1,937	-
Other non-current assets	1,177	697	-	96	-	-
Trade receivables, gross	3,890	1,530	137	925	291	-
Valuation allowance for trade receivables	(1,246)	(525)	-	(569)	-	-
Other current assets	1,814	110	-	301	358	5
Total assets	**5,778**	**2,885**	**137**	**862**	**2,586**	**5**
Interest bearing financial liabilities	96	1,416	-	21	157	-
Deferred tax liability	-	-	-	-	-	-
Trade payables	5,942	278	-	198	201	-
Other current liabilities	2,617	362	136	133	271	-
Total liabilities	**8,655**	**2,056**	**136**	**352**	**629**	**-**

4 Goodwill (cont'd)

The differences between the amounts paid and the fair values of assets acquired, liabilities and contingent liabilities assumed on the acquisitions of 2011 were as follows:

	Group of companies in Stavropol	.A.S.A. Vilnius UAB	OOO «Чистый дом»	Būsto administravimo agentūra UAB	Lazdijų komunalinis ūkis UAB	Interbud Max Sp. Z.o.o
Date of acquisition	**1 February**	**1 February**	**1 July**	**27 July**	**2 November**	**28 December**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	1,832	829	1	800	1,957	5
Non-controlling interests	73	-	-	-	-	-
Goodwill	3,966	(738)	-	110	(418)	-
Total purchase consideration	**5,871**	**91**	**1**	**910**	**1,539**	**5**
Cash acquired	964	53	-	293	4	-
Total purchase consideration, net of cash acquired	**4,907**	**38**	**1**	**617**	**1,535**	**5**

All the purchase consideration has been settled in cash, with no contingent payments.

	Group of companies in Stavropol	.A.S.A. Vilnius UAB	OOO «Чистый дом»	Būsto administravimo agentūra UAB	Lazdijų komunalinis ūkis UAB	Interbud Max Sp. Z.o.o
Date of acquisition	**1 February**	**1 February**	**1 July**	**27 July**	**2 November**	**28 December**
Profit (loss) incurred since acquisition date to 31 December 2011	249	484	796	(53)	(99)	-
Total revenue since acquisition date to 31 December 2011	32,799	4,203	2,320	656	741	-
Total revenue for the year 2011	32,799	4,410	3,301	1,550	2,770	-
Total net result for the year 2011	249	1,295	796	(45)	(68)	-

<u>Acquisitions during 2010</u>

As described in Note 1, during the 2010 the Group acquired the following entities:

- UAB Ecoservice together with its subsidiaries UAB Specialus Autotransportas and UAB Trakų Rajono Komunalinių Įmonių Kombinatas. Total purchase price is LTL 55 million (included in cost of investment), of which LTL 7,856 thousand was paid in cash and LTL 47,144 thousand was paid by issuing ordinary shares of the Company (9,316,931 units).

- UAB Radviliškio Komunalinės Paslaugos. The purchase price is LTL 1,635 thousand, all paid in cash and included in cost of investment.

- UAB Litmilma. The acquisition price is LTL 2.4 million, all paid in cash and included in cost of investment.

- UAB Šiaulių Liftas**.** The acquisition price is LTL 1 million, all paid in cash and included in cost of investment.

- UAB Economus. The acquisition price is LTL 481 thousand, all paid in cash and included in the cost of investment.

All the costs related to acquisitions above have been expensed, in total amount of LTL 10 thousand. At the acquisition of these subsidiaries goodwill of LTL 27,800 thousand has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from vertical expansion of business.

Amount of LTL 18,590 thousand of goodwill created on mergers as of 31 December 2010, as described in Note 1, is considered to be tax deductible in the future.

4 Goodwill (cont'd)

Disposal in 2010

As described in Note 1, during 2010 the Group disposed the company operating in Lomonosov town of Leningrad district - ООО Жилкомсервис г. Ломоносов. The value of the contract is RUB 3 million (LTL 257 thousand equivalent), all paid in cash.

The Group has elected to measure the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. The fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2010 were as follows:

Fair value of assets, liabilities and contingent liabilities	**UAB Economus**	**UAB Ecoservice Group**	**UAB Radviliškio Komunalinės Paslaugos**	**UAB Litmilma**	**UAB Šiaulių Liftas**
Date of acquisition	**23 March 2010**	**5 January 2010**	**23 July 2010**	**17 August 2010**	**8 November 2010**
Property, plant and equipment	37	19,581	1,013	20	191
Intangible assets	9	21,773	1,310	1,579	260
Other non-current assets	-	597	107	264	49
Trade receivables	71	7,805	984	1,008	256
Other current assets	66	1,169	325	864	659
Total assets	**183**	**50,925**	**3,739**	**3,735**	**1,415**
Interest bearing financial liabilities	87	13,899	384	-	-
Deferred tax liability	-	3,456	213	237	39
Trade payables	70	3,251	488	82	78
Other current liabilities	14	2,199	854	1,175	467
Total liabilities	**171**	**22,805**	**1,939**	**1,494**	**584**
Total identifiable net assets at fair value	**12**	**28,120**	**1,800**	**2,241**	**831**
attributable to equity holders of the parent	12	28,120	1,800	2,241	806
attributable to non-controlling interests	-	-	-	-	25

4 Goodwill (cont'd)

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

Book values	**UAB Economus**	**UAB Ecoservice Group**	**UAB Radviliškio Komunalinės Paslaugos**	**UAB Litmilma**	**UAB Šiaulių Liftas**
Date of acquisition	**23 March 2010**	**5 January 2010**	**23 July 2010**	**17 August 2010**	**8 November 2010**
Property, plant and equipment	46	19,581	1,013	20	191
Other non-current assets	-	597	107	264	49
Trade receivables, gross	71	9,667	1,923	1,008	350
Valuation allowance for trade receivables	-	(1,862)	(939)	-	(94)
Other current assets	66	1,169	325	864	698
Total assets	**183**	**29,152**	**2,429**	**2,156**	**1,194**
Interest bearing financial liabilities	87	13,899	384	-	-
Deferred tax liability	-	224	17	1	1
Trade payables	70	3,251	488	82	78
Other current liabilities	14	2,199	854	1,175	467
Total liabilities	**171**	**19,573**	**1,743**	**1,258**	**546**

The differences between the amounts paid and the fair values of assets acquired and liabilities and contingent liabilities assumed on the acquisitions of 2010 were as follows:

	UAB Economus	**UAB Ecoservice Group**	**UAB Radviliškio Komunalinės Paslaugos**	**UAB Litmilma**	**UAB Šiaulių Liftas**
Date of acquisition	**23 March 2010**	**5 January 2010**	**23 July 2010**	**17 August 2010**	**8 November 2010**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	12	28,120	1,800	2,241	806
Non-controlling interests	-	-	-	-	25
Goodwill	469	26,880	(165)	251	200
Total purchase consideration	**481**	**55,000**	**1,635**	**2,492**	**1,031**
Cash acquired	9	615	273	858	420
Total purchase consideration, net of cash acquired	**472**	**54,385**	**1,362**	**1,634**	**611**

All the purchase consideration has been settled in cash, except LTL 47,144 thousand paid by ordinary shares issued (Note 1), with no contingent payments.

	UAB Economus	**UAB Ecoservice Group**	**UAB Radviliškio Komunalinės Paslaugos**	**UAB Litmilma**	**UAB Šiaulių Liftas**
Date of acquisition	**23 March 2010**	**5 January 2010**	**23 July 2010**	**17 August 2010**	**8 November 2010**
Profit (loss) incurred since acquisition date to 31 December 2010	(94)	4,561	(6)	186	64
Total revenue since acquisition date to 31 December 2010	163	37,317	1,138	1,071	330
Total revenue for the year 2010	219	37,511	2,738	2,626	4,680
Total net result for the year 2010	(125)	4,561	(14)	446	768

4 Goodwill (cont'd)

Goodwill allocation

For the purpose of impairment evaluation, the goodwill as of 31 December 2011 and 2010 was allocated to the following cash generating units (CGU):

Cash generating unit	**Carrying value of allocated goodwill as of 31 December 2011**	**Carrying value of allocated goodwill as of 31 December 2010**
Subsidiaries operating in Klaipėda (administration of dwelling-houses in Klaipėda)	4,894	4,894
Subsidiaries operating in Kaunas (administration of dwelling-houses in Kaunas)	2,254	2,144
Subsidiaries operating in Vilnius (administration of dwelling-houses in Vilnius)	16,424	16,424
Subsidiaries operating in Šiauliai (administration of dwelling-houses in Šiauliai)	1,022	1,022
Subsidiaries operating in Russia (administration of dwelling-houses in cities of St. Petersburg and Stavropol)	16,683	12,820
Subsidiaries involved in waste management activities (Ecoservice subgroup)	26,880	26,880
	68.157	**64,184**

The recoverable amount of each cash generating unit as of 31 December 2011 and 2010 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 2011 are described further.

The forecasted revenues for CGU involved in administration of dwelling houses were estimated based on the area of the dwelling-houses administered as of 31 December 2011 and 2010 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. The forecasted revenues of waste management CGU was estimated based on the current and expected contracts for waste collection, assuming that volumes of the waste will remain approximately 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 2011 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 2010) that reflects the best estimate of the management based on the current situation in the respective industry. The post-tax 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 12 % for cash generating units located in Lithuania (12 % in 2010), and 15 % for locations in Russia (St. Petersburg and Stavropol) (same in 2010).

In the opinion of the Group's management, the most important and most change-like assumptions are the level of reinvestments and discount rate. Based on management's estimations, a reasonable change in these assumptions may result in impairment of goodwill, i.e. 1 % change in discount rate used would result in impairment consisting of 4 % from total goodwill net balance sheet value as of 31 December 2011 (2% as of 31 December 2010). At the moment of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used.

5 Other intangible assets

Movement of other intangible assets in 2011 and 2010 is presented below:

	Group	Company
Cost:		
Balance as of 1 January 2010	57,991	392
Additions arising from acquisitions of subsidiaries	24,730	-
Additions	812	790
Disposals of subsidiaries	(3,978)	-
Disposals	(2)	(2)
Exchange differences	21	-
Retirements	(106)	(24)
Balance as of 31 December 2010	79,468	1,156
Additions arising from acquisitions of subsidiaries	6,353	-
Additions	634	221
Disposals	(161)	(2)
Exchange differences	-	-
Retirements	(168)	(17)
Reclassifications	684	313
Balance as of 31 December 2011	86,810	1,671
Accumulated amortisation:		
Balance as of 1 January 2010	1,979	355
Charge for the year	3,097	41
Disposals	(1)	-
Retirements	(106)	(24)
Disposals of subsidiaries	(159)	-
Balance as of 31 December 2010	4,810	372
Charge for the year	3,334	130
Disposals	(1)	-
Retirements	(25)	(17)
Balance as of 31 December 2011	8,118	485
Net book value as of 31 December 2011	**78,692**	**1,186**
Net book value as of 31 December 2010	**74,658**	**784**

The main part of other intangible assets consists of customer relationship intangible assets, which are amortised during the period of 10-40 years. As of 31 December 2011 net book value of such intangible assets constituted LTL 76,879 thousand (LTL 73,648 thousand as of 31 December 2010).

The Group and the Company have 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 other intangible assets of the Group and the Company with the acquisition value of LTL 1,302 thousand and LTL 330 thousand, respectively, as of 31 December 2011 was fully amortised but still in use (LTL 653 thousand and LTL 332 thousand, respectively, of the Group and the Company as of 31 December 2010).

6 Investment property

Movement of the Group's investment property during 2011 and 2010 is presented below:

	Buildings
Cost:	
Balance as of 1 January 2010	730
Reclassifications to property, plant and equipment	-
Balance as of 31 December 2010	730
Reclassifications to property, plant and equipment	(254)
Balance as of 31 December 2011	476
Accumulated depreciation:	
Balance as of 1 January 2010	121
Reclassifications to property, plant and equipment	-
Charge for the year	20
Balance as of 31 December 2010	141
Reclassifications to property, plant and equipment	(59)
Charge for the year	12
Balance as of 31 December 2011	94
Net book value as of 31 December 2011	**382**
Net book value as of 31 December 2010	**589**

Investment property includes part of office building in Vilnius and premises in Alytus owned by UAB Pašilaičių būstas (former - UAB Pašilaita) leased to other entities. The expenses related to investment property comprising of depreciation charge are included under the other operating expenses caption in the statement of comprehensive income.

The fair value of investment property as of 31 December 2011 is estimated by the management to be approximately LTL 400 thousand (LTL 700 thousand as of 31 December 2010). The fair value of investment property as of 31 December 2011 and as of 31 December 2010 was estimated by management using market price per square meter of similar premises in similar locations identified by independent property valuators.

As of 31 December 2011 investment property of the Group with a net book value of LTL 382 thousand was pledged to banks as collateral for the loans (LTL 589 thousand as of 31 December 2010) (Note 15).

7 Property, plant and equipment

Movement of property, plant and equipment in 2011 and 2010 is presented below:

Group	**Buildings**	**Vehicles**	**Other property, plant and equipment**	**Construc-tion in progress**	**Total**
Cost:					
Balance as of 1 January 2010	22,653	6,263	3,673	544	33,133
Additions arising from acquisitions of subsidiaries	1,335	12,681	6,220	564	20,800
Additions	-	3,050	4,588	1,146	8,784
Disposals	(367)	(672)	(166)	-	(1,205)
Exchange differences	-	145	56	-	201
Retirements	-	(227)	(3,393)	(687)	(4,307)
Balance as of 31 December 2010	23,621	21,240	10,978	1,567	57,406
Additions arising from acquisitions of subsidiaries	507	1,215	1,506	-	3,228
Additions	897	6,817	5,581	148	13,443
Disposals	(929)	(1,038)	(497)	-	(2,464)
Exchange differences	(1)	(83)	(70)	(6)	(160)
Retirements	-	(414)	(2,039)	(29)	(2,482)
Reclassifications	610	592	-	(1,632)	(430)
Balance as of 31 December 2011	24,705	28,329	15,459	48	68,541
Accumulated depreciation:					
Balance as of 1 January 2010	1,499	2,599	1,804	-	5,902
Charge for the year	1,127	3,270	3,465	-	7,862
Disposals	(55)	(356)	(145)	-	(556)
Exchange differences	-	39	37	-	76
Retirements	-	(255)	(3,437)	-	(3,692)
Balance as of 31 December 2010	2,571	5,297	1,724	-	9,592
Charge for the year	1,097	4,184	4,072	-	9,353
Disposals	(213)	(896)	(315)	-	(1,424)
Exchange differences	-	(29)	(14)	-	(43)
Retirements	-	(260)	(1,487)	-	(1,747)
Reclassifications	59	-	-	-	59
Balance as of 31 December 2011	3,514	8,296	3,980	-	15,790
					-
Net book value as of 31 December 2011	**21,191**	**20,033**	**11,479**	**48**	**52,751**
Net book value as of 31 December 2010	**21,050**	**15,943**	**9,254**	**1,567**	**47,814**

7 Property, plant and equipment (cont'd)

Company

	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:				
Balance as of 1 January 2010	3,154	2,829	544	6,527
Additions	905	642	385	1,932
Disposals	(195)	(603)	(687)	(1,485)
Balance as of 31 December 2010	3,864	2,868	242	6,974
Additions	2,110	606	71	2,787
Disposals	(123)	(21)	-	(144)
Retirements	-	(214)	-	(214)
Reclassifications	-	-	(313)	(313)
Balance as of 31 December 2011	5,851	3,239	-	9,090
Accumulated depreciation:				
Balance as of 1 January 2010	1,785	1,700	-	3,485
Charge for the year	614	530	-	1,144
Disposals	(125)	(530)	-	(655)
Balance as of 31 December 2010	2,274	1,700	-	3,974
Charge for the year	798	601	-	1,399
Disposals	(102)	(11)	-	(113)
Retirements	-	(214)	-	(214)
Balance as of 31 December 2011	2,970	2,076	-	5,046
Net book value as of 31 December 2011	**2,881**	**1,163**	**-**	**4,044**
Net book value as of 31 December 2010	**1,590**	**1,168**	**242**	**3,000**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2011 amounts to LTL 9,353 thousand and LTL 1,399 thousand, respectively (LTL 7,862 thousand and LTL 1,144 thousand in the year 2010, respectively). Amounts of LTL 3,590 thousand and LTL 1,377 thousand for the year 2011 (LTL 3,536 thousand and LTL 1,128 thousand for the year 2010) have been included into general and administrative expenses in the Group's and the Company's statement of comprehensive income, respectively. Meanwhile, LTL 22 thousand (LTL 16 thousand in 2010) 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 8,601 thousand and LTL 2,103 thousand, respectively, were fully depreciated as of 31 December 2011 (LTL 5,060 thousand and LTL 1,432 thousand as of 31 December 2010, respectively), but were still in active use.

As described in Note 15, as of 31 December 2011 buildings of the Group with a net book value of LTL 16,671 thousand were pledged to banks as collateral for the loans (LTL 16,828 thousand as of 31 December 2010).

8 Investments into subsidiaries

The Company's investments into subsidiaries as of 31 December 2011 and 31 December 2010 are as follows:

	2011	2010
Cost of investments at the beginning of the year	127,774	45,419
Acquisition of UAB Būsto administravimo agentūra*	911	-
Establishment of UAB Baltijos pastatų valdymas	10	-
Acquisition of Interbud Max Sp. z o.o	7	-
Investment impairment of UAB Saulės valda	(563)	-
Investment impairment of OAO Специализированное ремонтно-наладочное управление	(226)	-
Increase of authorised share capital of UAB Šiaulių Butų Remonto Tarnyba (subsequently renamed to UAB Eco Holding)	-	55,000
Increase of authorised share capital of UAB Naujamiesčio būstas	-	23,943
Increase of authorised share capital of UAB Namų priežiūros centras	-	6,234
Acquisition of Economus UAB	-	481
Establishment of four new subsidiaries: UAB Baltijos liftai, UAB Baltijos pastatų valdymas (renamed to UAB Aukštaitijos būstas), UAB Baltijos būsto priežiūra, UAB Skolos LT	-	40
Increase of authorised share capital of UAB Baltijos liftai	-	1,000
Merger of UAB Ūkvedys into UAB Atidumas	-	(3,413)
Legal compensation received for investment in UAB Ąžuolyno Valda**	-	(843)
Reduction of share capital in TOB Kiev City Service	-	(87)
Cost of investments at the period end	**127,913**	**127,774**

* During the period the Company has acquired shares of UAB Būsto administravimo agentūra amounting LTL 689 thousand. The remaining part of the investment amount was reclassified from investments into associates caption.
**After a litigation process in 2010 the Company received a compensation from Klaipėda city municipality for the acquisition of UAB Ąžuolyno Valda due to incorrect financial data provided on the subsidiary at the date of its acquisition. The compensation received was used to decrease the cost of investment in the Company, as indicated in the table above.

Impairment testing of investments has been performed by the management of the Group using methods and based on assumptions described in Note 4.

9 Inventories

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Raw and auxiliary materials	2,694	2,239	686	529
Goods for resale	861	656	-	-
Other	575	384	15	-
	4,130	3,279	701	529
Less: net realisable value allowance	(90)	(93)	-	-
	4,040	3,186	701	529

Change in allowance for inventories for the year 2011 and 2010 has been included into general and administrative expenses.

10 Prepayments

Prepayments of the Group amount to LTL 8,911 thousand as of 31 December 2011 (LTL 11,125 thousand as of 31 December 2010) and mainly include prepayments to subcontractors for residential renovation projects in Russia amounting to LTL 6,996 thousand (LTL 9,928 thousand as of 31 December 2010).

11 Trade receivables

	Group		Company	
	As of 31 December 2011	**As of 31 December 2010**	**As of 31 December 2011**	**As of 31 December 2010**
Trade receivables, gross	103,776	116,139	22,177	39,779
Less: allowance for doubtful trade receivables	(26,602)	(20,656)	(1,619)	(1,444)
	77,174	95,483	20,558	38,335

Change in allowance for doubtful trade receivables for the year 2011 and 2010 has been included into general and administrative expenses.

As of 31 December 2011 a part of Group's and Company's trade receivables in the amount of LTL 4,905 thousand and LTL 733 thousand, respectively, are accounted under non-current receivables caption (LTL 3,143 thousand and LTL 744 thousand as of 31 December 2010).

The Group's and the Company's accounts receivable from Vilnius City Municipality for maintenance and heat supply within Vilnius schools and kindergartens amounts to LTL 12,872 thousand as of 31 December 2011 (LTL 27,326 thousand as of 31 December 2010). The decrease was caused by a contractual transfer of the receivable amounting to LTL 24,302 against the liability to the heat supplier, and improved payments record by Vilnius City Municipality.

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

As described in Note 15, as of 31 December 2011 trade receivables of the Group with a value of LTL 2,000 thousand were pledged to banks as collateral for the loans.

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

	Individually impaired	**Collectively impaired**	**Total**
Balance as of 1 January 2010	-	10,958	10,958
Charge for the year	827	13,141	13,968
Exchange differences	(146)	(1,515)	(1,661)
Reversed during the year	(157)	(2,452)	(2,609)
Balance as of 31 December 2010	**524**	**20,132**	**20,656**
Charge for the year	1,946	5,791	7,737
Exchange differences	(79)	(951)	(1,030)
Reversed during the year	(401)	(360)	(761)
Balance as of 31 December 2011	**1,990**	**24,612**	**26,602**

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 1 January 2009	-	1,370	1,370
Charge for the year	-	74	74
Balance as of 31 December 2010	**-**	**1,444**	**1,444**
Charge for the year	-	175	175
Balance as of 31 December 2011	**-**	**1,619**	**1,619**

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
2010	46,349	13,788	9,888	5,620	15,074	4,764	**95,483**
2011	32,118	14,445	7,501	5,190	9,676	8,244	**77,174**

The decrease of the Group receivables overdue for more than 90 days was caused mainly by the improved payments from municipal entities in AB City Service.

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
2010	15,107	5,333	5,919	713	10,117	1,146	**38,335**
2011	8,807	4,637	2,667	2,345	2,022	80	**20,558**

Trade receivables of the Company overdue for more than 90 days consist mainly of receivables from municipal entities, which, in the view of the management, do not bear the risk of non-repayment.

12 Other receivables

Other receivables of the Group and the Company as of 31 December 2011 included a loan granted to UAB Novrita in the amount of LTL 8,348 thousand (including interests accrued) (LTL 8,705 thousand as of 31 December 2010), fixed interest rate of 7 % applied. Based on management estimate, part of the loan granted to UAB Novrita in the amount of LTL 6,000 thousand was accounted as non-current receivable as of 31 December 2011.

To secure the loan repayment, a related party of UAB Novrita has signed a joint surety agreement with the Company in 2011. According to the agreement, UAB Novrita and its related party jointly guarantee repayment of the loan with their assets.

Other receivables of the Group also include restricted cash held as guarantee to suppliers (refer to Note 13).

13 Cash and cash equivalents

	Group		Company	
	As of 31 December 2011	**As of 31 December 2010**	**As of 31 December 2011**	**As of 31 December 2010**
Cash at bank	21,608	17,308	202	246
Cash on hand	109	127	14	50
Short-term deposits	3,333	-	-	-
	25,050	17,435	216	296

The original term of all deposits is less than three months, the weighted average annual interest rate of the Group as of 31 December 2011 was 7 %.

The fair value of cash and short-term deposits as of 31 December 2011 of the Group and the Company was LTL 25,050 thousand and LTL 216 thousand respectively (LTL 17,435 thousand and LTL 296 thousand as of 31 December 2010, respectively).

As of 31 December 2011 the Group had restricted cash of LTL 200 thousand (LTL 1,271 thousand as of 31 December 2010) held in the bank as guarantee provided by UAB Naujamiesčio Būstas to Vilnius City Municipality. The whole amount is accounted for under non-current receivables caption in the statement of financial position as of 31 December 2011 (LTL 752 thousand is accounted for under non-current receivables caption, whereas the remaining amount – under other receivables caption in the statement of financial position as of 31 December 2010).

As of 31 December 2011 and 2010 part of bank accounts of the Company and its subsidiaries are pledged to banks for loans, as described further in Note 15.

14 Reserves and share premium

<u>Legal reserve</u>

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit, calculated for statutory reporting purposes are required until the reserve reaches 10 % of the share capital. As of 31 December 2011 the reserve was fully composed.

<u>Other reserves</u>

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

<u>Share premium</u>

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

According to the 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.

15 Borrowings

The list of borrowings of the Group and the Company as of 31 December 2011 and 2010 are as follows:

Creditor	Currency of the loan	Amount of the loan (in currency of the loan)	Final repayment date	Group Balance as of 31 December 2011 (LTL)	Group Balance as of 31 December 2010 (LTL)	Company Balance as of 31 December 2011 (LTL)	Company Balance as of 31 December 2010 (LTL)
Current loans							
Swedbank, AB (overdraft)	EUR	1,448	17.08.2012	86	5,000	86	5,000
Swedbank, AB (overdraft)	LTL	5,000	17.08.2012	-	4,465	-	4,465
DNB bankas, AB (UAB Ecoservice)*	EUR	435	30.11.2012	770	1,388	-	-
Group Account (eliminated in the consolidated group accounts)**	Unspecified	Unspecified	Unspecified	-	-	3,062	4,953
Current loan balance				**856**	**10,853**	**3,148**	**14,418**
Non-current loans							
Swedbank, AB	EUR	10,486	09.08.2015	25,533	27,775	25,533	27,775
AS UniCredit Bank (UAB Tvar.com)	EUR	309	15.01.2013	1,067	-	-	-
UAB Bionovus (UAB Ecoservice)	LTL	2,177	31.12.2012	-	1,218	-	-
Less: current portion of non-current borrowings				(8,103)	(7,116)	(7,116)	(7,116)
Non-current loan balance				**18,497**	**21,877**	**18,417**	**20,659**

* Due to loan agreement conditions, stating that the bank has the right to claim the loan amount at any time, the loan is classified as current loan as of 31 December 2010.
* * Based on overdraft facility agreement signed on 25 August 2008 among the Company, its subsidiaries operating in Lithuania and Swedbank, AB, the Group can utilise net cash balances of the Company and its subsidiaries operating in Lithuania as inter-group borrowings.

For all the loans of the Group and the Company variable interest rates apply. Actual interest rates are close to effective interest rates. As of 31 December 2011 the weighted average annual interest rate of borrowings outstanding was 3.9 % (3.3 % as of 31 December 2010). In 2011 and 2010 the period of re-pricing of floating interest rates on borrowings was 6 months. Interest is paid quarterly.

The total unutilized borrowing facilities of the Group and the Company as of 31 December 2011 amounted to LTL 9,914 thousand for both (LTL 535 thousand for both, the Group and the Company, as of 31 December 2010).

Terms of repayment of non-current debt are as follows:

Term	Group As of 31 December 2011	Group As of 31 December 2010	Company As of 31 December 2011	Company As of 31 December 2010
Within one year	8,103	7,116	7,116	7,116
From one to five years	18,497	21,877	18,417	20,659
	26,600	28,993	25,533	27,775

15 Borrowings (cont'd)

Compliance with loan covenants

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, financial debt to EBITDA ratio, requirements for the minimum capital of the Company and a minimum set volume of the Company's and its subsidiaries' bank transactions through the specific bank accounts.

As of 31 December 2011 the Group and the Company complied with all debt covenants as set in financial agreements.

16 Non-current payables

In 2010 OAO City Service, ZAO City Service and ООО Жилкомсервис № 3 Фрунзенского района started court litigation against TGK-1 (the provider of heating). The companies challenged the amounts invoiced by TGK-1, because the companies believe the invoices should be calculated not based on volumes of heating dispatched by TGK-1, but based on estimated volumes of heating consumed by the inhabitants (based on the norms set for consumption).

In October 2011 the companies decided not to continue litigations with TGK-1 and an amicable settlement agreement was signed regarding outstanding debt due from the companies. According to this agreement:

- The debt was decreased by RUR 22,541 thousand (equivalent of LTL 1,878 thousand)
- The remaining amount RUR 120,190 thousand (equivalent of LTL 10,016 thousand) has to be repaid on a monthly basis until August 2014.
- No interest is charged to the companies.

Non-current payables to TGK-1 were discounted using the effective interest rate method on the date of recognition. A gain on initial recognition (LTL1,396 thousand) was recognised in the cost of sales, whereas interest expenses (LTL 202 thousand), in the financial expenses caption of the statement of comprehensive income in 2011.

As of 31 December 2011 amortised cost of non-current payables was LTL 5,131 thousand. Current payable is accounted under trade payables.

17 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 16,406 thousand as of 31 December 2011 in the Group and LTL 2,405 thousand in the Company (LTL 13,892 thousand in the Group and LTL 842 thousand in the Company as of 31 December 2010). The terms of the financial lease agreements are from 2 to 5 years. The currencies of the financial lease agreements are EUR and LTL.

As of 31 December 2011 the interest rate on the financial lease obligations is 6 month EUR LIBOR + 1.2 % - 6.18 %, or 6 month VILIBOR + 1.5 % - 3.31 % (as of 31 December 2010 – 6 month EUR LIBOR + 1.2 % - 4.1 %, or 6 month VILIBOR + 2.3%). Interest is paid monthly.

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2011 are as follows:

	Group	Company
Within one year	4,133	633
From one to five years	6,597	1,722
Total financial lease obligations	10,730	2,355
Interest	(664)	(190)
Present value of financial lease obligations	10,066	2,165
Financial lease obligations are accounted as:		
- current	3,859	569
- non-current	6,207	1,596

17 Financial lease (cont'd)

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2010 are as follows:

	Group	Company
Within one year	3,877	305
From one to five years	5,637	480
Total financial lease obligations	9,514	785
Interest	(398)	(50)
Present value of financial lease obligations	9,116	735
Financial lease obligations are accounted as:		
- current	3,662	285
- non-current	5,454	450

18 Operating lease

As of 31 December 2011 and 2010 the Group had several contracts of operating lease for vehicles outstanding. The remaining part of the operating lease comprises of rent of offices in Vilnius. 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 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Within one year	829	901	136	205
From one to five years	563	1,024	6	14
	1,392	1,925	142	219

Operating lease contracts are denominated in Lithuanian Litas and Euros.

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.

19 Provision for employee benefits

As of 31 December 2011 and 2010 the Group and Company accounted for employee benefits for employees leaving the Group or the Company at the age of retirement (Note 2.13). Related expenses are included into general and administrative expenses in the Group's and the Company's statements of comprehensive income.

	Group		Company	
	2011	2010	2011	2010
As of 31 December of the previous year	724	460	312	226
Additions arising from acquisitions of new subsidiaries	-	194	-	-
Change during the year	26	70	16	86
As of 31 December of the financial year	750	724	328	312

19 Provision for employee benefits (cont'd)

Main assumptions applied while evaluating the Group's and the Company's provision for employee benefits are as follows:

	As of 31 December 2011	As of 31 December 2010
Discount rate	5.80%	4.85%
Anticipated annual salary increase	3.00%	3.00%

20 Trade payables and payables to related parties

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Trade payables	59,035	73,018	4,334	3,769
Payables to related parties (Note 33)	13,212	19,767	13,559	19,074
	72,247	92,785	17,893	22,843

Trade payables are non-interest bearing and are normally settled on 60-day terms.

21 Advances received

A 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 872 thousand as of 31 December 2011 (LTL 3,468 thousand as of 31 December 2010). The decrease of advances received is related to less heating infrastructure renovation works performed during the year.

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.

22 Other current liabilities

	Group		Company	
	As of 31 December 2011	As of 31 December 2010	As of 31 December 2011	As of 31 December 2010
Salaries and social security	4,683	3,757	733	702
Vacation pay accrual	5,536	4,894	2,115	1,953
Accrued expenses and deferred income	2,837	2,790	299	1,049
Other current liabilities	6,114	6,328	67	1,471
	19,170	17,769	3,214	5,175

Other payables are non-interest bearing and have an average term of six months.

23 Sales

	Group		Company	
	2011	**2010**	**2011**	**2010**
Buildings' administration and related services	492,310	484,040	107,560	97,662
Heating system renovation and heating components installation services	6,748	19,157	6,748	19,157
Waste management	47,537	37,317	-	-
Other services and goods	1,248	1,332	1,248	1,332
	547,843	**541,846**	**115,556**	**118,151**

The Company has a relatively significant concentration of trading counterparties. The main customer of the Company – Vilnius City Municipality – in 2011 and 2010 accounted for 28 % and 27 %, of total Company's sales, respectively.

Information about customer specific contracts in progress as of 31 December 2011 and 2010:

	Group and Company	
	2011	**2010**
Sales of customer specific contracts in progress, recognised in the statement of comprehensive income during the year	1,092	990
Sales from customer specific contracts in progress, recognised to date	23,614	22,522
Expenses incurred on the customer specific contracts, recognised in the statement of comprehensive income during the year	43	648
Expenses incurred on the customer specific contracts, recognised to date	16,901	16,858
(Deferred) contract revenue (included in other current liabilities caption within the statement of financial position in 2011 and 2010)	-	(1,050)
Due from customers (accounted for as trade accounts receivable)	-	1,977
Due to customers (accounted for as advances received)	872	3,468

24 Cost of sales

	Group		Company	
	2011	**2010**	**2011**	**2010**
Services of subcontractors and materials used	352,814	374,302	61,351	66,309
Wages and salaries and social security	68,100	64,655	22,074	19,643
Cost of goods sold	5,345	4,345	1,022	867
Depreciation	5,741	4,310	-	-
Other	2,595	2,945	-	-
Total cost of sales	**434,595**	**450,557**	**84,447**	**86,819**

25 General and administrative expenses

	Group		Company	
	2011	**2010**	**2011**	**2010**
Wages and salaries and social security	35,109	28,136	7,056	6,535
Depreciation and amortisation	6,924	6,633	1,507	1,169
Allowance for and write-off of receivables	5,946	11,359	641	74
Commissions for collection of payments	4,819	4,367	1,904	1,609
Rent of premises and other assets	3,324	2,639	1,149	1,160
Consulting and similar expenses	3,173	2,921	1,374	1,017
Advertising	1,524	1,232	905	857
Fuel expenses	1,410	1,013	220	162
Communication expenses	1,239	1,028	231	233
Transportation	1,204	907	172	159
Utilities	1,144	1,113	379	333
Computer software maintenance	955	693	125	46
Business trips and training	863	1,053	571	857
Remuneration of the Board	800	-	800	-
Representation costs	654	663	464	407
Taxes other than income tax	646	751	78	22
Vacation pay accrual	642	809	162	32
Charity and support	561	630	480	554
Insurance	556	453	196	135
Bank payments	500	569	22	55
Other	3,890	2,905	1,443	1,128
Total general and administrative expenses	**75,883**	**69,874**	**19,879**	**16,544**

26 Other operating income and expenses

	Group		Company	
	2011	**2010**	**2011**	**2010**
Income from rent	556	102	156	149
Gain on disposal of property, plant and equipment	636	556	-	-
Fines and penalties	3,084	2,227	-	-
Tax risk accrual reversal	-	1,819	-	-
Other income	1,185	2,743	469	401
Total other operating income	**5,461**	**7,447**	**625**	**550**
Depreciation of rented assets	34	36	22	16
Fines and penalties	1,949	710	-	84
Legal claims*	1,045	425	-	-
State duties**	2,464	296	-	-
Other expenses	2,964	2,671	517	422
Total other operating expenses	**8,456**	**4,138**	**539**	**522**

* Expenses relate to claim payments to inhabitants in St. Petersburg, mainly for roof leaks during winter.
**Expenses for government fees paid for failed legal cases in St. Petersburg subsidiaries.

27 Finance income and (expenses), net

	Group		Company	
	2011	**2010**	**2011**	**2010**
Interest income	717	687	1,757	1,683
Dividend income	-	-	2,957	1,930
Foreign currency exchange gain	217	1,101	2	34
Gain on sale of investments	-	346	-	287
Gain from bargain purchase	1,156	165	-	-
Other financial income	286	54	79	8
Total finance income	**2,376**	**2,353**	**4,795**	**3,942**
Interest (expenses)	(1,724)	(1,611)	(1,664)	(1,379)
Impairment of investments into subsidiaries	-	-	(789)	-
Foreign currency exchange loss	(791)	(92)	(33)	(43)
Other financial (expenses)	(306)	(138)	(88)	(87)
Total finance (expenses)	**(2,821)**	**(1,841)**	**(2,574)**	**(1,509)**
Financial activity, net	**(445)**	**512**	**2,221**	**2,433**

28 Income tax

	Group		Company	
	2011	**2010**	**2011**	**2010**
Components of the income tax expenses				
Current income tax	4,777	4,502	1,610	2,109
Deferred income tax (income) expenses	(324)	(4,698)	(176)	90
Income tax (income) expenses recorded in the statement of comprehensive income	**4,453**	**(196)**	**1,434**	**2,199**

28 Income tax (cont'd)

	Group		Company	
	As of 31 December 2011	**As of 31 December 2010**	**As of 31 December 2011**	**As of 31 December 2010**
Deferred income tax asset				
Allowance for accounts receivable	7,111	7,906	313	217
Allowance for inventories	17	17	-	-
Accruals and similar temporary differences	1,275	1,106	430	340
Deferred income (percentage of completion method)	-	158	-	157
Impairment of investments	-	-	181	63
Tax loss carry forward	2,651	2,391	-	-
Tax goodwill	5,030	2,651	-	-
Deferred income tax asset before valuation allowance	16,084	14,229	924	777
Less: valuation allowance	(2,084)	(3,797)	(188)	(217)
Deferred income tax asset, net of valuation allowance	14,000	10,432	736	560
Deferred income tax liability				
Property, plant and equipment and intangible assets	(15,662)	(14,724)	-	-
Accrued income	(4,401)	(2,904)	-	-
Deferred income tax liability	(20,063)	(17,628)	-	-
Deferred income tax, net	(6,063)	(7,196)	736	560
Presented in the statement of financial position as follows:				
Deferred income tax asset	9,243	7,025	736	560
Deferred income tax liability	(15,306)	(14,221)	-	-

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

Tax loss carry forward can be utilised as follows: in Lithuania (LTL 11,484 thousand as of 31 December 2011) – indefinitely, in Russia (LTL 4,643 thousand as of 31 December 2011) – mainly until the year 2013.

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15 % rate in 2011 and 2010. The deferred tax of companies operating in Russia, Ukraine and Latvia was calculated using 20 %, 25 % and 15 % tax rates, respectively in 2011 (same as in 2010).

Due to group reorganisations (mergers) in 2011 and 2010 as discussed in Notes 1 and 4, tax goodwill was created as of the merger date. Consequently, a deferred tax asset was recorded on these transactions to the extent tax goodwill exceeds a respective financial goodwill amounts.

28 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 2010	Recognised in statement of compre-hensive income	Exchange differences	Acquired subsidiaries	Balance as of 31 December 2011
Allowance for accounts receivable	42,196	(5,850)	(58)	2,340	38,628
Allowance for inventories	113	-	-	-	113
Accruals and similar temporary differences	6,447	(4,755)	(6)	6,561	8,247
Deferred income (percentage of completion)	1,053	(1,053)	-	-	-
Tax loss carry forward	14,515	(2,439)	(10)	4,061	16,127
Tax goodwill	17,671	15,860	-	-	33,531
Property, plant and equipment and intangible assets	(90,542)	(504)	(2)	(6,166)	(97,214)
Accrued income	(13,439)	(8,762)	(49)	-	(22,250)
Total temporary differences before valuation allowance	(21,986)	(7,503)	(125)	6,796	(22,818)
Valuation allowance	(19,514)	9,898	4	(1,241)	(10,853)
Total temporary differences	(41,500)	2,395	(121)	5,555	(33,671)
Deferred income tax, net	(7,196)	324	(24)	833	(6,063)

	Balance as of 31 December 2009	Recognised in statement of compre-hensive income	Exchange differences	Disposed subsidiaries	Acquired subsidiaries	Balance as of 31 December 2010
Allowance for accounts receivable	30,685	9,115	141	(672)	2,927	42,196
Allowance for inventories	85	28	-	-	-	113
Accruals and similar temporary differences	6,203	(625)	13	(41)	897	6,447
Deferred income (percentage of completion)	1,352	(299)	-	-	-	1,053
Tax loss carry forward	18,400	(3,646)	37	(413)	137	14,515
Tax goodwill	-	17,671	-	-	-	17,671
Property, plant and equipment and intangible assets	(73,805)	4,454	(176)	4,812	(25,827)	(90,542)
Accrued income	(10,915)	(2,462)	(62)	-	-	(13,439)
Total temporary differences before valuation allowance	(27,995)	24,236	(47)	3,686	(21,866)	(21,986)
Valuation allowance	(26,703)	6,191	(128)	1,126	-	(19,514)
Total temporary differences	(54,698)	30,427	(175)	4,812	(21,866)	(41,500)
Deferred income tax, net	(9,420)	4,698	(35)	962	(3,401)	(7,196)

28 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 2010	Recognised in statement of compre-hensive income	Balance as of 31 December 2011
Allowance for accounts receivable	1,444	641	2,085
Accruals and similar temporary differences	2,265	607	2,872
Deferred income (percentage of completion method)	1,049	(1,049)	-
Impairment of investments	417	789	1,206
Total temporary differences	5,175	988	6,163
Valuation allowance	(1,444)	189	(1,255)
Total temporary differences	3,731	1,177	4,908
Deferred income tax, net	560	176	736

	Balance as of 31 December 2009	Recognised in statement of compre-hensive income	Balance as of 31 December 2010
Allowance for accounts receivable	1,370	74	1,444
Accruals and similar temporary differences	2,147	118	2,265
Deferred income (percentage of completion method)	1,352	(303)	1,049
Impairment of investments	835	(418)	417
Total temporary differences	5,704	(529)	5,175
Valuation allowance	(1,370)	(74)	(1,444)
Total temporary differences	4,334	(603)	3,731
Deferred income tax, net	650	(90)	560

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	
	2011	2010	2011	2010
Income tax expenses computed at 15 % in 2011 and 2010	5,091	3,791	2,030	2,587
Effect of different tax rates applicable to foreign subsidiaries	748	(354)		-
Deferred tax asset recognized on reorganization of subsidiaries (on tax goodwill)	(2,379)	(2,651)		-
Tax incentive on investments	(42)	-	(42)	-
Tax losses overtaken from other Group companies	-	-	(38)	-
Change in deferred tax asset valuation allowance	(1,713)	(1,316)	(29)	12
Permanent differences	2,748	334	(487)	(400)
Income tax expenses reported in the statement of comprehensive income	4,453	(196)	1,434	2,199

29 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	
	2011	**2010**
Net profit attributable to the shareholders	28,725	24,935
Number of shares (thousand), opening balance	31,610	19,110
Number of shares (thousand), closing balance	31,610	31,610
Weighted average number of shares (thousand)	31,610	31,096
Basic and diluted earnings per share (LTL)	0.91	0.80

30 Dividends per share

	2011	**2010**
Approved dividends*	7,903	2,687
Number of shares (in thousand)**	31,610	31,610
Approved dividends per share (LTL)	0.25	0.09

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

31 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 customer of the Company, regarding which there is a trading and credit risk concentration (Note 23), is managed by trying to get partial prepayments from the customer. Receivables from Vilnius City Municipality as of 31 December 2011 amounted to 17 % and 63 % of the Group's and the Company's trade accounts receivable, respectively (28 % and 70 % as of 31 December 2010, respectively).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Therefore, 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 create an interest rate risk (Notes 15 and 17). There are no financial instruments designated to manage the exposure to the interest rate risk outstanding as of 31 December 2011 and 2010.

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

Interest rate risk (cont'd)

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

2011	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(368)
LTL	+100	(40)
2010		
EUR	+100	(430)
LTL	+100	(60)

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

2011	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(278)
LTL	+100	(40)
2010		
EUR	+100	(335)
LTL	+100	(45)

31 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 or have available funding through an adequate amount of committed overdraft and loans 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 2011 were 1.04 and 1.01 respectively (1.01 and 0.99 as of 31 December 2010 respectively). The Company's liquidity and quick ratios as of 31 December 2011 were 1.82 and 1.80 respectively (1.58 and 1.57 as of 31 December 2010, respectively).

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2011 and 2010 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 borrowings	-	-	-	19,506	-	19,506
Current portion of non-current interest bearing borrowings	-	2,178	6,798	-	-	8,976
Current loans	-	90	790	-	-	880
Financial lease obligations	-	1,033	3,100	6,597	-	10,730
Trade payables and payables to related parties	481	37,564	34,640	6,741	523	79,949
Other current liabilities	-	458	1,543	-	-	2,001
Balance as of 31 December 2011	**481**	**41,323**	**46,871**	**32,844**	**523**	**122,042**
Non-current interest bearing borrowings	-	-	-	23,100	-	23,100
Current portion of non-current interest bearing borrowings	-	2,018	5,973	-	-	7,991
Current loans	-	-	11,233	-	-	11,233
Financial lease obligations	-	969	2,908	5,637	-	9,514
Trade payables and payables to related parties	-	92,785	-	-	-	92,785
Other current liabilities	-	86	-	-	-	86
Balance as of 31 December 2010	**-**	**95,858**	**20,114**	**28,737**	**-**	**144,709**

31 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 2011 and 2010 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 borrowings	-	-	-	19,483	-	19,483
Current portion of non-current interest bearing borrowings	-	1,994	5,983	-	-	7,977
Current loans	-	3,166	-	-	-	3,166
Financial lease obligations	-	105	527	1,722	-	2,354
Trade payables and payables to related parties	-	17,893	-	-	-	17,893
Other current liabilities	-	229	-	-	-	229
Balance as of 31 December 2011	**-**	**23,387**	**6,510**	**21,205**	**-**	**51,102**
Non-current interest bearing borrowings	-	-	-	21,797	-	21,797
Current portion of non-current interest bearing borrowings	-	2,018	5,973	-	-	7,991
Current loans	-	-	14,695	-	-	14,695
Financial lease obligations	-	76	229	480	-	785
Trade payables and payables to related parties	-	22,843	-	-	-	22,843
Other current liabilities	-	86	-	-	-	86
Balance as of 31 December 2010	**-**	**25,023**	**20,897**	**22,277**	**-**	**68,197**

Foreign exchange risk

The Company's monetary assets and liabilities as of 31 December 2011 and 2010 are denominated in LTL or EUR, to which LTL is pegged. Therefore, the management of the Company believes that foreign exchange risk is insignificant.

Monetary assets and liabilities of the Group denominated in various currencies as of 31 December 2011 and 2010 were as follows:

	2011		**2010**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	69,069	35,248	81,121	70,389
RUB	49,791	63,421	61,437	70,859
LVL	884	594	1,606	653
PLN	4	-	-	-
EUR	-	37,522	-	34,163
	119,748	136,785	144,164	176,064

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

Foreign exchange risk (cont'd)

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

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2011		
EUR	+ 15.00 %	(2,801)
EUR	- 15.00 %	2,801
2010		
EUR	+ 15.00 %	(1,897)
EUR	- 15.00 %	1,897

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, non-current and current borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction, other than in forced or liquidation sale. 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 accounts payable and current borrowings approximates fair value;
(b) The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

The fair values of the Group's and the Company's financial assets and financial liabilities approximate their carrying values.

32 Commitments and contingencies

Changes in Heat Sector Law

In 2011 the amendments of the Heat Sector law of the Republic of Lithuania were adopted. According to these amendments the building heating and hot water systems supervisor (operator) is prohibited to be associated with the persons which are engaged in the manufacture, wholesale or retail trade of the heat producing-fuel or supply the measuring devices or any other equipment to the heat supplier. The provisions should be implemented in full scale until 1 July 2012 and at the moment the Group is associated with the above mentioned persons through its controlling shareholder ICOR UAB. Therefore following the decision of Board of the Company, enacted on 29 December 2011, commercial and residential real estate management and maintenance activities, including heating and hot water systems supervision activity, were transferred to the subsidiary of the Company City Service LT UAB (code 300883806) to enable sales of this activity to a third party if decided by the shareholders of the Group. The Company's management is considering different options in order to comply with the restriction within the mentioned law. In case the shares of City service LT UAB shall not be sold until 1 July 2012, or controlling shareholder shall not divest of the Company's shares, the Board of the Company shall have to adopt new decisions regarding elimination of heating and hot water systems supervision activity from the group.

32 Commitments and contingencies (cont'd)

Acquisition of UAB Lazdynų Būstas

The Company participates as defendant in the case of UAB Lazdynų Būstas privatization. Vilnius district prosecutor claims to dissolve all privatization procedures of UAB Lazdynų Būstas and apply restitution. Vilnius district prosecutor raised the case on the ground of public interest that Vilnius municipality, while preparing UAB Lazdynų Būstas for privatization, did not acquired from UAB Lazdynų Būstas real estate situated on the state land which should be returned to the private citizens. On 20 March 2012 Vilnius district court decided to satisfy all the claims of prosecutor and apply restitution - Vilnius municipality shall have to return all the Company's paid sum (LTL 7,551 thousand) and the Company shall have to return the shares to Vilnius municipality. Vilnius municipality is going to appeal the decision and the Company management will decide if the Company appeals the decision separately or supports Vilnius municipality's appeal.

In case the final court ruling shall be that UAB Lazdynų Būstas shares could not be transferred to the Company in the public auction by Vilnius municipality, restitution in full shall 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 UAB Lazdynų Būstas 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 received consideration to the acquirer in order to re-acquire the shares as well as other circumstances, it is unlikely that the final court decision in the new case will require to apply the restitution in full. The net assets and net loss of UAB Lazdynų Būstas included in the consolidated financial statements of the Group as of 31 December 2011 amount to LTL 3,190 thousand and LTL 663 thousand, respectively.

Currently, according to the court decision dated 27 June 2008, shares of UAB Lazdynų Būstas are restricted from sale and pledge, however the restriction does not influence the Group's ability to exercise control over operating and financing decisions of UAB Lazdynų Būstas.

UAB Vilkpėdės būstas (former UAB Vilko Pėda) litigation

UAB Vilkpėdės būstas, acquired in August 2008, participates in the 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 Vilkpėdės būstas and essential defects of works performed by UAB Viva were noted. Therefore, UAB Vilkpėdės būstas did not pay for the last 2 months of services provided, in total LTL 155 thousand. UAB Viva on 26 June 2009 sued UAB Vilkpėdės būstas to Vilnius regional court for the debt and forfeit, all together amounting to LTL 210 thousand. UAB Vilkpėdės būstas 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 Vilkpėdės būstas and owners of the apartment buildings managed by UAB Vilkpėdės būstas. The case shall be heard by the court which deals with UAB Viva bankruptcy case. The Group expects that the litigation shall end in favour of UAB Vilkpėdės būstas as the documents and other evidence proves the improper service. The Group 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 Group's financial statements for the amounts claimed by UAB Viva.

Embezzlement of assets in UAB City Service LT (previously - UAB Fervėja)

Currently the Company is in a pre-trial process, which started in 2009 after a subsidiary of the Company UAB Fervėja (at the moment the name is changed into UAB City Service LT) applied to the Lithuanian Financial Crime Investigation Service for initiating the investigation for a compensation of LTL 2.3 million of damages described below.

The application was made because a former director of UAB Būsto Investicijų Valdymas (the company acquired by UAB City Service LT and currently merged with UAB Naujamiesčio Būstas) had signed an agreement with OOO BAS, a company registered in Kaliningrad district, according to which the latter company was paid LTL 2.3 million for market research works that actually had not been implemented. The pre-trial process is expected to protract due to large volume of documents to be reviewed and interrogations to be done. Currently, the Group cannot assess the outcome of the case. The outcome of the litigation process cannot be reliably determined, thus no assets were recorded in the financial statements in respect of this matter.

32 Commitments and contingencies (cont'd)

<u>UAB Specialusis Autotransportas claim</u>

In 2010 UAB Specialusis Autotransportas sued to the court for Klaipėda city municipality debt from the year 2009. The claim was set up due to the fact that the municipality ex-parte has changed the order of payments as set per agreement. In June 2009 the municipality has refused to pay according to the tariffs as agreed in the last supplement to the agreement signed between UAB Specialusis Autotransportas and Klaipėda city municipality in 2009 and instead applied tariffs as set in the original agreement of 2006. The tariffs set by the supplements of the agreement signed in 2008 and 2009 have not been cancelled or legally disputed. The amount of the legal claim, including interest and legal costs, amounts to LTL 1,659 thousand at the date of issue of these financial statements. At the moment the dispute is considered in appeal court, as Klaipeda district court ruling was appealed by both parties. However, as the outcome of the litigation cannot be reliably determined, a full allowance is formed for the respective receivables from Klaipėda city municipality in the amount of LTL 1,474 thousand (excluding VAT) as of 31 December 2011 and 2010.

<u>Contingencies related to foreign subsidiaries</u>

In 2009 OAO City Service and ZAO City Service 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. As of 31 December 2011 the letters of credit were extended since the contractors had not 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.

Due to lack of taxation practices and clear legislative requirements in 2011 and 2010 Group subsidiaries, carrying out business operations in the region of St. Petersburg, namely ZAO City Service, OAO City Service, ООО Жилкомсервис № 3 Фрунзенского района, ООО Жилкомсервис № 2 Невского района and group of companies in Stavropol city were dealing with some uncertainties related to tax treatment of certain transactions. The management accounted for taxes related to such transactions based on the management's interpretation of tax rules. In case the local tax authorities challenge the management's view on treatment and accounting of taxes, the Group could be charged with additional taxes. The maximum exposure of additional VAT and income tax risk has been estimated by the management to amount to approximately LTL 14 million. However, based on the fact, that tax inspections have already been performed in 2010 in several subsidiaries and did not challenge the management's treatment of taxes in the companies and also due to the fact that the management considers such tax risks to be not probable, no accruals in respect of these tax contingencies have been accounted for in these financial statements.

In 2010 the Company's subsidiaries ОАО Сити Сервис and ООО Жилкомсервис № 2 Невского in St. Petersburg, Russian Federation have issued supplementary bills for the heat supplied to residential clients with the total amount of RUB 37.3 million (equivalent of LTL 3.15 million). Supplementary bills have been issued on the grounds of high heat consumption during exceptionally cold heating season. During 2011 some uncertainty arose as to the legal validity of this supplementary billing. Some residential clients claimed that legally additional bills have not been substantiated and should not have been issued. As of the date of release of these financial statements claims from residential clients have not been substantial amounting to less than RUB 398 thousand (equivalent of LTL 33 thousand) and the management does not expect any material additional individual claims in the future. Court rulings have been mixed with some claims refuted and some accepted. Additional legal option exists for class action against ОАО Сити Сервис and ООО Жилкомсервис № 2 Невского района for all the amount of supplementary billing for the heat as a legal claim period for this matter has not yet expired. As of the date of the release of these financial statements Company's subsidiaries in Russian Federation have not received any class action claims, nor have been indicated of such possibility. The Group's management considers the level of the risk of the class action not reasonably quantifiable as of the date of release of these financial statements and accordingly has not recorded any provisions for this uncertainty in its financial statements as of 31 December 2011.

33 Related party transactions

The parties are considered related when one party has the possibility to control the other one or has significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

- UAB Lag&d – the ultimate shareholder of the Company from 2010;
- UAB ICOR - the shareholder of the Company;
- Subsidiaries and associates of UAB ICOR (same ultimate controlling shareholder);
- Subsidiaries of AB City Service (for the list of the subsidiaries, see also Note 1);
- Associates of AB City Service (for the list of the associates, see also Note 1);
- Mr. Ž. Lapinskas, J. Janukėnas, V.Turonis (Management of the Company);
- UAB Vilniaus Energija and UAB Litesko (shareholders of UAB Lag&d have certain management positions in these entities).

Transactions with related parties include sales and purchases of goods and services in the ordinary course of business, and acquisitions and disposals of property, plant and equipment. Property, plant and equipment to related parties in 2011 and 2010 were sold for the net book value.

Prices for the intercompany purchase and sale transactions are established by the management and shareholders of the UAB ICOR and/or UAB Lag&d 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.

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 netted-off with payables / receivables to / from a respective related party. In addition, part of trade payables to UAB Vilniaus Energija is expected to be settled by transferring claim rights to accounts receivable from Vilnius city municipal entities (such method of settlement has already been used).

2011

Group	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables and advances received**
UAB ICOR	2,472	31	7	-	867
Subsidiaries of UAB ICOR:					
AB Axis Industries	7,548	1,329	16	-	781
Other subsidiaries of UAB ICOR	1,252	2,443	1,238	-	167
Management of the Company	-	35	-	250	-
Shareholders of the Company	-	2	25	-	11
Other related parties	2 ,722	8,726	225	-	12,258
Total	**3 94**	**12,529**	**1,511**	**250**	**14,084**

2011 **Company**	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables and advances received**
UAB ICOR	1,482	30	7	-	643
Subsidiaries of UAB ICOR:					
AB Axis industries	7,380	1,218	15	-	496
Other subsidiaries of UAB ICOR Group	151	1,630	661	-	-
Subsidiaries of the Company	7,971	25,460	10, º74	24,080	1,100
Management of the Company	-	35	-	250	-
Shareholders of the Company	-	2	25	-	-
Other related parties	2 ,374	8,126	122	-	12,192
Total	**¸º , 58**	**36,464**	**11,204**	**24,330**	**14,431**

33 Related party transactions (cont'd)

Loans granted to subsidiaries of the Company as of 31 December 2011 and 2010 are payable in one year and carry fixed interest rates of 4-8 % (accounted under current receivables from related parties caption in the statement of financial position as of 31 December 2011 and 2010). Loans granted to the management of the Company are payable in 1-3 years and carry fixed interest rates of 3-6 % (accounted under non-current receivables and current receivables from related parties captions in the statement of financial position).

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

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

2010

Group	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables and advances received**
UAB ICOR	2,761	44	-	-	924
Subsidiaries of UAB ICOR: AB Axis Industries	20,265	1,260	42	-	6,457
Other subsidiaries of UAB ICOR	1,080	2,178	3,182	-	1,944
Management of the Company	-	17	329	874	-
Shareholders of the Company	-	-	19	-	-
Other related parties	º ,884	19,673	1,999	-	13,910
	4¸,990	**23,172**	**5,571**	**874**	**23,235**

2010

Company	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables and advances received**
UAB ICOR	1,911	44	-	-	689
Subsidiaries of UAB ICOR: AB Axis industries	19,869	1,216	36	-	6,261
Other subsidiaries of UAB ICOR	60	1,264	3,086	-	542
Subsidiaries of the Company	7,480	28,203	11,325	18,9[illegible]7	1,291
Management of the Company	-	17	329	874	-
Shareholders of the Company	-	-	19	-	-
Other related parties	,485	19,245	1,999	-	13,759
	¸805	**49,989**	**16,794**	**19,811**	**22,542**

The ageing analysis of the Group's receivables from related parties 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**
2011	817	64	158	111	332	29	**1,511**
2010	1,942	114	53	61	1,018	2,383	**5,571**

33 Related party transactions (cont'd)

The ageing analysis of the Company's receivables from related parties 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
2011	2,565	1,183	634	508	4,274	2.040	**11,204**
2010	4,928	1,156	765	3,845	1,871	4,229	**16,794**

Payables to related parties are non-interest bearing and are normally settled on 60-day terms. Trade receivables from related parties are non-interest bearing and are generally collectible on 30 - 90 days terms. Valuation allowance amounting LTL 466 was made for the receivables from related parties as of 31 December 2011 (none as of 31 December 2010). Change in valuation allowance for the years 2011 and 2010 has been included into general and administrative expenses.

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 4,710 thousand and LTL 2,258 thousand in 2011, respectively (to LTL 4,005 thousand and LTL 2,306 thousand in 2010, respectively). The outstanding balance of the loans granted by the Company to the management is disclosed in the tables above under Management of the Company heading. Provision for employee benefit for the management of the Group and the Company amounted to LTL 1 thousand both as of 31 December 2011 (LTL 15 thousand and LTL 8 thousand, respectively, as of 31 December 2010). In 2011 and 2010 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 2011 and 2010. The board remuneration in 2011 was LTL 800 thousand (no such remuneration in 2010).

34 Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintain healthy capital ratios in order to support the 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 manage capital structure and makes adjustments to it in the light of changes in economic conditions and risk characteristics of the activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders and/or return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2011 and 2010.

The Group companies registered in Lithuania and the Company are 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. The Group companies registered in Russia are obliged to upkeep their net assets at not less than the minimum amount of share capital, as imposed by the Law on Joint Stock Companies of the Russian Federation. As of 31 December 2011 some Group companies did not meet these requirements (major ones are UAB Vilkpėdės būstas, UAB Antakalnio būstas, UAB Saulės valda, ООО Жилкомсервис № 2 Невского района and ОАО Сити Сервис).

A company, which does not comply with these legal requirements, may become a subject for liquidation. If the Company does not decide on its liquidation, creditors may claim early termination or the execution of the company's liabilities and compensation of losses, if any. In practice, such actions of the creditors are not usual and the management of the Group considers such risk as remote.

In addition, as disclosed in Note 15, the Company has committed to its lenders to keep to certain minimum capital requirements. There were no other externally imposed capital requirements on the Group and the Company. As of 31 December 2011 and 2010 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.

34 Capital management (cont'd)

The Group and the Company monitor capital using debt to equity ratio. There is no target debt to equity ratio set out by the Group's and the Company's management, however, current ratios presented below are treated as good performance indicators.

	Group		Company	
	2011	2010	2011	2010
Non-current liabilities (including deferred tax)	46,661	42,324	20,516	21,421
Current liabilities	119,434	147,443	33,615	54,504
Liabilities	**166,095**	**189,767**	**54,131**	**75,925**
Equity	**178,470**	**156,925**	**147,688**	**143,488**
Debt to equity ratio	**93%**	**121%**	**37%**	**53%**

35 Subsequent events

Investments after 31 December 2011

On 10-12 January 2012 the Company established three new subsidiaries – Nemuno būsto priežiūra UAB, Baltijos NT valdymas UAB and Neries būstas UAB. Establishment of the companies is related to planned expansion in Lithuania.

On 27 March 2012 share capital of Saulės valda UAB was increased by LTL 3.1 million by additional ordinary share issue of 3,100 thousand shares. The share capital was increased by netting off with the receivable from the subsidiary. At the date of issue of these financial statements the share capital of Saulės valda UAB amounts to LTL 3,761,214.

Other subsequent events

On 31 January 2012 the first stage of implementation of the decision of the Board of the Company, adopted on 29 December 2011, that the Company activity shall be holding enterprise - public company which controls facility management, maintenance, waste management companies in Lithuania and in other countries, was finished. In this stage the commercial real estate management and maintenance activities were transferred to the subsidiary of the Company City Service LT UAB (code 300883806). The first stage ended on 31 January 2012 when the Company and 100 percent controlled subsidiary of the Company City Service LT UAB concluded share subscription agreement and assets, rights and obligations deed, on the basis of the above mentioned the Company's commercial real estate management and maintenance activities (including rights and obligations related to the mentioned activities) as assets complex was transferred to City Service LT UAB. Accordingly under share subscription agreement the Company paid up all new issued City Service LT UAB shares and after the registration of the new emission in the enterprises register the Company obtains and controls 100 percent of City Service LT UAB shares.

During February, 2012 the names of the subsidiaries of the Company which operate in Klaipėda city and Šilutė district have been changed. Ąžuolyno valda UAB, Buitis be rūpesčių UAB, Marių valdos UAB, Mūsų namų valdos UAB, Pempininkų valdos UAB, Vingio valdos UAB and Šilutės butų ūkis UAB have been renamed respectively into Vėtrungės būstas UAB, Žąrdės būstas UAB, Jūros būstas UAB, Danės būstas,UAB, Pempininkų būstas UAB, Vingio būstas UAB and Šilutės būstas UAB.

20 March 2012 Vilnius district court decided to satisfy all the claims of prosecutor in respect of the Company's acquisition of subsidiary Lazdynu Bustas UAB. According to the Court decision, restitution should be applied - Vilnius municipality shall have to return all the Company's paid sum (LTL 7,551 thousand) and the Company shall have to return the shares to Vilnius municipality (Note 32).

On 28 March 2012 the second stage of implementation of the decision of the Board of the Company, adopted on 29 December 2011, was finished. All the subsidiaries of the Company which manage residential facility in Lithuania and perform other activities related with the residential facility management, except for Lazdynų būstas UAB which shares are the object of the litigation (more detail information on the litigation process is disclosed in Note 32), were transferred to City Service LT UAB direct control.