AB CITY SERVICE

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008,
prepared in accordance with International Financial Reporting Standards,
as adopted by the European Union,
presented together with Independent Auditors' report

ERNST & YOUNG

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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 auditors' report to the shareholders of AB City Service

Report on the Financial Statements

We have audited the accompanying 2008 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 balance sheets as of 31 December 2008, the statements of income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements and the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AB City Service and the Group as of 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2008 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

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

Jonas Akelis
Auditor's licence
No. 000003
President

Inga Gudinaitė
Auditor's licence
No. 000366

The audit was completed on 14 April 2009.

Balance sheets

	Notes	Group As of 31 December 2008	Group As of 31 December 2007 (restated)	Company As of 31 December 2008	Company As of 31 December 2007
ASSETS					
A. Non-current assets					
I. Intangible assets					
I.1. Goodwill	5	16,711	11,686	-	-
I.2. Other intangible assets	6	5,743	765	77	118
Total intangible assets		22,454	12,451	77	118
II. Property, plant and equipment	8				
II.1. Buildings		12,062	10,222	-	-
II.2. Vehicles		3,353	2,662	1,589	1,518
II.3. Other property, plant and equipment		1,395	1,452	930	848
II.4. Construction in progress		164	-	163	-
Total property, plant and equipment		16,974	14,336	2,682	2,366
III. Investment property	7	658	-	-	-
IV. Non-current financial assets					
IV.1. Investments into subsidiaries	9	-	-	30,177	17,736
IV.2. Investments into associates	1	311	220	220	220
IV.3. Non-current receivables	11, 12	2,760	255	172	-
IV.4. Other financial assets	1	2,000	73	2,000	73
Total non-current financial assets		5,071	548	32,569	18,029
V. Deferred income tax asset	25	2,325	1,012	324	201
Total non-current assets		**47,482**	**28,347**	**35,652**	**20,714**
B. Current assets					
I. Inventories and prepayments					
I.1. Inventories	10	6,830	8,150	1,103	1,218
I.2. Prepayments		6,532	5,356	4,514	4,774
I.3. Prepayments to related parties	30	102	171	102	171
Total inventories and prepayments		13,464	13,677	5,719	6,163
II. Accounts receivable					
II.1. Trade receivables	11	57,896	42,276	36,244	24,553
II.2. Receivables from related parties (including loans granted)	30	7,645	11,487	34,408	29,045
II.3. Other receivables		756	1,615	2,233	1,385
Total accounts receivable		66,297	55,378	72,885	54,983
III. Prepaid income tax		570	425	-	-
IV. Other current assets		5,424	3,230	-	-
V. Cash and cash equivalents	12	5,386	20,082	613	14,551
Total current assets		**91,141**	**92,792**	**79,217**	**75,697**
Total assets		**138,623**	**121,139**	**114,869**	**96,411**

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

Balance sheets (cont'd)

	Notes	Group		Company	
		As of 31 December 2008	As of 31 December 2007 (restated)	As of 31 December 2008	As of 31 December 2007
EQUITY AND LIABILITIES					
C. Equity					
I. Share capital	1	19,110	19,110	19,110	19,110
II. Share premium	1, 13	23,456	23,456	23,456	23,456
III. Legal reserve	13	1,586	1,061	1,575	1,050
IV. Foreign currency translation reserve	2.2.	(644)	(54)	-	-
V. Retained earnings		15,483	10,406	15,547	10,510
		58,991	**53,979**	**59,688**	**54,126**
Minority interests		**266**	**240**	**-**	**-**
Total equity		**59,257**	**54,219**	**59,688**	**54,126**
D. Liabilities					
I. Non-current liabilities					
I.1. Non-current borrowings	14	7,237	-	8,549	-
I.2. Financial lease obligations	15	535	586	323	415
I.3. Deferred income tax liability	25	2,999	718	-	-
I.4. Non-current payables		112	112	-	-
Total non-current liabilities		**10,883**	**1,416**	**8,872**	**415**
II. Current liabilities					
II.1. Current portion of non-current borrowings	14	4,211	-	4,211	-
II.2. Current portion of financial lease obligations	15	723	703	527	554
II.3. Trade payables	17	39,377	31,590	22,199	12,951
II.4. Payables to related parties	30	5,806	7,294	9,880	9,142
II.5. Advances received	18	10,433	17,800	5,990	14,836
II.6. Income tax payable		460	600	-	15
II.7. Other current liabilities	19	7,473	7,517	3,502	4,372
Total current liabilities		**68,483**	**65,504**	**46,309**	**41,870**
Total equity and liabilities		**138,623**	**121,139**	**114,869**	**96,411**

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

General Manager	Žilvinas Lapinskas		14 April 2009
Finance Director	Jonas Janukėnas		14 April 2009

Income statements

	Notes	Group 2008	Group 2007 (restated)	Company 2008	Company 2007
I. Sales	4, 20	263,850	199,346	140,937	138,545
II. Cost of sales	21	(217,299)	(165,157)	(117,693)	(116,145)
III. Gross profit		**46,551**	**34,189**	**23,244**	**22,400**
IV. General and administrative expenses	22	(34,276)	(23,873)	(15,458)	(11,240)
V. Other operating income (expenses), net	23	165	156	205	161
VI. Profit from operations		**12,440**	**10,472**	**7,991**	**11,321**
VII. Financial income	24	583	772	2,342	1,131
VIII. Financial expenses	24	(2,080)	(431)	(477)	(239)
IX. Share of profit of associates		91	-	-	-
X. Profit before tax		**11,034**	**10,813**	**9,856**	**12,213**
XI. Income tax	25	(2,348)	(1,452)	(1,236)	(2,211)
XII. Net profit		**8,686**	**9,361**	**8,620**	**10,002**
Attributable to:					
The shareholders of the Company		8,660	9,325	8,620	10,002
Minority interests		26	36	-	-
		8,686	**9,361**	**8,620**	**10,002**
Basic and diluted earnings per share (LTL)	26	0.45	0.52		

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

General Manager	Žilvinas Lapinskas		14 April 2009
Finance Director	Jonas Janukėnas		14 April 2009

Statements of changes in equity

Group	Notes	Equity attributable to equity holders of the Company							
		Share capital	Share premium	Legal reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Minority interests	Total
Balance as of 31 December 2006		**10,500**	**-**	**1,061**	**(15)**	**19,309**	**30,855**	**615**	**31,470**
Net profit for the year (restated)	3	-	-	-	-	9,325	9,325	36	9,361
Income (expenses) for the year recognised directly in equity		-	-	-	(39)	-	(39)	-	(39)
Total income and (expense) for the year		-	-	-	(39)	9,325	9,286	36	9,322
Increase in share capital from retained earnings	1	6,500	-	-	-	(6,500)	-	-	-
Increase in share capital by issuing shares publicly	1, 13	2,110	25,215	-	-	-	27,325	-	27,325
Share issue transaction costs	1, 13	-	(1,759)	-	-	-	(1,759)	-	(1,759)
Dividends declared	27	-	-	-	-	(12,074)	(12,074)	-	(12,074)
Acquisition of minority		-	-	-	-	346	346	(411)	(65)
Balance as of 31 December 2007 (restated)		**19,110**	**23,456**	**1,061**	**(54)**	**10,406**	**53,979**	**240**	**54,219**
Net profit for the year		-	-	-	-	8,660	8,660	26	8,686
Income (expenses) for the year recognised directly in equity		-	-	-	(590)	-	(590)	-	(590)
Total income and (expense) for the year		-	-	-	(590)	8,660	8,070	26	8,096
Transfer to legal reserve	13	-	-	525	-	(525)	-	-	-
Dividends declared	27	-	-	-	-	(3,058)	(3,058)	-	(3,058)
Balance as of 31 December 2008		**19,110**	**23,456**	**1,586**	**(644)**	**15,483**	**58,991**	**266**	**59,257**

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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	Retained earnings	Total
Balance as of 31 December 2006		**10,500**	**-**	**1,050**	**19,082**	**30,632**
Increase in share capital from retained earnings	1	6,500	-	-	(6,500)	-
Increase in share capital by issuing shares publicly	1, 13	2,110	25,215	-	-	27,325
Share issue transaction costs	1, 13	-	(1,759)	-	-	(1,759)
Dividends declared	27	-	-	-	(12,074)	(12,074)
Net profit for the year		-	-	-	10,002	10,002
Balance as of 31 December 2007		**19,110**	**23,456**	**1,050**	**10,510**	**54,126**
Transfer to legal reserve	13	-	-	525	(525)	-
Dividends declared	27	-	-	-	(3,058)	(3,058)
Net profit for the year		-	-	-	8,620	8,620
Balance as of 31 December 2008		**19,110**	**23,456**	**1,575**	**15,547**	**59,688**

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

General Manager	Žilvinas Lapinskas		14 April 2009
Finance Director	Jonas Janukėnas		14 April 2009

Cash flow statements

		Notes	Group		Company	
			2008	2007 (restated)	2008	2007
I.	**Cash flows from (to) operating activities**					
I.1.	Net profit		8,686	9,361	8,620	10,002
	Adjustments for non-cash items:					
I.2.	Income tax expenses		2,348	1,452	1,236	2,211
I.3.	Depreciation and amortisation		2,024	1,424	960	805
I.4.	Impairment of accounts receivable and write-off of accounts receivable		3,095	1,745	-	147
I.5.	Allowance for inventories	10	(4)	74	-	-
I.6.	Loss (gain) on disposal of property, plant and equipment	23	(17)	95	2	1
I.7.	Loss on contract acquisition		-	703	-	-
I.8.	Discounting effect		651	-	29	-
I.9.	Dividend (income)		-	(93)	(840)	(93)
I.10.	Interest (income)		(420)	(596)	(1,446)	(1,009)
I.11.	Interest expenses		226	134	381	188
I.12.	Share of net profit of associate		(91)	-	-	-
I.13.	Foreign exchange effect on loans		(716)	-	-	-
			15,782	14,299	8,942	12,252
	Changes in working capital:					
I.14.	Decrease (increase) in inventories		1,392	(5,718)	115	567
I.15.	(Increase) in trade receivables, receivables from related parties and other current assets		(19,623)	(12,686)	(2,921)	(3,165)
I.16.	(Increase) in prepayments		(1,061)	(2,485)	(172)	(2,757)
I.17.	Increase in trade payables and payables to related parties		4,416	6,910	9,960	(4,402)
I.18.	Income tax (paid)		(3,379)	(1,782)	(1,205)	(1,455)
I.19.	(Decrease) increase in advances received and other current liabilities		(9,912)	10,163	(9,832)	6,557
	Net cash flows (to) from operating activities		**(12,385)**	**8,701**	**4,887**	**7,597**
II.	**Cash flows from (to) investing activities**					
II.1.	(Acquisition) of non-current assets (except investments)		(1,444)	(1,976)	(767)	(583)
II.2.	Proceeds from sale of non-current assets (except investments)		1,647	49	49	68
II.3.	(Acquisition) of investments in subsidiaries (net of cash acquired in the Group) and associates	9, 5	(10,410)	(9,434)	(12,378)	(6,843)
II.4.	Disposal of investments in subsidiaries		10	-	10	-
II.5.	(Acquisition) of other investments	1	(2,000)	(73)	(2,000)	-
II.6.	Dividends received		-	-	840	-
II.7.	Interest received		420	596	163	1,009
II.8.	Loans granted		-	-	(15,719)	(8,801)
	Net cash flows (to) investing activities		**(11,777)**	**(10,838)**	**(29,802)**	**(15,150)**

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

Cash flow statements (cont'd)

		Note	Group		Company	
			2008	2007 (restated)	2008	2007
III.	**Cash flows from (to) financing activities**					
III.1.	Dividends (paid)		(765)	(1,956)	(765)	(1,956)
III.2.	Contributions of shareholders	1	-	25,566	-	25,566
III.3.	Proceeds from loans		11,447	-	12,759	2,000
III.4.	Loans (repaid)		-	(5,562)	-	(5,305)
III.5.	Interest (paid)		(225)	(134)	(332)	(188)
III.6.	Financial lease (payments)		(991)	(667)	(685)	(583)
	Net cash flows from financial activities		**9,466**	**17,247**	**10,977**	**19,534**
IV.	**Net (decrease) increase in cash and cash equivalents**		**(14,696)**	**15,110**	**(13,938)**	**11,981**
V.	**Cash and cash equivalents at the beginning of the year**		**20,082**	**4,972**	**14,551**	**2,570**
VI.	**Cash and cash equivalents at the end of the year**		**5,386**	**20,082**	**613**	**14,551**
	Supplemental information of cash flows:					
	Non-cash investing activity:					
	Property, plant and equipment acquisitions financed by financial lease		882	824	520	608
	Non-cash financing activity:					
	Non-cash dividends to shareholders (set-off against intercompany receivables)		2,293	10,118	2,293	10,118

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

General Manager	Žilvinas Lapinskas		14 April 2009
Finance Director	Jonas Janukėnas		14 April 2009

Notes to the financial statements

1 General information

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

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

Konstitucijos Ave. 7,
Vilnius,
Lithuania.

The Company's address of residence is:

Smolensko Str. 12,
Vilnius,
Lithuania.

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

As of 31 December 2008 and 2007 the shareholders of the Company were:

	2008		2007	
	Number of shares held	Percentage	Number of shares held	Percentage
UAB Rubicon Group	13,303,544	69.62 %	13,303,544	69.62 %
Shareholders of UAB Rubicon Group:				
Mr. Andrius Janukonis	146,434	0.766 %	146,434	0.766 %
Mr. Darius Leščinskas	146,434	0.766 %	146,434	0.766 %
Mr. Arūnas Mačiuitis	146,432	0.766 %	146,432	0.766 %
Mr. Rimantas Bukauskas	146,432	0.766 %	146,432	0.766 %
Mr. Gintautas Jaugielavičius	146,432	0.766 %	146,432	0.766 %
Mr. Linas Samuolis	146,432	0.766 %	146,432	0.766 %
Mr. Remigijus Lapinskas	146,432	0.766 %	146,432	0.766 %
Other private and institutional shareholders	4,781,428	25.02 %	4,781,428	25.02 %
Total	**19,110,000**	**100 %**	**19,110,000**	**100 %**

The ultimate parent of AB City Service UAB Rubicon Group has pledged the part of its shares, i.e. 10,258,500 pieces, which constitutes 53.68 % of the authorized 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 Rubicon Group, as the shareholder, are free from any encumbrances or restrictions.

<u>Share capital of the Company</u>

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

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

All shares of the Company are fully paid. The Company does not have any other classes of shares than ordinary shares mentioned above, there are no any 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.

1 General information (cont'd)

Changes of share capital during 2007

On 28 March 2007 the shareholders of the Company decided to increase the authorised capital of the Company from LTL 10,500 thousand to LTL 17,000 thousand by issuing 6,500,000 ordinary shares with a nominal value of LTL 1 each. The share capital was increased from the Company's retained earnings. On 2 April 2007 the Company registered the respective amendments to the Articles of Association in the Register of Enterprises.

On 14 May 2007 shareholders of the Company decided to increase the authorised capital of the Company from LTL 17,000 thousand to LTL 19,110 thousand by issuing 2,110,000 ordinary shares with a nominal value of LTL 1 each. These shares have been distributed in an initial public offering (IPO) together with another 2,671,428 ordinary shares held by the shareholders of the Company. Subscription price of new shares was equal to the final price of the public offer shares – LTL 12.95 each. The excess of the subscription price over the nominal value of the shares amounting to LTL 25,215 thousand was recorded in share surplus, net of issuance costs of LTL 1,759 thousand. The respective amendments to the Articles of Association were registered by the Company in the Register of Enterprises on 7 August 2007.

Trading of the shares on Vilnius Stock Exchange started on 8 June 2007.

Structure of the Group

On 31 December 2008 the AB City Service group consists of AB City Service and the following directly and indirectly owned subsidiaries (hereinafter the Group):

Company	Country	Share of the stock held by the Group as of 31 December 2008	Share of the stock held by the Group as of 31 December 2007	Main activities
UAB Žaidas	Lithuania	99 %	99 %	Administration of dwelling-houses
UAB Vingio Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Buitis Be Rūpesčių	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Sostinės Naujienos	Lithuania	100 %	100 %	Dormant
UAB Ąžuolyno Valda	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Marių Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Pempininkų Valdos	Lithuania	87.3 %	87.3 %	Administration of dwelling-houses
UAB Mūsų Namų Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Namų Priežiūros Centras	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Pašilaita	Lithuania	100 %	100 %	Administration of dwelling-houses
ОАО Сити Сервис / OAO City Service (former ОАО Ремонтное строительное предприятие, (hereinafter RSP))	Russia	100 %	100 %	Administration of dwelling-houses
ЗАО Сити Сервис / ZAO City Service (former ЗАО Ремонтно-експлуатационная служба No. 1)	Russia	100 %	100 %	Administration of dwelling-houses
ОАО Спец РНУ / OAO Spec RNU (full name – ОАО Специализированное ремонтно-наладочное управление)*	Russia	100 %*	100 %	Construction and engineering
SIA Riga City Service	Latvia	100 %	100 %	Administration of dwelling-houses
ZAT Kiev City Service	Ukraine	100 %	100 %	Administration of dwelling-houses
UAB Sinsta	Lithuania	100 %	100 %	Dormant
UAB Fervėja	Lithuania	-	100 %	Dormant
UAB Atidumas	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Ūkvedys	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Šiaulių Butų Remonto Tarnyba	Lithuania	100 %	100 %	Construction
UAB Lazdynų Būstas	Lithuania	100 %	-	Administration of dwelling-houses
UAB Vilko Pėda	Lithuania	100 %	-	Administration of dwelling-houses
UAB Šilutės Butų Ūkis	Lithuania	99.84 %	19.8 %	Administration of dwelling-houses

* For the purpose of preparation of the financial statements the management considers that the Company owns 100 % of the shares in OAO Spec RNU as of 31 December 2008, because the Company retains a call option to reacquire OAO Spec RNU, which was sold in December 2008, as described below, and exercises management control.

1 General information (cont'd)

Changes in the Group in 2008

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

On 4 November 2008 the Company disposed of its shareholding in UAB Fervėja for its carrying value of LTL 10 thousand.

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

On 19 December 2008 the Company signed an authorised capital increase agreement (share subscription agreement) with UAB Fervėja under which on 6 February 2009 99.9% of UAB Fervėja shares were acquired. Control of UAB Fervėja was obtained on 6 February 2009 after the authorization from the Competition Council of the Republic of Lithuania had been received. The Company had no control or significant influence over this entity as of 31 December 2008. According to the share subscription agreement the Company has made a prepayment for the shares of UAB Fervėja amounting to LTL 2,000 thousand, which is accounted for as Other financial assets as of 31 December 2008 in the Group's and the Company's financial statements.

More detailed information on the subsidiaries acquired in 2008 is presented in Note 5 and Note 9.

Changes in the Group in 2007

In 2007 the Group has been enlarged by:
- acquisition of 100 % of UAB Ūkvedys shares (acquisition cost LTL 798 thousand); the results of this subsidiary are consolidated in the Group's financial statements from 1 January 2007;
- acquisition of 100 % of UAB Atidumas shares including an indirect acquisition of 100 % investment in UAB Šiaulių Butų Remonto Tarnyba (acquisition cost LTL 3,831 thousand); the results of these subsidiaries are consolidated in the Group's financial statements from 1 June 2007;
- acquisition of 100 % of UAB Mūsų Namų Valdos (acquisition cost LTL 1,330 thousand); the results of this subsidiary are consolidated in the Group's financial statements from 1 July 2007;
- acquisition of 100 % of UAB Namų Priežiūros Centras including an indirect acquisition of 100% investment in UAB Pašilaita (acquisition cost LTL 6,180 thousand); the results of these subsidiaries are consolidated in the Group's financial statements from 1 July 2007;
- acquisition of 100 % of ЗАО Сити Сервис (acquisition cost RUB 10,000 thousand (equivalent to LTL 998 thousand as of the date of acquisition)); the results of this subsidiary are consolidated in the Group's financial statements from 1 January 2007;
- acquisition of 100 % of OAO Спец РНУ (acquisition cost RUB 2,250 thousand (equivalent to LTL 226 thousand as of the date of acquisition)); the results of this subsidiary are consolidated in the Group's financial statements from 1 January 2007;
- establishment of two new subsidiaries – UAB Sinsta and UAB Fervėja – with a registered share capital amounting to LTL 10 thousand each; these entities have been established for the acquisitions of new Group companies; these subsidiaries are consolidated since the date of their establishment though they are currently dormant.

More detailed information on the subsidiaries acquired in 2007 is presented in Note 5 and Note 9.

In addition to the above acquisitions, in 2007 the Company increased its holding in UAB Pempininkų Valdos and UAB Marių Valdos by acquiring part of the shares held by minority for the total cost LTL 65 thousand. The difference between the cost of these shares and the net assets acquired of LTL 346 thousand has been accounted for directly in the Group's statement of changes in equity.

Also, from 27 February to 27 April the Company acquired 19.82 % of shares in UAB Šilutės Butų Ūkis for LTL 73 thousand. As the Company had no control or significant influence over this entity, the investment was accounted for as available-for-sale investment under other financial assets caption in the Group's and the Company's financial

1 General information (cont'd)

Changes in the Group in 2007 (cont'd)

statements as of 31 December 2007. The management believes that as of 31 December 2007 the acquisition cost of this investment was similar to its fair value.

Investments into associates

The Group's and the Company's investments into associates balance as of 31 December 2008 and 2007 comprises an investment in UAB Būsto Administravimo Agentūra (37 % of share capital, acquisition price LTL 220 thousand), which was acquired on 7 November 2005.

On 7 November 2005 the Company made a shares' swap agreement with Mr. and Mrs. Bačiliūnai. The Company transferred to Mr. and Mrs. Bačiliūnai 33% of UAB Vingio Valdos share capital and acquired 37% of the shares of UAB Būsto Administravimo Agentūra, on the same day the Company signed with Mr. and Ms. Bačiliūnai a share purchase agreement, according to which, the Company reacquired 33% of UAB Vingio Valdos shares for LTL 220 thousand. After the swap of shares one of the main shareholders of UAB Būsto Administravimo Agentūra, appealed to the Court with a claim to cancel the swap of the shares. On 9 May 2008 the legal dispute ended with the ruling decision of the Lithuanian High Court in favour of the Company, making the Company undisputed owner of 37 % of UAB Būsto Administravimo Agentūra shares.

Because of ongoing litigation the share of the associate's results attributable to the Group and the Company for 2007 was not included in the financial statements and the investment was carried at cost of acquisition as of 31 December 2007. As the legal proceedings related to acquisition of UAB Būsto Administravimo Agentūra were finalized in 2008, the Group accounted for the associate's results attributable to the Group and the Company amounting to LTL 91 thousand in the income statement for the year ended 31 December 2008.

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

	As of 31 December 2008	As of 31 December 2007
Assets	994	860
Liabilities	153	174
Net assets	841	686
Revenue	1,484	1,373
Net profit	155	162

As of 31 December 2008 the number of employees of the Group was 1,621 (as of 31 December 2007 – 1,527).
As of 31 December 2008 the number of employees of the Company was 486 (as of 31 December 2007 – 432).

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 14 April 2009. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

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

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

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

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* – Reclassification of Financial Assets;
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions.*

The principal effects of these changes are as follows:

Amendments to IAS 39 and IFRS 7 – Reclassification of Financial Assets

Through these amendments International Accounting Standards Board (hereinafter IASB) implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Group and the Company did not have financial instruments caught by these amendments.

IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity. The Group and the Company has not issued instruments caught by this interpretation.

Standards issued but not yet effective

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

Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 January 2009).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to IFRS 2 *Share-based Payment* (effective for financial years beginning on or after 1 January 2009).

The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company does not have share-based payments.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

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

Amendments to IFRS 7 *Financial Instruments*: Disclosures (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendments improve disclosure requirements about fair value measurement and enhance existing principles for disclosures about liquidity risk associated with financial instruments. The amendments will have no impact on the financial position or performance of the Group. The Group is still evaluating whether additional disclosures will be needed.

IFRS 8 *Operating Segments* (effective for financial years beginning on or after 1 January 2009).

The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 replaces IAS 14 *Segment Reporting*. The Group and the Company expects that the operating segments determined in accordance with IFRS 8 will not materially differ from the business segments previously identified under IAS 14.

Amendment to IAS 1 *Presentation of Financial Statements* (effective for financial years beginning on or after 1 January 2009).

This amendment introduces a number of changes, including introduction of a new terminology, revised presentation of equity transactions and introduction of a new statement of comprehensive income as well as amended requirements related to the presentation of the financial statements when they are restated retrospectively. The Group and the Company is still evaluating whether it will present all items of recognised income and expense in one single statement or in two linked statements.

Amendment to IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009).

The revised standard eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional requirements of the Standard, the Group and the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009).

The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company has not issued such instruments.

Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment will have no impact on the financial position or performance of the Group and the Company, as the Group and the Company has not entered into any such hedges.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Improvements to IFRSs

In May 2008 IASB issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard; most of the changes are effective for financial years beginning on or after 1 January 2009. The Group and the Company anticipates that these amendments to standards will have no material effect on the financial statements.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.* Clarification that all of a subsidiary's assets and liabilities are classified as held for sale, even when the entity will retain a non-controlling interest in the subsidiary after the sale.
- *IFRS 7 Financial Instruments: Disclosures.* Removal of the reference to 'total interest income' as a component of finance costs.
- *IAS 1 Presentation of Financial Statements.* Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.* Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.
- *IAS 10 Events after the Reporting Period.* Clarification that dividends declared after the end of the reporting period are not obligations.
- *IAS 16 Property, Plant and Equipment.* Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Also, replaced the term "net selling price" with "fair value less costs to sell".
- *IAS 18 Revenue.* Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39.
- *IAS 19 Employee Benefits.* Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance.* Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other IFRS.
- *IAS 23 Borrowing Costs.* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- *IAS 27 Consolidated and Separate Financial Statements.* When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.
- *IAS 28 Investment in Associates.* If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. In addition, an investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment is not separately allocated to the goodwill included in the investment balance.
- *IAS 29 Financial Reporting in Hyperinflationary Economies.* Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. Also, revised various terms used to be consistent with other IFRS.
- *IAS 31 Interest in Joint ventures:* If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.
- *IAS 34 Interim Financial Reporting.* Earnings per share are disclosed in interim financial reports if an entity is within the scope of IAS 33.
- *IAS 36 Impairment of Assets.* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.
- *IAS 38 Intangible Assets.* Expenditure on advertising and promotional activities is recognised as an expense when the entity either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.
- *IAS 39 Financial Instruments: Recognition and Measurement.* Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- *IAS 40 Investment Property.* Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.
- *IAS 41 Agriculture.* Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced the term 'point-of-sale costs' with 'costs to sell'.

Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments*: Recognition and Measurement – Embedded derivatives (effective for financial years ending on or after 30 June 2009 once adopted by the EU).

The amendments clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment to IAS 39 and IFRS 7 issued in October 2008. The Group did not have financial instruments caught by these amendments.

IFRIC 12 *Service Concession Arrangements* (effective for financial years beginning on or after 1 January 2010).

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group and the Company is an operator and, therefore, this interpretation has no impact on the Group and the Company.

IFRIC 13 *Customer Loyalty Programmes* (effective for financial years beginning on or after 1 July 2008).

This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credit and deferred over the period that the award credit is fulfilled. The Group and the Company does not maintain customer loyalty programmes, therefore, this interpretation will have no impact on the financial position or performance of the Group and the Company.

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2009).

This interpretation specifies the conditions for recognising a net asset for a defined benefit pension plan. The Group and the Company does not have defined benefit plans, therefore, the interpretation will have no impact on the financial position or performance of the Group and the Company.

IFRIC 15 *Agreement for the Construction of Real Estate* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group and the Company does not conduct such activity, therefore, this interpretation will not have an impact on their financial statements.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* (effective for financial years beginning on or after 1 October 2008 once adopted by the EU).

The interpretation provides guidance on the accounting for a hedge of a net investment in a foreign operation. IFRIC 16 will not have an impact on the consolidated financial statements because the Group and the Company does not have hedges of net investments.

IFRIC 17 *Distributions of Non-cash Assets to Owners* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. IFRIC 17 will not have an impact on the consolidated financial statements because the Group and the Company does not distribute non-cash assets to owners.

IFRIC 18 *Transfers of Assets from Customers* (effective for transfers of assets received on or after 1 July 2009 once adopted by the EU).

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

2.2. Measurement and presentation currency

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

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

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

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

Long-term receivables from or loans granted to foreign subsidiaries that are neither planned nor likely to be settled in the future are considered to be a part of the Company's net investment in the foreign operation. In the Group's consolidated financial statements the exchange differences recognized in the separate financial statements of the subsidiary in relation to these monetary items are reclassified to the separate component of equity. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in equity 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 Accounting principles (cont'd)

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 minority shareholders' interests are shown separately in the balance sheet and the income statement.

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

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

Business combinations and Goodwill

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

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

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

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

2.4. Investments in subsidiaries and associates (the Company)

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

2 Accounting principles (cont'd)

2.5. Intangible assets other than goodwill

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

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

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

Contractual investments (also described in Note 2.17.)	6 years
Customer relationship	40 years
Other intangible assets	3 years

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

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

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

2.6. Property, plant and equipment

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

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

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

Buildings	20 - 60 years
Vehicles	5 - 6 years
Other property, plant and equipment	2 - 4 years

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

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

2 Accounting principles (cont'd)

2.7. Financial assets (cont'd)

Financial assets at fair value through profit or loss

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 income statement.

Held-to-maturity investments

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 income statement when the investments are derecognised or impaired, as well as through the amortisation process.

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 income statement 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 as a separate component of equity 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 equity 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 profit or loss statement.

2 Accounting principles (cont'd)

2.9. Inventories

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

2.10. Cash and cash equivalents

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

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

2.11. Borrowings

Borrowing costs are expensed as incurred.

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

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

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 income statement on a straight-line basis over the lease term.

2 Accounting principles (cont'd)

2.13. 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 balance sheet date 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.

2.14. 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 2008. In 2007 along with the 15 % income tax companies had to pay an additional 3 % social tax calculated based on the income tax accounting principles. After the amendments of Income Tax Law of Republic of Lithuania had come into force, 20 % income tax rate has been established for indefinite period starting 1 January 2009.

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

Income tax rate in Ukraine, Russia and Latvia is 25 %, 24 % and 15 %, respectively.

After the amendments of income tax regulation of Russia had come into force 20 % income tax rate has been established for indefinite period starting 1 January 2009.

Deferred taxes are calculated using the balance sheet 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 balance sheet date.

Deferred tax assets have been recognised in the balance sheet 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.

2.15. 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 completion: completion percentage is estimated by the proportion of actual costs incurred to the total estimated costs of the project. Changes in profit rates are reflected in current earnings as identified. Contracts are reviewed regularly and in case of probable losses, provisions are recorded.

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

Revenue from services is recognised when services are rendered.

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

2 Accounting principles (cont'd)

2.16. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each balance sheet date.

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 income statement. 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 income statement. 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 income statement. 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 income statement as the impairment loss.

2.17. 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 7 and Note 8), percentage of completion evaluation for customer specific contracts (Note 2.15. and Note 20), impairment evaluation of goodwill (Note 2.3. and Note 5) and other assets (Note 2.16., Note 6, Note 10 and Note 11). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

At the date of preparing these financial statements, the underlying assumptions and estimates were not subject to a significant risk that from today's point of view it is likely that the carrying amounts of assets and liabilities will have to be adjusted significantly in the subsequent fiscal year, except for the estimated validity period of the contracts underlying capitalised investments made in St. Petersburg, which are accounted for under other intangible assets and their acquisition value amounts to LTL 728 thousand as of 31 December 2007 and LTL 640 thousand as of 31 December 2008. The management amortises these contractual investments over the estimated validity period of the contracts, which is 6 years, however, as the Company operates in St. Petersburg only since 2006, there is no enough statistical data on the early terminations of the contracts by the customers. The management estimated that the expected validity term of the contracts is 6 years based on the current development of the operations, i.e. already concluded contracts or protocols of intention, as well as current rate of terminated contracts, which is insignificant. Should the circumstances change in the future, the estimate may need to be revised and the size of such revision can not be reasonably estimated at the date of these financial statements. The net book value of these investments carried in the intangible assets caption of the Group amount to LTL 410 thousand as of 31 December 2008 and LTL 591 thousand as of 31 December 2007.

2 Accounting principles (cont'd)

2.18. Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities associated with acquisitions. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits are probable.

2.19. Subsequent events

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

2.20. Segment information

In these financial statements a business segment means a constituent part of the Group or the Company participating in provision of a service or a group of related services, the risk and returns whereof are different from other business segments.

In these financial statements a geographical segment means a constituent part of the Group or the Company participating in provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

3 Corrections of errors

As of 31 December 2007 the Group accounted for income related to installation of heat meters in St. Petersburg amounting to LTL 9,856 thousand and the related discounting effect of receivables in the amount LTL 1,131 thousand. Income recognition was based on the completion of heat meters installation works. The Group did not take into account the fact that it takes considerable time after the installation works are completed to get the heat meters accepted by the heat supply organizations, thus, risks and rewards associated with the heat meters installed are in substance not transferred to the customers before the acceptance by the heat supply organizations. As of 31 December 2008 significant part of heat meters installed as of 31 December 2007 was not accepted, thus, was not in operation and accordingly the Group recorded a correction of error related to respective income recognition. Income and respective costs from installation of heat meters shall be recognized upon transfer – acceptance with heat supply organizations. As of the date of release of these financial statements major part of heat meters have been accepted by the heat supply organizations.

3 Corrections of errors (cont'd)

The effect of correction of the error on the considered Group accounts was as follows:

Group	As of 31 December 2007 (as stated earlier)	Correction of error	As of 31 December 2007 (restated)
BALANCE SHEET			
Property, plant and equipment	14,336	-	14,336
Non-current receivables	1,090	(835)	255
Deferred income tax asset	553	459	1,012
Trade accounts receivable	50,154	(7,878)	42,276
Inventories	1,649	6,501	8,150
Other current and non-current assets	55,110	-	55,110
Total assets	**122,892**	**(1,753)**	**121,139**
Retained earnings	12,096	(1,690)	10,406
Other equity captions	43,813	-	43,813
Deferred income tax liability	792	(74)	718
Other non-current and current liabilities	66,191	11	66,202
Total equity and liabilities	**122,892**	**(1,753)**	**121,139**
INCOME STATEMENT			
Sales	209,202	(9,856)	199,346
Cost of sales	(171,659)	6,502	(165,157)
Financial expenses	(1,562)	1,131	(431)
Income tax	(1,985)	533	(1,452)
Other captions of income statement	(22,945)	-	(22,945)
Profit for the year	**11,051**	**(1,690)**	**9,361**
Basic and diluted earnings per share (LTL)	0.58	(0.09)	0.49

4 Segment information

The primary segment reporting format is determined to be business segments as the Group's and the Company's risks and rates of return are affected predominantly by differences in services provided. Secondary information is reported geographically.

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

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

The Group's geographical segments are based on the location of the Group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

All of the assets and customers of the Company are based in Lithuania, therefore, the Company's geographical segments are not reported.

Business Segments

The following tables present revenue, profit and certain assets and liability information regarding the Group's and the Company's business segments:

	Group			Company		
Year ended 31 December 2008	**Heating infrastructure renovation**	**Buildings' administration**	**Total**	**Heating infrastructure renovation**	**Buildings' administration**	**Total**
Revenue	56,064	206,344	262,408	56,064	83,431	139,495
Unallocated income			1,442			1,442
Total revenue			**263,850**			**140,937**
Segment results	4,928	14,550	19,478	4,928	10,101	15,029
Unallocated expenses			(7,038)			(7,038)
Profit before tax, finance costs and finance revenue			12,440			7,991
Net financial costs			(1,406)			1,865
Profit / (loss) before income tax			11,034			9,856
Income tax expenses			(2,348)			(1,236)
Net profit for the year			**8,686**			**8,620**
As of 31 December 2008						
Assets and liabilities						
Segment assets	14,247	122,360	136,607	14,247	66,037	80,284
Unallocated assets			2,016			34,585
Total assets			**138,623**			**114,869**
Segment liabilities	14,569	52,823	67,392	14,569	28,638	43,207
Unallocated liabilities			11,974			11,974
Total liabilities			**79,366**			**55,181**
Other segment information						
Capital expenditure	3	2,578	2,581	3	1,279	1,282
Depreciation and amortisation	42	1,982	2,024	42	918	960
Impairment losses recognised in income statement	-	-	-	-	-	-

4 Segment information (cont'd)

	Group			Company		
Year ended 31 December 2007	**Heating infrastructure renovation**	**Buildings' administration**	**Total**	**Heating infrastructure renovation**	**Buildings' administration**	**Total**
Revenue	73,650	123,693	197,343	73,650	63,530	137,180
Unallocated income			2,003			1,365
Total revenue			**199,346**			**138,545**
Segment results	7,771	4,593	12,364	7,771	5,442	13,213
Unallocated expenses			(1,892)			(1,892)
Profit before tax, finance costs and finance revenue			10,472			11,321
Net financial costs			341			892
Profit / (loss) before income tax			10,813			12,213
Income tax expenses			(1,452)			(2,211)
Net profit for the year			**9,361**			**10,002**
As of 31 December 2007						
Assets and liabilities						
Segment assets	16,275	62,595	78,870	16,275	37,867	54,142
Unallocated assets			42,269			42,269
Total assets			**121,139**			**96,411**
Segment liabilities	26,630	39,072	65,702	26,630	14,237	40,867
Unallocated liabilities			1,218			1,418
Total liabilities			**66,920**			**42,285**
Other segment information						
Capital expenditure	10	2,790	2,800	10	1,181	1,191
Depreciation and amortisation	11	1,413	1,424	11	794	805
Impairment losses recognised in income statement	-	-	-	-	-	-

All segment sales are made to external customers.

4 Segment information (cont'd)

Geographical segments

The following tables present revenue, expenditure and certain assets information regarding the Group's geographical segments:

2008	**Baltic states**	**CIS states**	**Total**
Revenue			
Sales to external customers	181,883	81,967	263,850
Segment revenue	**181,883**	**81,967**	**263,850**
Other segment information			
Segment assets	108,961	29,351	138,312
Investment in associate	311	-	311
Total assets			**138,623**
Capital expenditure	1,985	596	2,581

2007	**Baltic states**	**CIS states**	**Total**
Revenue			
Sales to external customers	160,804	38,542	199,346
Segment revenue	**160,804**	**38,542**	**199,346**
Other segment information			
Segment assets	95,310	25,609	120,919
Investment in associate	220	-	220
Total assets			**121,139**
Capital expenditure	1,938	862	2,800

5 Goodwill

	Group
Cost:	
Balance as of 31 December 2006	3,806
Additions	8,170
Balance as of 31 December 2007	11,976
Additions	5,025
Balance as of 31 December 2008	17,001
Impairment:	
Balance as of 31 December 2006	290
Impairment for the year	-
Balance as of 31 December 2007	290
Impairment for the year	-
Balance as of 31 December 2008	290
Net book value as of 31 December 2008	**16,711**
Net book value as of 31 December 2007	**11,686**

Acquisitions in 2008

As disclosed in Notes 1 and 9, during 2008 the Company has acquired 3 new subsidiaries: UAB Lazdynų Būstas, UAB Vilko Pėda, UAB Šilutės Butų Ūkis. At the acquisition of these subsidiaries goodwill of LTL 5,025 thousand has been accounted for. The goodwill appears due to expected synergies and other benefits resulting from market imperfections.

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

Fair value of assets, liabilities and contingent liabilities	**UAB Lazdynų Būstas**	**UAB Šilutės Butų ūkis**	**UAB Vilko Pėda**
Date of acquisition	**1 March 2008**	**1 March 2008**	**1 September 2008**
Property, plant and equipment	3,276	1,107	11
Intangible assets	3,443	1,757	-
Other non-current assets	-	-	43
Current assets	2,062	806	1,687
Total assets	**8,781**	**3,670**	**1,741**
Equity	5,461	2,160	(195)
Non-current and current liabilities	3,320	1,510	1,936
Total equity and liabilities	**8,781**	**3,670**	**1,741**

5 Goodwill (cont'd)

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

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

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

	UAB Lazdynų Būstas	**UAB Šilutės Butų Ūkis**	**UAB Vilko Pėda**
Date of acquisition	**1 March 2008**	**1 March 2008**	**1 September 2008**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	5,461	2,160	(195)
Goodwill	2,090	-	2,935
Total purchase consideration	**7,551**	**2,160**	**2,740**
Cash acquired	1,244	455	269
Total purchase consideration, net of cash acquired	**6,307**	**1,705**	**2,471**

When preparing the 2008 financial statements, the management of the Group attributed all difference between the purchase consideration and the fair value of the acquired net assets to UAB Vilko Pėda goodwill, however, this purchase price allocation for UAB Vilko Pėda is provisional as the Group's management has not yet finalized purchase price allocation to identified intangible assets (i.e. customer relationships) according to IFRS 3 *Business Combinations* requirements, as the acquisition of UAB Vilko Pėda was completed close to the year-end. The management of the Group will finalize this purchase price allocation during the year 2009.

All purchase consideration has been settled in cash.

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

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

<u>Acquisitions in 2007</u>

As disclosed in Notes 1 and 9, during 2007 the Company has acquired 6 new subsidiaries: UAB Atidumas, UAB Ūkvedys, ЗАО Сити Сервис, ОАО Спец РНУ, UAB Namų Priežiūros Centras ir UAB Mūsų Namų Valdos. As a result of these acquisitions the Company has also acquired an indirect ownership of 2 subsidiaries: UAB Šiaulių Butų Remonto Tarnyba and UAB Pašilaita. At the acquisition of these subsidiaries goodwill of LTL 8,170 thousand has been accounted for. The goodwill appears due to expected synergies and other benefits resulting from market imperfections.

5 Goodwill (cont'd)

Acquisitions in 2007 (cont'd)

The fair values of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisitions made during 2007 were as follows:

Fair value of assets, liabilities and contingent liabilities	**UAB Ūkvedys**	**UAB Atidumas ***	**UAB Mūsų Namų Valdos**	**OAO Спец РНУ**	**ЗАО Сити Сервис**	**UAB Namų Priežiūros Centras****
Date of acquisition	**1 January 2007**	**31 May 2007**	**30 June 2007**	**1 January 2007**	**1 January 2007**	**30 June 2007**
Property, plant and equipment	885	813	270	12	67	3,125
Other non-current assets	-	913	340	58	-	28
Current assets	170	2,258	713	379	1,715	2,182
Total assets	**1,055**	**3,984**	**1,323**	**449**	**1,782**	**5,335**
Equity	757	3,050	(48)	5	14	1,415
Non-current and current liabilities	298	934	1,371	444	1,768	3,920
Total equity and liabilities	**1,055**	**3,984**	**1,323**	**449**	**1,782**	**5,335**

* Includes 100 % owned subsidiary of UAB Atidumas - UAB Šiaulių Butų Remonto Tarnyba;
** Includes 100 % owned subsidiary UAB Namų Priežiūros Centras - UAB Pašilaita.

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

Book values	**UAB Ūkvedys**	**UAB Atidumas***	**UAB Mūsų Namų Valdos**	**OAO Спец РНУ**	**ЗАО Сити Сервис**	**UAB Namų Priežiūros Centras****
Date of acquisition	**1 January 2007**	**31 May 2007**	**30 June 2007**	**1 January 2007**	**1 January 2007**	**30 June 2007**
Property, plant and equipment	428	53	270	12	67	2,132
Other non-current assets	-	913	340	58	-	28
Current assets	170	2,258	713	379	1,715	2,182
Total assets	**598**	**3,224**	**1,323**	**449**	**1,782**	**4,342**
Non-current and current liabilities	229	820	649	444	1,768	3,771
Total liabilities	**229**	**820**	**649**	**444**	**1,768**	**3,771**

* Includes 100 % owned subsidiary of UAB Atidumas - UAB Šiaulių Butų Remonto Tarnyba;
** Includes 100 % owned subsidiary UAB Namų Priežiūros Centras - UAB Pašilaita.

5 Goodwill (cont'd)

Acquisitions in 2007 (cont'd)

The differences between the amounts paid and the fair values of assets acquired and liabilities and contingent liabilities assumed for the acquisitions of 2007 were as follows:

	UAB Ūkvedys	UAB Atidumas*	UAB Mūsų Namų Valdos	OAO Спец РНУ	ЗАО Сити Сервис	UAB Namų Priežiūros Centras**
Date of acquisition	**1 January 2007**	**31 May 2007**	**30 June 2007**	**1 January 2007**	**1 January 2007**	**30 June 2007**
Fair value of acquired assets, liabilities and contingent liabilities applicable to the Group	757	3,050	(48)	5	15	1,415
Goodwill	41	781	1,378	221	983	4,766
Total purchase consideration	**798**	**3,831**	**1,330**	**226**	**998**	**6,180**
Cash acquired	83	1,789	252	162	631	631
Total purchase consideration, net of cash acquired	**715**	**2,042**	**1,078**	**64**	**367**	**5,549**

* Includes 100 % owned subsidiary of UAB Atidumas - UAB Šiaulių Butų Remonto Tarnyba;
** Includes 100 % owned subsidiary UAB Namų Priežiūros centras - UAB Pašilaita.

All purchase consideration has been settled in cash.

During the period between the acquisition date and 31 December 2007 UAB Ūkvedys has suffered a loss of LTL 23 thousand; UAB Atidumas has earned a profit of LTL 52 thousand; UAB Šiaulių Butų Remonto Tarnyba has earned a profit of LTL 10 thousand; UAB Mūsų Namų Valdos has earned a profit of LTL 7 thousand; OAO Спец РНУ has earned a profit of LTL 79 thousand; ЗАО Сити Сервис has earned a profit of LTL 811 thousand; UAB Namų Priežiūros Centras has suffered loss of LTL 2 thousand; UAB Pašilaita has earned a profit of LTL 165 thousand.

If all the acquisitions had been performed as of 1 January 2007, the revenue of the Group for the year ended 31 December 2007 would be larger by LTL 4,264 thousand and the net result would be higher by LTL 1,083 thousand.

Goodwill allocation

For the purpose of impairment evaluation, the goodwill as of 31 December 2008 and 2007 was allocated to the following cash generating units:

Cash generating unit	Carrying value of allocated goodwill as of 31 December 2008	Carrying value of allocated goodwill as of 31 December 2007
Subsidiaries operating in Klaipėda (administration of dwelling-houses in Klaipėda)	4,894	4,894
Subsidiaries operating in Šilutė (administration of dwelling-houses in Šilutė and Pagėgiai)	-	-
Subsidiaries operating in Kaunas (administration of dwelling-houses in Kaunas)	2,144	2,144
Subsidiaries operating in Vilnius (administration of dwelling-houses in Vilnius)	7,646	2,621
Subsidiaries operating in Šiauliai (administration of dwelling-houses in Šiauliai)	822	822
Subsidiaries operating in St. Petersburg (administration of dwelling-houses in Russia, St. Petersburg)	1,205	1,205
	16,711	11,686

5 Goodwill (cont'd)

Goodwill allocation (cont'd)

The recoverable amount of each cash generating unit as of 31 December 2008 and 2007 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 2008 and 2007 were similar, as described further. The forecasted revenues were estimated based on the area of the dwelling-houses administered as of 31 December 2008 and 2007 assuming that the area administered will remain the same in the future years and the growth in revenue will be derived from a service fee increase, which was forecasted to be in line with the estimated inflation rate. In 2008 assessment additional services are forecasted to decrease for several years to come because of the existing economic conditions in Lithuania for CGU's operating in the territory of 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 (1.5 % in 2007) that reflects the best estimate of the management based on the current situation in the respective industry. The discount rate used by the management was estimated for each individual cash generating unit as a weighted average cost of capital for that particular cash generating unit and is equal to 12-16 % for cash generating units located in Lithuania (12.5 % in 2007), and 19 % for locations in St. Petersburg (Russia) (20 % in 2007).

The assessment of the recoverable amounts of the CGU as of 31 December 2008 and 2007 resulted in no impairment of goodwill.

With regard to the assessment of the recoverable amount of all the above mentioned cash generating units as of 31 December 2008 and 2007, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

6 Other intangible assets

Movement of other intangible assets in 2008 and 2007 is presented below:

	Group	Company
Cost:		
Balance as of 31 December 2006	537	528
Additions arising from acquisitions of subsidiaries	46	-
Additions	847	135
Retirements	(2)	-
Balance as of 31 December 2007	1,428	663
Additions arising from acquisitions of subsidiaries	1	-
Additions	5,266	18
Disposals	(2)	-
Exchange differences	(98)	-
Retirements	(317)	(307)
Balance as of 31 December 2008	6,278	374
Accumulated amortisation:		
Balance as of 31 December 2006	499	502
Charge for the year	166	43
Retirements	(2)	-
Balance as of 31 December 2007	663	545
Charge for the year	224	59
Disposals	(1)	-
Exchange differences	(34)	-
Retirements	(317)	(307)
Balance as of 31 December 2008	535	297
Net book value as of 31 December 2008	**5,743**	**77**
Net book value as of 31 December 2007	**765**	**118**

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

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 190 thousand as of 31 December 2008 was fully amortised (LTL 498 thousand as of 31 December 2007) but was still in use.

7 Investment property

Movement in the Group's investment property during 2008 and 2007 can be specified as follows:

	Buildings
Cost:	
Balance as of 1 January 2007	-
Balance as of 31 December 2007	-
Reclassifications from property, plant and equipment	759
Balance as of 31 December 2008	759
Accumulated depreciation:	
Balance as of 1 January 2007	-
Charge for the year	-
Balance as of 31 December 2007	-
Reclassifications from property, plant and equipment	83
Charge for the year	18
Balance as of 31 December 2008	101
Net book value as of 31 December 2008	**658**
Net book value as of 31 December 2007	**-**

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

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

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

8 Property, plant and equipment

Movement of property, plant and equipment in 2008 and 2007 is presented below:

Group

	Buildings	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:					
Balance as of 31 December 2006	5,743	2,415	2,437	373	10,968
Additions arising from acquisitions of subsidiaries	4,769	110	174	-	5,053
Additions	69	1,071	813	-	1,953
Disposals	(105)	(168)	(2)	-	(275)
Retirements	(10)	(22)	(232)	-	(264)
Reclassifications	-	373	-	(373)	-
Balance as of 31 December 2007	10,466	3,779	3,190	-	17,435
Additions arising from acquisitions of subsidiaries	4,171	137	86	-	4,394
Additions	129	1,343	879	164	2,515
Disposals	(1,521)	(312)	(110)	-	(1,943)
Exchange differences	-	(174)	(41)	-	(215)
Retirements	-	(63)	(1,075)	-	(1,138)
Reclassifications	(759)	265	(265)	-	(759)
Balance as of 31 December 2008	12,486	4,975	2,664	164	20,289
Accumulated depreciation:					
Balance as of 31 December 2006	115	673	1,448	-	2,236
Charge for the year	176	542	540	-	1,258
Disposals	(37)	(82)	(19)	-	(138)
Retirements	(10)	(16)	(231)	-	(257)
Balance as of 31 December 2007	244	1,117	1,738	-	3,099
Charge for the year	263	801	718	-	1,782
Disposals	-	(202)	(94)	-	(296)
Exchange differences	-	(28)	(21)	-	(49)
Retirements	-	(66)	(1,072)	-	(1,138)
Reclassifications	(83)	-	-	-	(83)
Balance as of 31 December 2008	424	1,622	1,269	-	3,315
Net book value as of 31 December 2008	**12,062**	**3,353**	**1,395**	**164**	**16,974**
Net book value as of 31 December 2007	**10,222**	**2,662**	**1,452**	**-**	**14,336**

8 Property, plant and equipment (cont'd)

Company

	Vehicles	Other property, plant and equipment and construction in progress	Total
Cost:			
Balance as of 31 December 2006	2,059	2,091	4,150
Additions	536	520	1,056
Disposals	(121)	(6)	(127)
Balance as of 31 December 2007	2,474	2,605	5,079
Additions	608	656	1,264
Disposals	(217)	(937)	(1,154)
Balance as of 31 December 2008	2,865	2,324	5,189
Accumulated depreciation:			
Balance as of 31 December 2006	641	1,368	2,009
Charge for the year	371	391	762
Disposals	(56)	(2)	(58)
Balance as of 31 December 2007	956	1,757	2,713
Charge for the year	490	411	901
Disposals	(170)	(937)	(1,107)
Balance as of 31 December 2008	1,276	1,231	2,507
Net book value as of 31 December 2008	**1,589**	**1,093**	**2,682**
Net book value as of 31 December 2007	**1,518**	**848**	**2,366**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2008 amounts to LTL 1,782 thousand and LTL 901 thousand, respectively (LTL 1,258 thousand and LTL 762 thousand in the year 2007, respectively). Amounts of LTL 1,322 thousand and LTL 855 thousand for the year 2008 (LTL 804 thousand and LTL 580 thousand for the year 2007) have been included into general and administrative expenses in the Group's and the Company's income statement, respectively. LTL 46 thousand (LTL 182 thousand in 2007) have been included into other operating expenses in the Group's and the Company's income statement. The remaining depreciation expenses in 2008 and 2007 have been included in the cost of sales.

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 970 thousand and LTL 558 thousand, respectively, were fully depreciated as of 31 December 2008 (LTL 1,569 thousand and LTL 1,147 thousand as of 31 December 2007, respectively), but were still in active use.

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

9 Investments into subsidiaries

The Company's investments in subsidiaries stated at cost as of 31 December 2008 and 2007 are as follows:

	2008	2007
Cost of investments at the beginning of the year	17,736	10,468
Acquisition of UAB Marių Valdos	-	7
Acquisition of UAB Pempininkų Valdos	-	58
Acquisition of UAB Atidumas	-	3,831
Acquisition of UAB Ūkvedys	-	798
Acquisition of UAB Mūsų Namų Valdos	-	1,330
Acquisition of ЗАО Сити Сервис	-	998
Acquisition of ОАО Спец РНУ	-	226
Acquisition of UAB Lazdynų Būstas	7,551	-
Acquisition of UAB Vilko Pėda	2,740	-
Acquisition of UAB Šilutės Butų Ūkis	2,087	-
Transfer of UAB Šilutės Butų Ūkis shares before 1 January 2008 from other financial assets	73	-
Disposal of UAB Fervėja	(10)	-
Establishment of UAB Sinsta	-	10
Establishment of UAB Fervėja	-	10
	30,177	17,736

More detailed information on the subsidiaries acquired and disposed is presented in Notes 1 and 5.

10 Inventories

	Group		Company	
	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
Raw and auxiliary materials	1,766	1,715	1,099	1,210
Goods for resale	5,133	6,505	4	4
Other	1	4	-	4
	6,900	8,224	1,103	1,218
Less: net realisable value allowance	(70)	(74)	-	-
	6,830	8,150	1,103	1,218

Change in allowance for inventories for the year 2008 and 2007 has been included into general and administrative expenses.

11 Trade receivables

	Group		Company	
	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
Trade receivables, gross	62,347	44,804	36,732	25,041
Less: allowance for doubtful trade receivables				
As of 1 January	(2,528)	(783)	(488)	(341)
Exchange differences	753	-	-	-
Additional allowance (recognised) in the income statement	(2,676)	(1,745)	-	(147)
As of 31 December	(4,451)	(2,528)	(488)	(488)
	57,896	42,276	36,244	24,553

Change in allowance for doubtful trade receivables for the year 2008 and 2007 has been included into general and administrative expenses.

As of 31 2008 a part of Group's and Company's trade receivables in amount LTL 2,268 thousand and LTL 220 thousand, respectively, are accounted under non-current receivables caption (LTL 220 thousand and LTL 220 thousand as of 31 December 2007).

The Group's and the Company's accounts receivable from UAB Litesko and UAB Vilniaus Energija for heating system renovation works amount to LTL 12,951 thousand as of 31 December 2008 (LTL 7,708 thousand as of 31 December 2007). The Group's and the Company's accounts receivable from Vilnius City Municipality for maintenance and heat supply within Vilnius schools and kinder gardens amount to LTL 13,654 thousand as of 31 December 2008 (LTL 8,882 thousand as of 31 December 2007). Subsequent to 31 December 2008 the Company netted off the receivable from Vilnius City Municipality with payables to UAB Vilniaus Energija for an amount of LTL 13,648 thousand.

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

As of 31 December 2008 the Group's and the Company's trade receivables with the nominal value of LTL 2,305 thousand and LTL 221 thousand, respectively (as of 31 December 2007 – LTL 252 thousand and LTL 149 thousand, respectively), were impaired and fully provided for.

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

	Individually impaired	Collectively impaired	Total
Balance as of 31 December 2006	297	486	783
Charge for the year	335	1,903	2,238
Utilised	(2)	-	(2)
Reversed during the year	(233)	(258)	(491)
Balance as of 31 December 2007	397	2,131	2,528
Charge for the year	697	1,979	2,676
Exchange differences	-	(753)	(753)
Balance as of 31 December 2008	1,094	3,357	4,451

11 Trade receivables (cont'd)

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

	Individually impaired	Collectively impaired	Total
Balance as of 31 December 2006	297	44	341
Charge for the year	220	205	425
Utilised	-	-	-
Reversed during the year	(233)	(45)	(278)
Balance as of 31 December 2007	284	204	488
Charge for the year	-	-	-
Utilised	-	-	-
Reversed during the year	-	-	-
Balance as of 31 December 2008	284	204	488

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 neither past due nor impaired	Trade receivables past due but not impaired					
		Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	Total
2007	31,333	5,210	3,635	889	1,209	-	42,276
2008	35,641	10,256	7,228	1,338	2,948	485	57,896

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 neither past due nor impaired	Trade receivables past due but not impaired					
		Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	Total
2007	17,675	3,936	2,683	222	37	-	24,553
2008	20,620	8,561	5,449	417	1,197	-	36,244

12 Cash and cash equivalents

	Group		Company	
	2008	2007	2008	2007
Cash at bank	4,531	9,479	603	4,549
Cash on hand	41	53	10	2
Short-term deposits	814	10,550	-	10,000
	5,386	20,082	613	14,551

12 Cash and cash equivalents (cont'd)

The original term of all deposits is less than three months, the weighted average annual interest rate of the Group as of 31 December 2008 was 7.7 % (6.75 % and 6.96 % in 2007 for the Group and the Company, respectively).

Short-term deposits are usually made for one month period and earn interest at the respective deposit rates. The fair value of cash and short-term deposits as of 31 December 2008 of the Group and the Company was LTL 5,386 thousand and LTL 613 thousand respectively (LTL 20,082 thousand and LTL 14,551 thousand in 2007 for the Group and the Company, respectively).

As of 31 December 2008 the Group and the Company had available LTL 2,865 thousand (LTL 4,125 thousand as of 31 December 2007) of unutilized credit limit facility in respect of which all conditions precedent had been met.

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

As of 31 December 2008 and 2007 bank accounts of the Company and its subsidiaries are pledged to banks for loans, as described further in Note 14.

13 Reserves

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 % of distributable retained earnings calculated for a statutory reporting purposes are required until the reserve reaches 10 % of the share capital. When distributing the earnings for 2007 the shareholders have transferred LTL 525 thousand to the legal reserve. When distributing the earnings for 2008 the shareholders have to transfer to the legal reserve not less than LTL 336 thousand.

Share premium

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

As described in Note 1 in more detail on 14 May 2007 the shareholders of the Company took a decision to increase the authorised capital of the Company by 2,110,000 ordinary shares with a nominal value of LTL 1. The subscription price of these shares was LTL 12.95 each. Accordingly, the Company accounted for the share surplus of LTL 25,215 thousand, net of costs directly attributable to the IPO of the newly issued shares of LTL 1,759 thousand.

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

14 Borrowings

The list of borrowings of the Group and the Company as of 31 December 2008 and 2007 are as follows:

Creditor	Currency of the loan	Amount of the loan (in currency of the loan)	Final repayment date	Balance as of 31 December 2008 (in LTL)	Balance as of 31 December 2007 (in LTL)
Swedbank, AB (long-term overdraft)	EUR	1,448	25 August 2010	5,000	-
Swedbank, AB (long-term overdraft)	LTL	5,000	25 August 2010	2,135	-
Swedbank, AB (loan)	EUR	5,792	25 August 2013	4,313	-
Loans from subsidiaries (eliminated in the accounts of the Group)	LTL	4,000	31 December 2009	3,950	2,000
Group account (eliminated in the accounts of the Group)*	Unspecified	Unspecified	Unspecified	1,312	-
Less: Current portion of loans from subsidiaries**				(3,950)	(2,000)
Less: Current portion of other non-current borrowings				(4,211)	-
Non-current borrowings excluding current portion in the Company				8,549	-
Non-current borrowings excluding current portion in the Group				7,237	-

* On 25 August 2008 the Company and its subsidiaries operating in Lithuania signed an overdraft facility agreement with Swedbank, AB under which the Group can utilise net cash balances of the Company and its subsidiaries operating in Lithuania as inter-group borrowings. Net cash balance of subsidiaris utilised by the Company as of 31 December 2008 amounted to LTL 1,312 thousand.

**Current portion of borrowings from subsidiaries as of 31 December 2008 and 31 December 2007 has been reported under payables to related parties caption in the Company (the amount was eliminated in consolidated accounts of the Group).

As of 31 December 2008 the Group and the Company had an unutilized part of Swedbank, AB loan amounting to LTL 15,687 thousand. The majority of this unutilized amount has been utilised subsequent to the year end for the acquisition of UAB Fervėja, as further described in Note 32.

As of 31 December 2008 the Group and the Company also had unutilized part of Swedbank, AB overdraft facility amounting to LTL 2,865 thousand.

Actual interest rates are close to effective interest rates. As of 31 December 2008 the weighted average annual interest rate of borrowings outstanding was 6.27 % (5.5 % as of 31 December 2007). In 2008 and 2007 the period of repricing of floating interest rates on borrowings was 6 months.

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

	As of 31 December 2008			
	Group		Company	
Year	Fixed interest rate	Variable interest rate	Fixed interest rate	Variable interest rate
2009	-	4,211	-	8,161
2010 - 2013	-	7,237	-	8,549
	-	11,448	-	16,710

14 Borrowings (cont'd)

	As of 31 December 2007			
	Group		Company	
Year	Fixed interest rate	Variable interest rate	Fixed interest rate	Variable interest rate
2008	-	-	2,000	-
2009 - 2012	-	-	-	-
	-	-	2,000	-

For the loan and overdraft facility the Company and its subsidiaries (i.e. UAB Pašilaita, UAB Lazdynų Būstas, UAB Pempininkų Valdos, UAB Marių Valdos, UAB Buitis Be Rūpesčių, UAB Ūkvedys, UAB Šilutės Butų Ūkis) have pledged to the bank real estate (net book value LTL 9,303 thousand as of 31 December 2008) and bank accounts of the Company and its subsidiaries in Lithuania.

Based on the terms of the loan and overdraft agreements, the Group and the Company have to comply with certain financial and non-financial covenants, such as: debt service coverage ratio cannot be less than 1.2, financial debt to EBITDA of the Company shall be not higher than 3.5, the capital ratio of the Company shall be not less than 30 % and a minimum set volume of the Company's and certain of its subsidiaries bank transactions shall be performed through the bank. As of 31 December 2008 the Company's management was not aware of any breaches of the set covenants.

15 Financial lease

The assets leased by the Group and the Company under financial lease contracts mainly consist of vehicles. Apart from the lease payments, other obligations under lease contracts are maintenance and insurance. The net book value of the vehicles acquired under financial lease amounted to LTL 1,692 thousand as of 31 December 2008 in the Group and LTL 1,226 thousand in the Company (LTL 1,456 thousand in the Group and LTL 1,188 thousand in the Company as of 31 December 2007). The terms of the financial lease agreements are from 3 to 5 years. The currency of the financial lease agreements is euro.

As of 31 December 2008 the interest rate on the financial lease obligations is 6 - month EUR LIBOR + 1.2% - 3.5 % (as of 31 December 2007 – 6 - month EUR LIBOR + 1.2 % - 1.6 %).

15 Financial lease (cont'd)

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

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

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2007 are as follows:

	Group	Company
Within one year	754	590
From one to five years	620	438
Total financial lease obligations	1,374	1,028
Interest	(85)	(59)
Present value of financial lease obligations	1,289	969
Financial lease obligations are accounted as:		
- current	703	554
- non-current	586	415

16 Operating lease

As of 31 December 2008 and 2007 the Group and the Company had several contracts of operating lease for vehicles outstanding as disclosed in Note 22. 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 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
Within one year	425	383	243	238
From one to five years	430	629	186	319
	855	1,012	429	557

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

17 Trade and other payables

Terms and conditions of the financial liabilities other than borrowings are as follows:
- Trade payables are non-interest bearing and are normally settled on 60-day terms.
- Other payables are non-interest bearing and have an average term of six months.
- Interest payable is normally settled quarterly throughout the financial year.
- For terms and conditions of the liabilities to related parties refer to Note 30 (Related party transactions).

An increase in trade payables caption in the Group and the Company as of 31 December 2008 as compared to 31 December 2007 was influenced by increase of trade payables to AB Vilniaus Energija due to increased prices of services purchased and non-payment from Vilnius Municipality side for heat sold by the Company. As described in Note 11 subsequent to the year end the Company set off payables to UAB Vilniaus Energija for the heat supply to Vilnius Municipality schools and kindergardens for an amount of LTL 13,648 thousand with corresponding receivables from Vilnius Municipality for the heat supplied to mentioned institutions.

18 Advances received

The major 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 5,343 thousand as of 31 December 2008 (LTL 14,813 thousand as of 31 December 2007). 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.

Significant reduction in advances received level as of 31 December 2008 compared to 31 December 2007 is mainly attributable to a reduction of heating facility renovation services and works performed by the Company to UAB Litesko and UAB Vilniaus Energija in 2009 compared to 2008 and closing of significant heating facility renovation works which where in execution as of 31 December 2007.

19 Other current liabilities

	Group		Company	
	As of 31 December 2008	As of 31 December 2007	As of 31 December 2008	As of 31 December 2007
Salaries and social security	2,481	2,204	1,353	1,108
Vacation pay accrual	2,680	1,955	1,622	1,342
Other current liabilities	2,312	3,358	527	1,922
	7,473	7,517	3,502	4,372

Other current liabilities mostly represent accrued liabilities and taxes payable other than profit tax.

20 Sales

	Group		Company	
	2008	2007	2008	2007
Buildings' administration and related services	203,314	123,693	83,431	63,530
Heating system renovation and heating components installation services	56,064	73,650	56,064	73,650
Other services and goods	4,472	2,003	1,442	1,365
	263,850	199,346	140,937	138,545

The Company has a significant concentration of trading counterparties. The main two customers of the Company – UAB Vilniaus Energija and UAB Litesko – in 2008 and 2007 accounted for 39 % and 52 %, respectively, of total Company's sales. Due to the ongoing development of buildings' administration and related services business within the Group comparative weight of the heating system renovation projects performed for UAB Vilniaus Energija and UAB Litesko is decreasing.

20 Sales (cont'd)

Sales volume increases are attributable to full year consolidation effect of subsidiaries acquired in 2007 and enlargement of the Group in 2008 (Note 5) as well as increases in activity volume in the CIS countries (Note 4).

Information about customer specific contracts in progress as of 31 December 2008 and 2007:

	Group		Company	
	2008	2007	2008	2007
Sales from customer specific contracts in progress, recognised in the income statement per year	26,369	31,481	26,369	31,481
Sales from customer specific contracts in progress, recognised to date	56,821	69,068	56,821	69,068
Expenses incurred on the customer specific contracts, recognised in the income statement per year	23,436	25,790	23,436	25,790
Expenses incurred on the customer specific contracts, recognised to date	47,629	56,709	47,629	56,709
Unbilled contract revenue (included in other receivables caption within the balance sheet)	693	665	693	665
Due from customers (accounted for as trade accounts receivable)	12,951	4,767	12,951	4,767
Due to customers (accounted for as advances received)	5,343	14,813	5,343	14,813

21 Cost of sales

	Group		Company	
	2008	2007	2008	2007
Services of subcontractors and materials used	175,836	135,847	101,406	102,893
Wages and salaries and social security	35,777	27,108	15,238	11,861
Cost of goods sold	4,803	1,445	1,049	1,391
Depreciation	432	272	-	-
Other	451	485	-	-
	217,299	165,157	117,693	116,145

22 General and administrative expenses

	Group		Company	
	2008	2007	2008	2007
Wages and salaries and social security	13,733	9,158	5,335	3,242
Allowance for and write-off of receivables	3,094	1,745	-	147
Rent of premises and other assets	2,412	1,585	1,390	1,024
Consulting and similar expenses	1,961	1,304	1,027	691
Fuel expenses	1,677	1,237	1,438	1,109
Depreciation and amortisation	1,546	970	914	623
Communication expenses	853	692	459	383
Advertising	846	710	602	523
Business trips and training	808	448	640	381
Vacation pay accrual	725	611	280	471
Transportation	562	403	381	316
Utilities	483	314	251	183
Commissions for collection of payments	442	1,216	845	457
Insurance	393	275	226	222
Charity and support	351	183	348	183
Computer software maintenance	322	120	42	50
Taxes other than income tax	234	83	96	33
Loss on contract acquisition	-	703	-	-
Other	3,834	2,116	1,184	1,202
	34,276	23,873	15,458	11,240

The Group's and the Company's rent of premises and other assets in 2008 and 2007 mainly represents office space (LTL 622 thousand; LTL 458 thousand in 2007) and vehicles operating lease expenses. The operating lease of the office is provided mainly by UAB Arkoveta, a related party. Vehicles are leased from the third parties. Rent of part of vehicles is uncancellable, therefore, related future minimum lease payments are disclosed in Note 16.

Loss on contract acquisition reported in 2007 represents a loss incurred by a subsidiary in St. Petersburg on signing the contract for servicing an additional area as the subsidiary had to assume liabilities in excess of the estimated recoverable value of assumed receivables from the predecessor service provider at the inception of the contract.

23 Other operating income (expenses), net

	Group		Company	
	2008	2007	2008	2007
Income from rent (net)	707	295	285	208
Gain (loss) on disposal of property, plant and equipment	17	(88)	2	(1)
Depreciation of rented assets	(46)	(182)	(46)	(182)
Other income (expenses), net	(513)	131	(36)	136
	165	156	205	161

24 Financial income and (expenses), net

	Group		Company	
	2008	2007	2008	2007
Interest income	420	596	1,446	1,009
Dividend income *	-	93	840	93
Foreign currency exchange gain	5	-	5	8
Other financial income	158	83	51	21
Total financial income	**583**	**772**	**2,342**	**1,131**
Interest (expenses)	(226)	(134)	(386)	(188)
Foreign currency exchange loss	(1,710)	(215)	(4)	-
Other financial (expenses)	(144)	(82)	(87)	(51)
Total financial (expenses)	**(3,080)**	**(431)**	**(477)**	**(239)**

* The Company's dividend income in 2008 represents dividends from subsidiaries UAB Marių Valdos, UAB Buitis Be Rūpesčių, UAB Mūsų Namų Valdos amounting to LTL 850 thousand, net of LTL 10 thousand correction of dividends from UAB Vienituras recognized as income in 2007. The Company's dividend income recorded in 2007 represents dividends from a former subsidiary UAB Vienituras (in 2007 the Company recognised dividends for the year 2004).

25 Income tax

	Group		Company	
	2008	2007	2008	2007
Components of the income tax expenses				
Current income tax	3,027	2,768	1,359	2,255
Deferred income tax (income)	(679)	(1,316)	(123)	(44)
Income tax expenses recorded in the income statement	2,348	1,452	1,236	2,211

25 Income tax (cont'd)

	Group		Company	
	2008	2007	2008	2007
Deferred income tax asset				
Valuation allowance for accounts receivable	1,550	991	98	73
Valuation allowance for inventories	67	349	-	-
Accruals and similar temporary differences	783	888	324	201
Tax loss carry forward	588	175	-	-
Deferred income tax asset before valuation allowance	2,988	2,403	422	274
Less: valuation allowance	(98)	(217)	(98)	(73)
Deferred income tax asset, net of valuation allowance	2,890	2,186	324	201
Deferred income tax liability				
Property, plant and equipment differences	(3,245)	(1,745)	-	-
Accrued income and other	(319)	(147)	-	-
Deferred income tax liability	(3,564)	(1,892)	-	-
Deferred income tax, net	(674)	294	324	201
Present in the balance sheet as follows:				
Deferred income tax asset	2,325	1,012	324	201
Deferred income tax liability	(2,999)	(718)	-	-

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

Loss carry forward can be utilised until the year 2012.

Deferred income tax asset and liability were accounted at 20 % rate in 2008 and at 15 % and 19 % rates in 2007, depending on the estimated timing of the realisation of temporary differences. The deferred tax of companies operating in Russia, Ukraine and Latvia was calculated using 20 %, 25 % and 15% tax rates, respectively in 2008 (24 %, 25 % and 15% in 2007).

25 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 2007	Recognised in income statement	Exchange differences	Acquired subsidiaries	Balance as of 31 December 2008
Valuation allowance for accounts receivable	4,760	2,967	(769)	792	7,750
Valuation allowance for inventories	1,482	(1,104)	(43)	-	335
Accruals and similar temporary differences	4,563	(705)	(73)	130	3,915
Taxable loss carry forward	1,127	2,399	(267)	-	3,259
Property, plant and equipment differences	(10,563)	3,213	57	(3,732)	(11,025)
Intangible assets	-	-	-	(5,200)	(5,200)
Accrued income and other	(113)	(1,704)	222	-	(1,595)
Total temporary differences before valuation allowance	1,256	5,066	(873)	(8,010)	(2,561)
Valuation allowance	(1,598)	595	-	-	(1,003)
Total temporary differences	(342)	5,661	(873)	(8,010)	(3,564)
Deferred income tax, net	294	679	(185)	(1,462)	(674)

	Balance as of 31 December 2006	Recognised in income statement	Exchange differences	Acquired subsidiaries	Balance as of 31 December 2007
Valuation allowance for accounts receivable	1,229	3,373	-	158	4,760
Valuation allowance for inventories	-	1,432	-	50	1,482
Accruals and similar temporary differences	1,038	2,759	-	266	4,063
Taxable loss carry forward	140	987	-	-	1,127
Property, plant and equipment differences	(26)	(1,750)	-	(8,787)	(10,563)
Accrued income and other	-	(1,834)	-	-	(1,834)
Total temporary differences before valuation allowance	2,381	4,967	-	(8,313)	(965)
Valuation allowance	(1,229)	(369)	-	-	(1,598)
Total temporary differences	1,152	4,598	-	(8,313)	(2,563)
Deferred income tax, net	207	783	-	(1,229)	(239)

25 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 2007	Recognised in income statement	Balance as of 31 December 2008
Valuation allowance for accounts receivable	488	-	488
Accruals	1,342	280	1,622
Total temporary differences	1,830	280	2,110
Valuation allowance	(488)	-	(488)
Total temporary differences	1,342	280	1,622
Deferred income tax, net	201	123	324

	Balance as of 31 December 2006	Recognised in income statement	Balance as of 31 December 2007
Valuation allowance for accounts receivable	341	147	488
Accruals	871	471	1,342
Total temporary differences	1,212	618	1,830
Valuation allowance	(341)	(147)	(488)
Total temporary differences	871	471	1,342
Deferred income tax, net	157	44	201

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	
	2008	2007	2008	2007
Income tax expenses computed at 15 % in 2008 and 18 % in 2007	1,655	1,946	1,478	2,198
Effect of different tax rate applicable to foreign subsidiaries	230	(153)	-	-
Effect of change in tax rate	209	41	(14)	41
Change in deferred tax asset valuation allowance	119	45	25	22
Permanent differences	135	(427)	(253)	(50)
Income tax expenses reported in the income statement	2,348	1,452	1,236	2,211

26 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	
	2008	2007
Net profit (loss) attributable to the shareholders	8,660	9,325
Number of shares (thousand), opening balance	19,110	10,500
Increase in the number of shares due to issue of shares from retained earnings (Note 1)	-	6,500
Increase in the number of shares due to issue of new shares (thousand) (Note 1)	-	2,110
Number of shares (thousand), closing balance (restated)	19,110	19,110
Weighted average number of shares (thousand)	19,110	17,880
Basic and diluted earnings per share (LTL)	0.45	0.52

27 Dividends per share

	2008	2007
Approved dividends*	3,058	12,074
Number of shares (in thousand)**	19,110	10,500
Approved dividends per share (LTL)	0.16	1.15

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

28 Financial assets and liabilities and risk management

Credit risk

The Group's and the Company's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. Furthermore, the credit risk of the main two customers of the Company, regarding which there is a trading and credit risk concentration (Note 20), is managed by trying to get partial prepayments from these customers. Receivables from UAB Vilniaus Energija, UAB Litesko and Vilnius City Municipality as of 31 December 2008 amounted to 46 % and 74% of the Group's and the Company's total trade accounts receivable, respectively (to 38 % and 79 % as of 31 December 2007, respectively).

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

Interest rate risk

The major part of the Company's borrowings (loans and financial lease obligations) are subject to variable rates, related to EUR LIBOR and VILIBOR, which creates an interest rate risk (Notes 14 and 15). There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2008 and 2007.

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

2008	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(105)
EUR	-100	105
LTL	+100	(21)
LTL	-100	21
2007		
EUR	+100	(13)
EUR	-100	13

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

Interest rate risk (cont'd)

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

2008	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(101)
EUR	-100	101
LTL	+100	(21)
LTL	-100	21
2007		
EUR	+100	(10)
EUR	-100	10

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as of 31 December 2008 were 1.33 and 1.23, respectively (1.42 and 1.29 as of 31 December 2007, respectively). The Company's liquidity and quick ratios as of 31 December 2008 were 1.71 and 1.69, respectively (1.81 and 1.78 as of 31 December 2007, respectively).

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

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

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2008 and 2007 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing loans and borrowings	-	72	217	7,430	-	7,719
Financial lease obligations	-	220	558	568	-	1,346
Current portion of non-current interest bearing loans and borrowings	-	1,095	3,222	-	-	4,317
Trade payables	1,887	36,662	805	23	-	39,377
Payables to related parties	-	5,806	-	-	-	5,806
Other current liabilities	1,457	4,530	968	518	-	7,473
Balance as of 31 December 2008	**3,344**	**48,385**	**5,770**	**8,539**	**-**	**66,038**
Financial lease obligations	-	188	566	620	-	1,374
Trade payables	-	31,734	-	-	-	31,734
Payables to related parties	-	7,294	-	-	-	7,294
Other current liabilities	-	249	-	-	-	249
Balance as of 31 December 2007	**-**	**39,465**	**566**	**620**		**40,651**

28 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 2008 and 2007 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing loans and borrowings	-	72	217	7,430	-	7,719
Current portion of non-current interest bearing loans and borrowings	-	1,095	3,222	-	-	4,317
Financial lease obligations	-	170	394	341	-	905
Trade payables	-	22,199	-	-	-	22,199
Payables to related parties	-	9,921	-	-	-	9,921
Other current liabilities	-	2	-	-	-	2
Balance as of 31 December 2008	**-**	**33,459**	**3,833**	**7,771**	**-**	**45,063**
Financial lease obligations	-	148	442	438	-	1,028
Trade payables	-	12,951	-	-	-	12,951
Payables to related parties	-	9,142	-	-	-	9,142
Other current liabilities	-	238	-	-	-	238
Balance as of 31 December 2007	**-**	**22,479**	**442**	**438**	**-**	**23,359**

Foreign exchange risk

The Company's monetary assets and liabilities as of 31 December 2008 and 2007 are denominated in LTL or EUR, to which LTL is pegged, consequently the management of the Company believes that foreign exchange risk on EUR is insignificant.

Monetary assets and liabilities of the Group denominated in various currencies as of 31 December 2008 and 2007 were as follows:

	2008		2007	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	60,185	41,253	61,725	32,911
RUB	19,003	13,537	16,825	16,362
LVL	679	573	568	110
EUR	-	10,571	252	-
	79,867	65,934	79,370	49,383

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

Foreign exchange risk (cont'd)

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

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2008		
EUR	+ 15.00 %	(1,585)
EUR	- 15.00 %	1,585
2007		
EUR	+ 15.00 %	38
EUR	- 15.00 %	(38)

Fair value of financial instruments

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

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

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

	Carrying amount		Fair value	
	2008	2007	2008	2007
Financial assets				
Cash	5,386	20,082	5,386	20,082
Receivables from related parties (including loans granted)	7,645	11,487	7,645	11,487
Trade receivables	60,656	42,276	60,656	42,276
Other receivables	756	1,615	756	1,615
Available for sale investments	-	73	-	73
Other current assets	5,424	3,230	5,424	3,230
Financial liabilities				
Interest bearing loans and borrowings	11,448	-	11,448	-
Financial lease obligations	1,258	1,289	1,258	1,289
Trade payables	39,489	31,590	39,489	31,590
Payables to related parties	5,806	7,294	5,806	7,294
Other current liabilities	7,933	249	7,933	249

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

Fair value of financial instruments (cont'd)

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

	Carrying amount		Fair value	
	2008	2007	2008	2007
Financial assets				
Cash	(699)	14,551	(699)	14,551
Receivables from related parties (including loans granted)	34,510	29,045	34,510	29,045
Trade receivables	36,244	24,553	36,244	24,553
Other receivables	2,233	1,385	2,233	1,385
Available for sale investments	2,000	73	2,000	73
Other current assets	-	-	-	-
Financial liabilities				
Interest bearing loans and borrowings	11,447	-	11,447	-
Financial lease obligations	850	969	850	969
Trade payables	22,199	12,951	22,199	12,951
Payables to related parties	9,880	9,142	9,880	9,142
Other current liabilities	2	238	2	238

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

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

29 Commitments and contingencies

Acquisition of UAB Lazdynų Būstas

On 19 February 2009 the Appeal Court of the Republic of Lithuania resumed the legal litigation on privatization of UAB Lazdynų Būstas 100 % shares, which previously ended by concluding a peace treaty between the Company and Vilnius municipality and approving the share purchase – sale agreement. In case the court shall decide that 100 % of UAB Lazdynų Būstas shares could not be transferred by Vilnius municipality in the auction, restitution in full range should be applied. Firstly Vilnius municipality shall be obliged to return all the Company's paid sum of money – LTL 7,551 thousand - in order to acquire the above mentioned shares from the Company, also other changes that are made in UAB Lazdynų Būstas (structure, activities, assets, etc.) after the privatization should be restored to the status that existed before the privatization. Considering the above mentioned issues the Company believes that the final court ruling shall be favourable to the Company. The Company is committed not to transfer controlled UAB Lazdynų Būstas shares to third parties till the end of the litigation. Net assets of UAB Lazdynų Būstas included in consolidated financial statements of the Group as of 31 December 2008 constitute LTL 7,551 thousand.

Other contingencies

The suppliers of technical water and electricity of the subsidiaries operating in St. Petersburg are claiming from the subsidiary additional payments of LTL 471 thousand as of 31 December 2008 and 31 December 2007 for the goods/services, provision of which is disputed by the subsidiary. No provision has been recorded in the financial statements of the Group for this contingency as the management of the Group believes that the suppliers are not entitled to claimed remuneration and the Group expects to win the case in court if the respective litigation is initiated by the suppliers.

30 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group and the Company and transactions with them in 2008 and 2007 were as follows (see also the table below):

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

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

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

Property, plant and equipment to related parties in 2008 and 2007 was sold for the net book value.

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

2008

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

2008

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

30 Related party transactions (cont'd)

2007

Group	Purchases	Sales	Receivables and prepayments*	Loans granted	Payables
UAB Rubicon Group	1,970	187	8,050	1,270	23
Subsidiaries of UAB Rubicon Group:					
AB Axis Industries	33,425	1,335		-	6,047
Other subsidiaries of UAB Rubicon Group	5,182	3,468	2,255	-	1,224
Management of the Company	-	13	8	330	-
Shareholders of the Company	-	8	-	-	-
	40,577	5,011	10,313	1,600	7,294

* LTL 255 thousand of Group receivables are accounted for under long term accounts receivables caption.

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

Receivables from related parties as of 31 December 2008 and 31 December 2007 include a receivable from UAB Rubicon Group, which originally amounted to LTL 11,610 thousand when accounted for sales of investments in 2006 and is decreased every year by payments received or set off against payables outstanding.

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

Loans granted to UAB Rubicon Group as of 31 December 2007 were subject to 5 % annual interest rate and have been classified as short-term receivables as they were expected to be settled within a year.

2007

Company	Purchases	Sales	Receivables and prepayments	Loans granted	Payables
UAB Rubicon Group	1,850	187	8,050	1,270	-
Subsidiaries of UAB Rubicon Group:					
AB Axis industries	33,181	1,316	-	-	6,047
Other subsidiaries of UAB Rubicon Group	3,215	3,292	1,973	-	748
Subsidiaries of the Company	3,438	4,919	1,856	15,729	2,347
Management of the Company	-	13	8	330	-
Shareholders of the Company	-	8	-	-	-
	41,684	9,735	11,887	17,329	9,142

30 Related party transactions (cont'd)

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

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

The outstanding balance of loans granted to subsidiaries by the Company as of 31 December 2007 was subject to 6-7 % interest rate.

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

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

The ageing analysis of receivables from related parties as of 31 December 2007 is as follows:

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 360 days**	**More than 360 days**	**Total**
Company	9,556	398	338	343	1,042	39	11,716
Group	8,065	336	285	289	879	33	9,887

30 Related party transactions (cont'd)

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 1,359 thousand and LTL 1,111 thousand in 2008, respectively (LTL 1,259 thousand and LTL 507 thousand in 2007, respectively). The outstanding balance of the loan granted by the Company to the General Director is disclosed in the tables above under Management of the Company heading (interest on the loan is 4 %). In 2008 and 2007 the management of the Company did not receive any guarantees; no other payments or property transfers were made or accrued.

31 Capital management

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

The Group and the Company manages its capital structure and makes adjustments to it in the light of changes in economics conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders, return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years end 31 December 2008 and 2007.

The Group and the Company is obliged to upkeep its equity at not less than 50 % of its share capital (comprised of share capital and share surplus), as imposed by the Law on Companies of the Republic of Lithuania. In addition, as disclosed in Note 14, the Company has committed to its lenders to maintain a capital ratio of the Company at not less than 30 %. There were no other externally imposed capital requirements on the Group and the Company. As of 31 December 2008 and 2007 the Group and the Company were not in breach of the above mentioned requirements.

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

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

	Group		Company	
	2008	**2007**	**2008**	**2007**
Non-current liabilities (including deferred tax and grants)	9,843	1,416	8,872	415
Current liabilities	68,483	65,504	46,309	41,870
Liabilities	**78,326**	**66,920**	**55,181**	**42,285**
Equity	**59,257**	**54,219**	**59,787**	**54,126**
Debt to equity ratio	**132 %**	**123 %**	**92 %**	**78 %**

32 Subsequent events

Acquisition of new subsidiaries and investments after 31 December 2008

On 19 December 2008 the Company signed an authorised capital increase agreement (share subscription agreement) with Fervėja UAB, under which on 6 February 2009 99.9% of UAB Fervėja shares were acquired. Control of UAB Fervėja was obtained on 6 February 2009 after the authorization from the Competition Council of the Republic of Lithuania had been received. Subsequently on 6 February 2009 the Company acquired the remaining 0.1% of UAB Fervėja shares. Total investment in UAB Fervėja shares (through subscription and acquisition of shares) amounted to LTL 12,968 thousand.

UAB Fervėja since 9 January 2009 controls 100 percent of UAB Būsto Investicijų Valdymas shares. UAB Būsto Investicijų Valdymas possesses 100% shares in UAB Karoliniškių Būstas, UAB Viršuliškių Ūkis, UAB Naujamiesčio Būstas and UAB Antakalnio Ūkis. These companies administer dwelling-houses and have significant cleaning of territory contracts in Vilnius, Lithuania.

The financial information on the acquired subsidiaries is only available as of 31 December 2008 as of the date of the release of these financial statements and is presented below. As of the date of release of these financial statements no financial information as of acquisition date is yet available and the fair values of the net assets acquired were not yet assessed by the Group.

	UAB Fervėja	UAB Būsto Investicijų Valdymas	UAB Naujamiesčio Būstas	UAB Karoliniškių Būstas	UAB Viršuliškių Būstas	UAB Antakalnio Būstas
	31 December 2008 (unaudited)	31 December 2008 (unaudited)	31 December 2008 (unaudited)	31 December 2008 (unaudited)	31 December 2008 (unaudited)	31 December 2008 (unaudited)
Carrying values:						
Assets	2,010	29,715	12,583	4,688	3,415	3,784
Liabilities	2,000	27,076	10,737	2,533	2,354	2,706
Net assets	10	2,639	1,846	2,155	1,061	1,078
Revenue	-	3,788	16,864	7,011	4,712	4,769
Net profit (loss)	-	1,108	668	906	722	432

Liabilities of UAB Būsto Investicijų Valdymas mainly comprise a loan from AB Ūkio Bankas as of 31 December 2008 amounting to LTL 15,963 thousand. The loan is denominated in LTL has to be fully repaid by 1 December 2013. For the loan UAB Būsto Investicijų Valdymas has pledged to the bank the shares of its subsidiaries UAB Naujamiesčio Būstas, UAB Karoliniškių Būstas, UAB Viršuliškių Būstas, UAB Antakalnio Būstas. UAB Naujamiesčio Būstas, UAB Karoliniškių Būstas, UAB Viršuliškių Būstas, UAB Antakalnio Būstas guaranteed for the loan and pledged real estate.

Increase in share capital

On 23 February 2008 Extraordinary General Shareholders Meeting of the Company was held and the decision to increase the authorized share capital of the Company from LTL 19,110 thousand to LTL 26,110 thousand from shareholders' additional contributions was adopted. The shareholders of the Company authorized the Board of the Company settle all other new share emission conditions that are not defined by the General Shareholders Meeting, including but not limited to determination of the final issue price of one new emission share, determination of new share emission distribution period and conditions, determination of new share emission subscription order and terms, determination of new share emission payment terms and order.

The Board of the Company has not adopted any decisions related to the abovementioned question till the day of the release of these financial statements.

At the date of the preparation of these financial statements the management of the Company has not yet prepared a draft of the profit (loss) distribution for 2008. However, according to Company's policies described in Note 31, the Board of the Company will propose to the Ordinary Shareholders Meeting to pay dividends in the amount of LTL 2,102 thousand (25 % of the net earnings of 2008 as discussed in Note 31). One share of nominal value of LTL 1 would receive LTL 0.11 dividend. The Board of the Company will propose to form a reserve for the Company's own shares acquisition of LTL 6,000 thousand.