# OFFER OF 4,157,800 ORDINARY REGISTERED SHARES IN AB CITY SERVICE

## Offer Price Range LTL 11.76 – LTL 13.24
## Offer Period 21 May 2007 – 1 June 2007

Shareholders of AB City Service (*Company*), a limited liability company incorporated in Lithuania, are publicly offering for sale to retail and institutional investors in Lithuania, Latvia and Estonia **4,157,800** ordinary registered shares (*Offer Shares)* in a combined offering, which is comprised of (i) **2,511,400** Offer Shares offered by a major Company shareholder UAB Rubicon Group and (ii) **1,646,400** Offer Shares - by Company's individual shareholders. Such public offering is hereinafter referred to as the *Retail Offering*.

Simultaneously with the Retail Offering, Offer Shares will be privately offered to institutional investors in and outside of Lithuania, Latvia and Estonia (*Institutional Offering*). Such private offering will not constitute a public offering of the Offer Shares under the laws of any jurisdiction. The Retail Offering and the Institutional Offering are hereinafter together referred to as *the Offering*.

The Offering is conducted on *all or nothing* basis, i.e. the Offer Shares will be sold only on condition that all the Offer Shares are allocated.

Shareholders of the Company have granted AB bankas Hansabankas as the underwriter of the Offering an option to purchase up to **623,628** additional shares of the Company at the Offer Price solely to cover over-allotments, if any (such additional shares being subject to over-allotment option are hereinafter also referred to as *the Offer Shares*). This option is exercisable starting from the date of public disclosure of the final price for the Offer Shares and ends within 30 calendar days after the date of allotment.

The Extraordinary Shareholders Meeting of the Company on 14 May 2007 decided on issuing **2,110,000** Shares to UAB Rubicon Group to be purchased at a subscription price equal to final price of the Offer Shares. On or about 7 June 2007 the issue will be paid from the sales proceeds of the Offer Shares by UAB Rubicon Group provided that the sale of Offer Shares will be effected under the terms and conditions of this Prospectus.

In connection with the Offering, the Company has applied for the listing of all its shares in the Main List of Vilnius Stock Exchange on the basis of this Prospectus. Prior to the Offering, shares of the Company have not been traded publicly on any regulated market in or outside Lithuania. It is estimated that trading in shares of the Company on Vilnius Stock Exchange will commence on 8 June 2007.

Offer Shares are offered at a price which will fall within the price range indicated above. The final price of Offer Shares will be determined at the end of the offer period and will be the same for all investors who choose to participate in the Offering. Note that shareholders of the Company reserve the right to change the conditions of this Offering, including the number of Offer Shares that are being offered and the price range.

**The information in this Prospectus is not complete and may be changed. In case of such a change a supplement to this Prospectus will be prepared, which will be subject to approval by the competent authority. The supplement will be published in the same manner as the original Prospectus. Investors who have submitted their purchase undertakings before the announcement will be given the opportunity to cancel their purchase undertakings within five working days after the announcement.**

**The Prospectus is not an offer to buy these securities in any jurisdiction where this offer or sale is not permitted. The contents of this document are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, financial adviser or tax adviser for legal, financial or tax advice.**

**Prior to making any decision as to whether to purchase the Shares, prospective investors should read this document. In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of this document, including the risks involved.**

**Investors should rely only on the information in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or Lead Manager. Neither the delivery of this document nor any purchase made under this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since, or that the information contained herein is correct as of any time subsequent to, the date of this document.**

Lead Manager, Underwriter and Bookrunner

DATED 14 MAY 2007


CITYservice
Finland
Sweden
Norway
St.Petersburg
Estonia
Russia
Riga
Lithuania
Russia
Denmark
Belarus
U.K.
Neth.
Poland
Kiev
Germany
Belgium
Ukraine
Czech Rep.
Lux.
Slovakia
Moldova
Austria
Hungary
Switz.
France
Romania
Slovenia
Croatia
Bos.&
Herz.
Serbia
Bulgaria
Italy
Mont.
Mace.
Alb.
Turkey

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# INTRODUCTION

The Retail Offering is conducted in accordance with and governed by Lithuanian law and with due regard to the laws of Latvia and Estonia with respect to the public offering of securities in these countries. Before reading this Prospectus, please take notice of the following important introductory information.

## Liability in Connection with the Offering

**Person Responsible.** The person responsible for the information given in this Prospectus is the Company – AB City Service (registered address Konstitucijos 7, LT-09308 Vilnius, Lithuania).

The Company accepts responsibility for the fullness and correctness as of the date hereof of the information contained in this Prospectus. Members of the Board of the Company (Gintautas Jaugielavičius, Arūnas Mačiuitis, Žilvinas Lapinskas and Valdas Jankauskas), having taken all reasonable care to ensure that such is the case, believe that the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

| Gintautas Jaugielavičius | Arūnas Mačiuitis | Žilvinas Lapinskas | Valdas Jankauskas |
|---|---|---|---|
| ________________ | ________________ | ________________ | ________________ |
| Chairman of the Board | Member of the Board | Member of the Board | Member of the Board |

**Limitations of Liability.** Without prejudice to the above, no responsibility is accepted by the person responsible for the information given in this Prospectus solely on the basis of the summary of this Prospectus, unless such summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

Furthermore, the Lead Manager (as defined hereafter) expressly disclaims any liability based on the information contained in this Prospectus, the summary of this Prospectus or individual parts thereof and will not accept any responsibility for the correctness, completeness or import of such information. No information contained in this Prospectus or disseminated by the Company in connection with the Offering may be construed to constitute a warranty or representation, whether express or implied, made by the Lead Manager to any third parties.

Neither the Company nor the Lead Manager will accept any responsibility for the information pertaining to the Offering, the Company or its operations, where such information is disseminated or otherwise made public by third parties either in connection with this Offering or otherwise.

By participating in the Offering, investors agree that they are relying on their own examination and analysis of this Prospectus (including the financial statements of the Company which form an indispensable part of this Prospectus) and any information on the Company that is available in the public domain. Investors should also acknowledge the risk factors that may affect the outcome of such investment decision (as presented under the Section *Risk Factors*, page 14).

Please note that in the case of a dispute related to this Prospectus or the Offering, the plaintiff may have to resort to the jurisdiction of the Lithuanian, Latvian or Estonian courts and consequently a need may arise for the plaintiff to cover relevant state fees and translation costs in respect of this Prospectus or other relevant documents.

## Presentation of Information

**Approximation of Numbers.** Numerical and quantitative values in this Prospectus (e.g. monetary values, percentage values etc.) are presented with such precision which is deemed by the Company to be sufficient in order to convey adequate and appropriate information on the relevant matter. From time to time, quantitative values have been rounded up to the nearest reasonable decimal or whole value in order to avoid excessive level of detail. As a result, certain values presented as percentages do not necessarily add up to 100% due to the effects of approximation. Exact numbers may be derived from the financial statements of the Company, to the extent that the relevant information is reflected therein.

**Currencies.** In this Prospectus, financial information is presented either in Lithuanian Litas (LTL), the official currency of the Republic of Lithuania, or Euros (EUR), the official currency of the EU Member States participating in the European Economic and Monetary Union. The exchange rate between Euro and Lithuanian Litas is fixed at 3.4528 LTL for 1 Euro. Information that has been originally available in other currencies was converted to Euros or Lithuanian Litas as of the date for which such information is expressed to be valid. With respect to state fees, taxes and similar country-specific values, information may from time to time be expressed in currencies other than LTL or EUR. The exchange rates between such currencies and the Euro may change from time to time.

**Dating of Information.** This Prospectus is drawn up based on information which was valid as of 31 December 2006. Where not expressly indicated otherwise, all information presented in this Prospectus (including the consolidated financial information of the Company, the facts concerning its operations and any information on the markets in which it operates) must be understood to refer to the state of affairs as of the aforementioned date. Where information is presented as of a date other than 31 December 2006, this is identified by either specifying the relevant date or by the use of expressions the date of this Prospectus, to date, until the date hereof and other similar expressions, which must all be construed to mean the date of this Prospectus (14 May 2007).

**Documents on Display.** For the life of this Prospectus, the following documents (or copies thereof), where applicable, may be inspected: (a) the Articles of Association of the Company; (b) all reports, letters, and other documents, historical financial information, any part of which is included or referred to in this Prospectus, as well as (c) the historical financial information of the Company for each of the three full financial years preceding the date of this Prospectus. To the extent that such documents are not reflected in this Prospectus with reasonable fullness and do not in the sole discretion of the Company constitute business secrets of the Company, physical inspection of the documents will be arranged at the offices of the Company or by electronic post at the request of any interested party and subject to an agreement between the Company and such interested party regarding the means of inspection of the relevant documents. The above does not apply to the Articles of Association of the Company and the annual reports of the Company which are publicly available from Lithuanian Register of Legal Entities.

**Third Party Information and Market Information.** For portions of this Prospectus, certain information may have been sourced from third parties. Such information is accurately reproduced and as far as the Company is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. Certain information with respect to the markets in which the Company and its subsidiaries operate (generally Lithuania, Latvia, Russia and Ukraine) is based on the best assessment made by the Management. With respect to the industry in which the Company and its subsidiaries are active and certain jurisdictions in which they conduct their operations, reliable market information is often not available or is incomplete. While every reasonable care was taken to provide best possible assessments of the relevant market situation and the information on the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigation of the relevant markets or employ a professional consultant. Information on market shares is presented based on the Management's views, unless specifically indicated otherwise.

**Updates.** The Company will update the information contained in this Prospectus only to such extent, at such intervals and by such means as required by the applicable law or considered necessary and appropriate. The Company is under no obligation to update or modify forward-looking statements included in this Prospectus.

**Table of Definitions.** In this Prospectus, highlighted terms have the meaning ascribed to them hereunder, with the exception of such cases where the context evidently requires to the contrary. Terms are listed in alphabetical order and the list is limited to the terms which are considered to be of more importance. Other terms may be defined elsewhere in the Prospectus.

| | |
|---|---|
| *Administrator* | Facility manager appointed under Article 4.239 of the Civil Code of the Republic of Lithuania for the residential buildings that have no house communities or joint activity agreements of its owners regarding common use objects, who has to be certified under STR (construction technical regulation) 1.12.04:2002 and whose activities and fees are subject to governmental and municipal regulations instead of a contract. |
| *AV* | UAB Ąžuolyno Valda |
| *BBR* | UAB Buitis Be Rūpesčių |
| *Broker* | AB bankas Hansabankas in Lithuania, AS Hansabanka in Latvia and AS Hansapank in Estonia |

| | |
|---|---|
| *ECRS* | Estonian Central Register of Securities |
| *FM* | Facility management |
| *Group* | The Company and all its subsidiaries as of the date presented |
| *Institutional Investors* | Qualified investor as defined in Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC and/or as defined by the national securities legislation of each relevant country where the Offer Shares are being privately offered |
| *Institutional Offering* | The offering of Offer Shares to Institutional Investors worldwide in reliance on certain exemptions found in the national securities legislation of each relevant country, which does not constitute a public offering of Offer Shares |
| *KCS* | ZAT Kiev City Service |
| *Lead Manager* | AB bankas Hansabankas |
| *Management* | The Board and key executive officers of the Company |
| *MHFRP* | Management of heating facility renovation projects |
| *MV* | UAB Marių Valdos |
| *New Shares* | 2,110,000 new shares to be issued by the Company based on resolution of the Extraordinary Shareholders Meeting of the Company dated 14 May 2007 to be subscribed by UAB Rubicon Group at a subscription price equal to final price of the Offer Shares |
| *Offer Price* | The final price per each Offer Share, which shall be determined in accordance with the terms and conditions of the Offering; |
| *Offer Price Range* | The range within which the Offer Price may fall |
| *Offer Shares* | 4,157,800 Shares of the Company that are being offered by the Selling Shareholders to investors in the course of the Offering as well as any of 623,628 Shares which become subject to Over-Allotment Option |
| *Offering* | Retail Offering and Institutional Offering of Offer Shares to investors |
| *PCS-1* | ОАО Сити Сервис or OAO City Service (former ОАО Ремонтно строительное предприятие) |
| *PCS-2* | ЗАО Сити Сервис or ZAO City Service (former ОАО Ремонтно-эксплуатационная служба № I) |
| *PCS-3* | ОАО Специализированное ремонтно-наладочное управление |
| *Prospectus* | This document |
| *PV* | UAB Pempininkų Valdos |
| *RCS* | SIA Riga City Service |
| *Related parties* | As it is defined in International Accounting Standards 24 *Related Party Disclosures* |
| *Residential facilities/ housing/ buildings* | Multi-apartment houses, unless otherwise stated |
| *Retail Investors* | Investors in Lithuania, Latvia and Estonia other than Institutional Investors |
| *Retail Offering* | The public offering of Offer Shares to investors in Lithuania, Latvia and Estonia |
| *RFMC* | Residential facility management Company (in Lithuanian – *Butų ūkis*) |
| *Rubicon Group* | UAB Rubicon Group and any of its subsidiaries as of the date presented |
| *Section* | A section of this Prospectus |
| *Selling Shareholders* | The Company's shareholders, defined in the Section *Selling Shareholders* page 111, offering the Offer Shares for sale |
| *Shares* | Any shares of the Company issued and outstanding at any time |

| | |
|---|---|
| *Purchase undertakings* | An order submitted by an investor for the purchase of Offer Shares in accordance with the terms and conditions of the Offering |
| *Summary* | Summary of this Prospectus |
| *UK* | UAB Ūkvedys |
| *Underwriting Agreement* | The agreement to be concluded between the Company, the Selling Shareholders and the Lead Manager related to the Offering |
| *VV* | UAB Vingio Valdos |
| *ZA* | UAB Žaidas |

# Financial and Operational Information

The Company has applied the International Financial Reporting Standards as adopted by the European Union (IFRS) in its accounting and the preparation of its statutory annual reports from financial year ended 31 December 2005, which also included presentation of the corresponding financial information for the year ended 31 December 2004 restated to IFRS. Therefore, IFRS has been consistently applied by the Company for the whole period covered by the historical financial information presented in this Prospectus.

# Forward-Looking Statements

This Prospectus includes forward-looking statements. Such forward-looking statements are based on current expectations and projections about future events, which are in turn made on the basis of the best judgment of the Management. Certain statements are based on the beliefs of the Management as well as assumptions made by and information currently available to the Management. Any forward-looking statements included in this Prospectus are subject to risks, uncertainties and assumptions about the future operations of the Group, the macro-economic environment and other similar factors.

In particular, such forward-looking statements may be identified by use of words such as *strategy*, *expect*, *forecast*, *plan*, *anticipate*, *believe*, *will*, *continue*, *estimate*, *intend*, *project*, *goals*, *targets* and other words and expressions of similar meaning. Forward-looking statements can also be identified by the fact that they do not relate strictly to historical or current facts. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements contained in this Prospectus whether as a result of such changes, new information, subsequent events or otherwise.

The validity and accuracy of any forward-looking statements is affected by the fact that the Group operates in a competitive business. This business is affected by changes in domestic and foreign laws and regulations, taxes, developments in competition, economic, strategic, political and social conditions and other factors. The Group's actual results may differ materially from the Management's expectations because of the changes in such factors. Other factors and risks could adversely affect the operations, business or financial results of the Group (please see the Section *Risk Factors* for a discussion of the risks which are identifiable and deemed material at the date hereof).

# Use of this Prospectus

This Prospectus is prepared solely for the purposes of the Retail Offering and may not be construed as a warranty or a representation to any person not participating or not eligible to participate in the Retail Offering. No public offering of Shares is conducted in any jurisdiction other than Lithuania, Latvia and Estonia and consequently the dissemination of this Prospectus in other countries may be restricted or prohibited by law. You may not use this Prospectus for any other purpose than for making the decision to participate or refrain from participating in the Retail Offering. You may not copy, reproduce (other than for private and non-commercial use) or disseminate this Prospectus without express written permission from the Company. Please see the Section *Offering and Transfer Restrictions*, page 109, for more information.

# SUMMARY

*This Summary is not the prospectus for the public Offering and the listing of the Company's Shares and should be read merely as an introduction to the same. This Summary presents the facts and circumstances that the Company considers important with respect to the Company's business and the public Offering of the Company's Shares. Any decision to participate in the Offering and invest in the Company's shares should be based by each investor on the Prospectus as a whole and not merely on this Summary. Prospective investors are cautioned that where a claim relating to the information contained in the Prospectus (or this Summary) is brought before a court, the plaintiff investor might, under the national legislation of the relevant state, have to bear the costs of translating the entire Prospectus before court proceedings are initiated. The Company accepts civil liability in respect of this Summary solely in the case where this Summary is found to be misleading, inaccurate or inconsistent when read together with the Prospectus as a whole. Please note that a summary of the Prospectus is also available as a separate document in Lithuanian, Latvian and Estonian languages. Such separate document is not merely a translation of this Summary and includes more information than this Summary. It is made available to potential investors in the same manner and through the same channels as the Prospectus.*

## Introduction to the Business

Established in 1997, the Company is an outstanding leader in facility management market in the Baltic States and is also engaged in management of heating facility renovation projects. At present, the Company and its subsidiaries serve more than 8.6 million $m^2$ of facilities, including various commercial, residential, public buildings, offices and even such atypical objects as networks of call-boxes, stalls and GSM stations all over Lithuania. In 2006, the Group reached a total turnover of LTL 113.6 million. The Company is located in Lithuania and currently has 12 subsidiaries of which 7 in Lithuania, 3 in Russia, 1 in Latvia and 1 in Ukraine.

The Company is currently engaged in two business lines that supplement each other:

- *Facility management*. Facility management services include (i) pursuing administrative tasks, (ii) maintenance of civil engineering systems (heat and hot water supply, water supply and sewerage, ventilation and cooling, common usage power supply systems, etc.), (iii) management of energy resources (management of heat supply) and (iv) management of various subcontractors (interior and exterior cleaning, security, repair works and renovation, maintenance of gas system, elevators, etc.). The services are provided for commercial properties, offices and atypical properties, residential facilities and public facilities. The Company holds ISO 9001 quality certificate in facility management.

- *Management of heating facility renovation projects.* Currently the Company carries out this activity in Vilnius and 9 smaller towns all over Lithuania. The Company is contracted for supply and installation of heat pipelines and boiler-houses, heat supply substations (including remote data collectors *Rubisafe*), heat and water meters and heat cost allocators and manages subcontractors hired for separate works. The Company's main tasks include selection of subcontractors, negotiation, signing contracts with subcontractors and monitoring and acceptance of the works performed. The service is provided mainly for UAB Vilniaus Energija and UAB Litesko that belong to Dalkia Group, the largest energy service provider in Europe.

More information on the Company's business activities are provided in the Section *Principal Activities*, page 28.

## History and Development

The Company was established in 1997 under the name UAB Rubikon Apskaitos Sistemos as a producer of heat and water meters. In 1999, the Company took over activities from UAB Bora and UAB Vilniaus Vatas and thus expanded its production range by heat supply substations and heat supply substation controllers, started the maintenance of heat and hot water supply systems in Vilnius and Klaipėda and signed the first contract for integrated facility management.

In 2000 and 2002, UAB Litesko and UAB Vilniaus Energija (see the Section *The clients*, page 38) rented the heating facilities in Vilnius and 9 smaller towns all over Lithuania and started major investments into their renovation, including repair and construction of heat pipelines, boiler-houses, heat supply substations. Since the beginning, the Company has taken part in the heating facility renovation as a project manager and has gained a vast amount of experience which enabled the Company to build the know-how quintessential for most professional facility management services.

In 2000-2001, the Company concluded the first facility management agreements. In 2002, the Company started to manage energy resources (manage heat supply) for secondary schools and kindergartens in Vilnius. In 2003, the Company started divestment from the production, fully devoted for facility management service provision and started expansion via acquisitions. In 2006, the Company expanded its activities to Russia, Latvia and Ukraine. More information on the Company's history is provided in the Section *History and Development*, page 22.

**Table 1. Timeline of expansion of the Group's operations**

| Date | Development |
|---|---|
| January 1997 | Establishment of UAB Rubikon Apskaitos Sistemos. |
| May 1999 | Merge with UAB Bora and UAB Vilniaus Vatas and expanding production range. |
| October 1999 | Conclusion of first facility management agreements. |
| June 2000 | Conclusion of agreements for the management of heating facility renovation projects with UAB Litesko. |
| May and July 2002 | Conclusion of agreements for the management of heating facility renovation projects with UAB Vilniaus Energija. |
| June 2002 | Start of maintenance of heat and hot water supply systems and management of energy resources for education institutions in Vilnius. |
| March – May 2003 | Signature of facility management agreements with the leading commercial banks and a fixed communication service provider in Lithuania. |
| June 2003 | Transfer of the Company's production activity to UAB Katra. |
| April – September 2003 | Acquisition of 3 residential facility management companies in Lithuania. |
| May – December 2005 | Divestment from non-core activities and sale of investments in UAB Katra and UAB Kazlų Rūdos Metalas (currently UAB Axis Industries). |
| January 2006-February 2007 | Acquisition of 4 residential facility management companies in Lithuania, 3 residential facility management companies in Russia (St. Petersburg) and establishment of subsidiaries in Latvia and Ukraine |

# Group Structure

Significant subsidiaries of the Company and the respective shareholdings owned by the Company to date of the Prospectus are provided in *Table 2*. More information on the structure of the Group is provided in the Section *Structure of the Company*, page 52.

**Table 2. Subsidiaries of the Company**

| Entity | Shareholding, % |
|---|---:|
| UAB Žaidas | 99% |
| UAB Buitis Be Rūpesčių | 100% |
| UAB Vingio Valdos | 67%* |
| UAB Ąžuolyno Valda | 100% |
| UAB Marių Valdos | 100% |
| UAB Pempininkų Valdos | 75% |
| UAB Ūkvedys | 100% |
| ОАО Сити Сервис | 100% |
| ЗАО Сити Сервис | 100% |

| | |
|---|---|
| ОАО Специализированное ремонтно-наладочное управление | 100% |
| SIA Riga City Service | 100% |
| ZAT Kiev City Service | 100% |

* Please note that for the purposes of preparing financial statements for the years ended 31 December 2005 and 2006 the Management considered that the Company owned 100% of the shares in UAB Vingio Valdos. However, there is a dispute related to shares in UAB Vingio Valdos and UAB Būsto Administravimo Agentūra as described in the Section *Legal and Arbitration Proceedings* on page 91.

# Management and Employees

The management structure of the Company is organised functionally along business lines. All international operations are separate subsidiaries of the Company with their own management reporting to the parent company of the Group. Functional structure of the management of the Company is provided in the Section *Management Structure*, page 76.

Legally, the highest governing body of the Company is the General Shareholders Meeting. Company does not have the Supervisory Council. The Board of the Company is comprised of four members:

1. Gintautas Jaugielavičius (the Chairman);
2. Arūnas Mačiuitis;
3. Žilvinas Lapinskas;
4. Valdas Jankauskas.

The Company's key executive officers currently are Žilvinas Lapinskas (General Director), Marijus Jarockis (Deputy General Director), Edvinas Paulauskas (Executive Director) and Jonas Janukėnas (Chief Financial Officer and Head of Administration). More information on the Board and key executive officers of the Company is provided in the Section *Administrative Management, and Supervisory Bodies and Senior Management*, page 76.

The Group currently employs 1,335 people of which 732 in St. Petersburg, Russia (see *Table 3*). More information on the employees of the Company is provided in the Section *Employees*, page 81.

**Table 3. Number of employees in the Group (at the end of the year)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | Current | 2004 | 2005 | 2006 | Current |
| Lithuania | 909 | 373 | 465 | 596 | 275 | 301 | 376 | 375 |
| Russia | - | - | 460 | 732 | - | - | - | - |
| Latvia | - | - | 2 | 5 | - | - | - | - |
| Ukraine | - | - | - | 2 | - | - | - | - |
| **Total** | **909** | **373** | **927** | **1,335** | **275** | **301** | **376** | **375** |

# Risk Factors

The Group's operations inevitably involve certain risks and contingencies. The Company's prospective investors are strongly advised to consider the Section entitled *Risk Factors*, page 14, for a comprehensive overview of the circumstances which the Company regards as having the potential to affect the results of the Company's operations (and, correspondingly, the value of the Shares) in the future. In particular, such circumstances may be related to the industry, in which the Group operates, certain company-specific aspects of operations, the geographic markets in which the Group does business and to the public offering and listing of the Shares.

Prospective investors are cautioned that though every effort was exerted to make proper mention of every material risk of which the Company is aware, the Group's operations could still be affected by other circumstances which are either not known or not considered material at this time.

# Shares and Shareholders

The share capital of the Company at the date of this Prospectus is LTL 17 million, which is divided into 17 million ordinary shares with a nominal value of LTL 1 each (see *Table 4*). More information on the Company's shareholders is provided in the Section *Major Shareholders*, page 82.

**Table 4. The Shareholders and share capital of the Company**

| No. | Shareholder | Number of shares | Percentage owned |
|---|---|---|---|
| 1. | UAB Rubicon Group | 14,328,572 | 84.29% |
| 2. | Andrius Janukonis | 381,634 | 2.24% |
| 3. | Darius Leščinskas | 381,634 | 2.24% |
| 4. | Arūnas Mačiuitis | 381,632 | 2.24% |
| 5. | Rimantas Bukauskas | 381,632 | 2.24% |
| 6. | Gintautas Jaugielavičius | 381,632 | 2.24% |
| 7. | Linas Samuolis | 381,632 | 2.24% |
| 8. | Remigijus Lapinskas | 381,632 | 2.24% |
| | **Total** | **17,000,000** | **100%** |

# Offering

The shareholders of the Company are publicly offering the Offer Shares for sale to Retail Investors and Institutional Investors in Lithuania, Latvia and Estonia, as well as privately to Institutional Investors in and outside of these countries except for the jurisdictions, where such offer or sale is not permitted. The offering made publicly to Retail Investors and Institutional Investors in Lithuania, Latvia and Estonia (*Retail Offering*) is conducted in accordance with the applicable laws as a secondary offering of Shares of the Company. The offering privately made to Institutional Investors worldwide (*Institutional Offering*) is targeted to pre-determined professional investors and does not constitute a public offering of Shares under the laws of any jurisdiction. The Retail Offering and the Institutional Offering together constitute the Offering. A summary of the main terms of the Offering follows (while the complete set of conditions applicable to the Offering may be found under Section entitled *Terms and Conditions of the Offering*, page *104*):

**Offering.** Shareholders of the Company are offering for sale **4,157,800** *Offer Shares* in a combined offering, which is comprised of (i) **2,511,400** Offer Shares offered by a major Company shareholder UAB Rubicon Group and (ii) **1,646,400** Offer Shares - by Company's individual shareholders.

The Retail Offering constitutes a public offering of the Shares in Lithuania, Latvia and Estonia. The Institutional Offering constitutes a private offer of the Offer Shares outside the United States to institutional investors in reliance on Regulation S under the Securities Act.

The Offering is conducted on *all or nothing* basis, i.e. the Offer Shares will be sold only on the condition that all Offer Shares are allocated.

**Over-Allotment Option.** The shareholders of the Company have granted AB bankas Hansabankas as the underwriter of the Offering an option (*Over-Allotment Option*) to purchase up to **623,628** additional Shares of the Company solely to cover over-allotments, if any (such additional shares being subject to the Over-Allotment Option are hereinafter also referred to as *the Offer Shares*). Over-Allotment Option is exercisable starting from the date of public disclosure of the final price for the Offer Shares and ends within 30 calendar days after the date of allotment.

**Offer Period.** The Offer Period commences on 21 May 2007 and ends on 1 June 2007.

**Offer Price Range.** The Offer Price Range is LTL 11.76 to LTL 13.24 per Offer Share. The Offer Price Range may be changed during the book-building process directed at Institutional Investors in the course of the Institutional Offering.The final Offer Price will be based on the results of such book-building process. The Offer Price will be the same for all investors participating in the Retail Offering or the Institutional Offering. If the Offer Price Range is changed, the Company will prepare a supplement to this Prospectus which will be subject to approval by the competent authority. The supplement will be published in the same manner as the original Prospectus. The Company will make an announcement concerning the supplement immediately through Vilnius Stock Exchange and on its website. Investors who have submitted Purchase Undertakings before the announcement will be given the opportunity to cancel their Purchase Undertakings within five working days after the announcement.

**Shares.** The share capital of the Company currently consists of 17,000,000 ordinary registered shares with a nominal value of LTL 1 each. On 14 May 2007, the Extraordinary Shareholders Meeting of the Company decided on issuing 2,110,000 Shares (*New Shares*) to UAB Rubicon Group at a subscription price equal to final price of the Offer Shares. The issue will be paid from the sales proceeds of the Offer Shares by UAB Rubicon Group provided that the sale of Offer Shares will be effected under the terms and conditions of this Prospectus. After the New Shares are issued, subscribed and paid by UAB Rubicon Group, the share capital of the Company will be LTL **19,110,000**.

**Percentage of the Total Issued Share Capital Being Offered in the Offering.** Immediately after Offering and UAB Rubicon Group acquiring the New Shares (2,110,000), the Shares being sold as part of the Offering will amount to 25% of the share capital of the Company provided that the Over-Allotment Option is exercised in full.

**Listing.** An application has been made for the shares of the Company to be listed in the Main List of Vilnius Stock Exchange. Trading in the Shares on Vilnius Stock Exchange is expected to commence on 8 June 2007.

**Settlement.** It is expected that the delivery of the Offer Shares will be made on or about 7 June 2007 (but in any case no later than 8 June 2007).

**Lock-up Agreements.** The Company and its shareholders have agreed that, without a prior written consent of the Lead Manager, the above-mentioned parties will not dispose of any Shares owned by them at any time or of any securities however convertible into the Shares during the period commencing on the last day of the Offer Period and ending 360 days after the commencement of trading in the Shares on Vilnius Stock Exchange.

**Voting Rights.** Each Offer Share carries one vote at the General Shareholders Meeting of the Company.

**Dividend Rights.** The Offer Shares entitle holders of the same to any future dividends declared for the financial year commenced 1 January 2007 and ending 31 December 2007 and any subsequent years.

**Stabilisation.** The Lead Manager may effect transactions to stabilise or maintain the market price of the Shares, in accordance with applicable laws, starting from the date of public disclosure of the final price for the Offer Shares and ending within 30 calendar days after the date of allotment. Any such stabilisation activity will be decided by the Lead Manager at its sole discretion and the Lead Manager is under no obligation to do so. Such stabilisation transactions may result in a situation where the Shares are traded at a price that is higher than the price that would have been formed by simple operation of supply and demand, without the effect of stabilisation. Stabilisation activities will be conducted in accordance with the European Commission Regulation (EC) No 2273/2003 implementing Directive 2003/6/EC of the European Parliament and the Council as regards exemptions for buy-back programs and stabilisation of financial instruments and will be notified to Lithuanian Securities Commission in accordance with Article 9 (4) of the aforementioned Regulation.

**Selling and Transfer Restrictions.** Sales and transfers of the Offer Shares will be subject to certain restrictions (see the Section *Offering and Transfer Restrictions*, page 109, for details).

**ISIN Code of the Shares.** The ISIN code of the Shares is LT0000127375.

**Trading Code of the Shares.** The trading code of the Shares on Vilnius Stock Exchange is expected to be [CTS]

**Lead Manager.** The Lead Manager of the Offering is AB bankas Hansabankas.

# Key Dates

**THE FOLLOWING ARE THE KEY DATES IN THE PROGRESS OF THE OFFERING**

| | |
|---|---|
| 17 May 2007 | Conditional listing on Vilnius Stock Exchange is expected to be approved. |
| 21 May 2007 | Offer Period commences. |
| 1 June 2007 | Offer Period concludes. |
| 5 June 2007 | Offer Price and allocation of the Offer Shares is published. |
| 7 June 2007 | Settlement and delivery of the Offer Shares is expected to take place. |
| 8 June 2007 | Trading in Shares of the Company is expected to commence on Vilnius Stock Exchange. |

# Summary Financial Information

Financial highlights on the Company and the Group are provided in *Table 5*.

Note: please refer to the Section entitled *Selected Financial Information*, page 20, and *Audited Financial Statements*, page 86, for an extended version of the Financial Statements and definitions of key rations and indicators and *Operating and Financial Review*, page 56, for more detailed information on the historical financial results for 2004 – 2006.

**Table 5. Highlights of Financial Statements and key ratios and indicators (year ended 31 December)**

| **Income statement (LTL in thousands)** | **The Group** | | | **The Company** | | |
|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** |
| **Sales** | **190,851** | **117,232** | **113,607** | **108,818** | **95,986** | **103,447** |
| Cost of sales | (139,170) | (96,127) | (94,795) | (89,291) | (82,002) | (86,756) |
| **Gross profit** | **51,681** | **21,105** | **18,812** | **19,527** | **13,984** | **16,691** |
| Total operating expenses | (31,913) | (15,123) | (11,527) | (7,307) | (7,069) | (8,397) |
| Other activities (net) | 295 | 2,389 | 259 | 531 | 2,330 | 141 |
| **Operating Profit** | **20,063** | **8,371** | **7,544** | **12,751** | **9,245** | **8,435** |
| **Net profit (loss)** | **17,554** | **4,531** | **7,528** | **9,667** | **13,038** | **7,550** |
| **Attributable to:** | | | | | | |
| The shareholders of the Company | 15,490 | 5,049 | 7,516 | 9,667 | 13,038 | 7,550 |
| Minority interests | 2,064 | (518) | 12 | - | - | - |
| | | | | | | |
| **Balance Sheet (LTL in thousands)** | **The Group** | | | **The Company** | | |
| | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** |
| Total current assets | 81,780 | 51,453 | 65,508 | 44,591 | 49,908 | 60,517 |
| Total non-current assets | 35,576 | 2,800 | 13,349 | 22,679 | 3,264 | 13,510 |
| **Total assets** | **117,356** | **54,253** | **78,857** | **67,270** | **53,172** | **74,027** |
| Total current liabilities | 52,286 | 29,085 | 42,376 | 30,745 | 28,303 | 38,744 |
| Total non-current liabilities | 5,872 | 311 | 5,011 | 581 | 287 | 4,651 |
| Total shareholders' equity | 59,198 | 24,857 | 31,470 | 35,944 | 24,582 | 30,632 |
| **Total liabilities and shareholders' equity** | **117,356** | **54,253** | **78,857** | **67,270** | **53,172** | **74,027** |
| | | | | | | |
| **Cash Flow data (LTL in thousands)** | **The Group** | | | **The Company** | | |
| | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** |
| Cash flow from (to) operating activities | 8,455 | 610 | 6,915 | 7,818 | (784) | 6,935 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash flow from (to) investing activities | (21,251) | (1,373) | (6,948) | (14,066) | 2,665 | (9,186) |
| Cash flow from (to) financing activities | 5,334 | (1,412) | 3,258 | (2,097) | (1,308) | 3,309 |
| | | | | | | |
| **Key ratios and indicators** | **The Group** | | | **The Company** | | |
| | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** |
| Number of shares * | 105 | 10,500 | 10,500 | 105 | 10,500 | 10,500 |
| Earnings per share (EPS), LTL | 167.2 | 0.4 | 0.7 | 92.1 | 1.2 | 0.7 |
| Number of employees* | 909 | 373 | 927 | 275 | 301 | 376 |
| EBITDA (LTL in thousands) | 27,057 | 8,161 | 10,561 | 12,577 | 15,479 | 9,913 |
| EBITDA adjusted (LTL in thousands) | 23,761 | 11,136 | 9,015 | 12,525 | 10,894 | 9,703 |
| EBITDA margin,% | 14.2% | 7.0% | 9.3% | 11.6% | 16.1% | 9.6% |
| EBITDA adjusted margin,% | 12.5% | 9.5% | 7.9% | 11.5% | 11.3% | 9.4% |
| Operating profit margin,% | 10.5% | 7.1% | 6.6% | 11.7% | 9.6% | 8.2% |
| Return on equity (ROE), % | 29.7% | 18.2% | 23.9% | 26.9% | 53.0% | 24.6% |
| Equity ratio, % | 50.4% | 45.8% | 39.9% | 53.4% | 46.2% | 41.4% |

* as of the end of the financial year.

# Profit Forecast

The Company's and the Group's profit forecasts for 2007 are provided in *Table 6*. Detailed information on the underlying assumptions and the Auditor's Opinion are provided in the Section *Profit Forecast*, page 68.

**Table 6. Financial highlights of the forecast for 2007**

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **LTL in thousands** | **Change, %** | **LTL in thousands** | **Change, %** |
| | | | | |
| **EBITDA** | **17,819** | **105%** | **11,302** | **22%** |
| **Net profit (loss)** | **13,059** | **75%** | **8,550** | **13%** |
| | | | | |
| **Attributable to:** | | | | |
| The shareholders of the Company | 13,036 | 74% | 8,550 | 13% |
| Minority interests | 23 | 92% | - | - |

# RISK FACTORS

*This overview of the various risk factors related to the Group's business represents what the Company, in its absolute discretion, considers to be of material importance in relation to its present and future operations. While the Company considers the following to be a fair, full and comprehensive disclosure of all relevant risk factors, this overview is not a substitute for the rest of the Prospectus and should not be perceived as such. The Company stresses that a full and accurate assessment of its operations may only be made on the basis of the entire Prospectus. Furthermore, the operations of the Group may be affected by risks that are either not known or have not materialised by the date of this Prospectus. Should such risks emerge, the value of the investment made in Shares of the Company may suffer.*

## Country Specific Risks

**Slowdown in economic growth may adversely affect the spending on facility management services**

The Group currently operates in emerging economies that have demonstrated remarkable growth during the last several years and will inevitably face the challenge to keep the pace of the outstanding growth for the upcoming years. Should the economies show the signs of slowdown, the Group's operations may be affected in a limited number of spheres. Though the Group operates in utility sector and most of its services are commodities in all facility management segments, the Group's financial results may be affected by the slowdown in (i) the growth of individual clients' purchasing power and business clients' budgets for premium facility management services and (to lesser extent) (ii) construction of new facilities. The aforementioned factors could respectively result in (i) decreased demand for premium facility management services and (ii) slowdown in Group's organic growth through increasing the facility space served that could adversely affect the Group's financial results.

**The Group's results are subject to the volatility of currency exchange rates**

Historically, the Group's operations have been carried out in Lithuania only (until mid 2006). However, in financial forecast of 2007 and further prospects, a substantial share of the Group's financial results will be comprised of revenues and expenses generated by the subsidiaries in foreign countries including but not limited to Russia, Latvia and Ukraine. As the financial results of the aforementioned subsidiaries will be denominated in RUB, LVL, UAH and possibly other currencies, the Group will be subject to the effects of exchange rate fluctuations with respect to any of these currencies. To date, the Group has not entered into agreements or purchased instruments to hedge the Group's exchange rate risks although the Group plans to do so in the future.

**The Group has operations in Russia and Ukraine that bear legal uncertainties**

While the Group's operations in Russia and Ukraine demonstrate significant potential for growth due to the limited competition and the immaturity of the market, they concurrently bear the risk to be undermined by the complicated and different legal system and the overall inefficiency of the state and municipal authorities. Russian and Ukrainian legislation and administrative policy may from time to time be influenced by changes in the political arena. Moreover, administrative discretion may be exercised in a manner that is detrimental to a particular market participant or the whole industry. Though showing signs of improvement, Russian and Ukrainian political systems remain unstable and prone to abrupt and unpredictable changes. The Group is closely monitoring the situation to remain informed of the recent developments.

Certain tenders, as a result of which Russian subsidiaries of the Company provide facility management services under agreements on management of common property in multi-apartment houses entered into with the State Housing Agencies and a State-owned clearing company, may be found to be non-compliant with respective rules of such tenders, which in turn may lead to invaliditation of the respective management service agreements. Anyway, duration of the agreements entered into as a result of the aforementioned tenders is one year, expiring at 31 January 2008. As a result of reform of communal services, which is now in the process in Russia, respective Group companies are now in the process of concluding direct facility management agreements with the apartment owners and the process is expected to be completed by the end of year 2007, with the largest part of the contracts to be concluded by mid of year 2007.

## Industry Specific Risks

**The Group's activities are regulated by municipalities**

The Group's operation in the fields of facility management and management of heating facility renovation projects is subject to state and/or municipal regulation and supervision in most jurisdictions. For more information please see the Section *Market regulation*, page 44. Adverse legislative changes in any of the countries where the Group operates may have adverse effect on the business of the Group or create obstacles to further growth.

**The Group's future acquisitions depend on the privatisation reforms in the residential facility management sector**

The residential facility management markets the Group operates in are in the progress to undergo liberalization reforms that include privatisation of residential facility management companies (RFMCs) (for more details see the Section *Market overview*, page 40). The process has made headway in Lithuania where a part of RFMCs has been privatised in Klaipėda and Vilnius. According to the public sources, in St. Petersburg (Russia), Riga (Latvia) and Kiev (Ukraine) privatisation is expected to take off in the upcoming couple of years. The Group has ambitious plans for expansion via acquisitions and projects acquisitions of particular RFMCs. Should the scope and timing of the privatisation process be undermined or political or legislative changes occur, the Group's financial results may deviate from the projected ones.

**Demand for facility management services may not grow as expected**

The Group's organic growth prospects rely on the increasing demand for facility management services in Lithuania and other countries the Group operates in. However, the future growth of the demand for facility management services in the aforementioned sector depends on the following anticipated key factors: (i) the growing outsourcing of the facility management by the private and business clients of the Group, (ii) increasing disposable income of private clients and budgets for facility management service of business clients, (iii) increasing facility space of target clients. Should any unforeseen factors emerge to undermine the development of the facility management industry, the Group's financial results could be adversely affected.

**The tariffs of residential facility management are subject to regulation by municipalities**

The residential facility management tariffs subject to state and/or municipal regulation and supervision in most jurisdictions the Group operates in (for more information see the Section *Market regulation*, page 44). During the last several years, in most aforementioned countries, the residential facility management tariffs have been periodically increased in relation to the increasing expenses of the facility management entities. However, not all countries of the abovementioned have defined procedures on the methodology and timing of review of residential facility management tariffs. Therefore, the Company cannot guarantee that the residential facility management tariffs will go in line with the residential facility management expenses which may potentially result in fluctuating profit margins and adversely affect the financial results of the Group.

**The Group is facing competition in many spheres of its activity**

The Group faces competition from a number of different market players in many spheres of its activities including competition for clients, employees and acquisitions (more details on the competitors recognised by the Company and the Subsidiaries in separate markets are provided in the Section *Market overview*, page 40). While the Company was a pioneer in the facility management sector in Lithuania and has established an eminent market leader position, recently it has newly acquired 3 local residential facility management companies and in Kiev and Riga the Company's subsidiaries still remain at the initial phase of their operation. As a result, the Group faces the challenge to establish and maintain its competitive advantages in these new markets, including but not limited to through know-how and experience, long-term relationship with clients, partnerships with leading real estate developers held in Lithuania, and to establish its market position in all markets of its presence; a failure to do so may have material negative effects of the Group's financial performance.

**Statistics referred to in this Prospectus may not be accurate, complete or up-to-date**

Certain statistics relating to facility management industry, including statistics relating to current and projected residential, commercial and office facility space in Lithuania, Russia, Latvia and Ukraine, as well as other statistics in this Prospectus, are derived from various unofficial publications and obtained from the Group's partners. The aforementioned information accords with the Management's best belief and the Management considers the information sufficient for decision making, however, such information has not been independently verified by the Group and may be not accurate, complete or up-to-date or prepared on a consistent basis and therefore the Company makes no representation as to the correctness or accuracy of such statements and, accordingly, such information should not be unduly relied upon.

**The rising personnel and energy costs may negatively affect the profit margins**

The personnel costs (comprising 15% of the Group's total expenses) and energy prices have a direct and indirect impact on the Group's expense base and profitability of operations. Should the aforementioned costs continue to rise, and should the Group be unable to offset such increases by raising the prices for its services or the total turnover, the Group's profit margins and results of operations could be adversely affected.

## Company Specific Risks

**The Group has limited and incomparable operating history**

Throughout the operations since 1997 the Group has experienced significant shifts in terms of the Group's structure and operations that have been reflected in respective financial results. In 2004, the Company was a major holding entity with a number of subsidiaries operating in production of boiler-houses, metering equipment, heat supply substations and biofuel, construction waste management and other activities not related to facility management from which the Company divested during the financial year 2005 (for more details refer to the Section *Developments of Different Financial Items*, page 57). During 2006 and the beginning of 2007, the Company established/ acquired 9 facility management companies, out of which only 2 (AV and MV) were fully consolidated in the financial results of the Group in 2006 (RCS and KCS were at start-up phase and PCS-1 was consolidated for the last quarter only). For the abovementioned reasons, the historical financial information of the Group included in this Prospectus may not necessarily (i) be comparable from year to year and (ii) reflect the Group's results of operations, financial position and cash flows in the future and should be evaluated in the light of the structural and operational changes in the performance of the Group.

**The Group has no written intra-group transaction policies and may be subject to tax claims**

The Group enters into transactions with other entities belonging to UAB Rubicon Group and other Related Parties. In 2006, the Group's purchases of goods and services from the Related Parties amounted to 21% and the sales of goods, and services for the Related Parties amounted to 4% of the Group's total sales. The Company and the Subsidiaries aim at pricing intra group transactions on arm's length basis, however, neither the Group, nor UAB Rubicon Group have adopted a formal transfer pricing policy supporting the pricing of intra-group transactions, and the lack of documentation may give rise to the tax claims to the Group. No provisions have been recorded in the financial statements of the Company and the Group for such tax claims as the management considers that the likelihood of additional material tax liabilities associated with the intra-group transactions is remote.

**The Company's ownership in UAB Vingio Valdos may be exchanged to a respective ownership in UAB Būsto Administravimo Agentūra**

The Company is involved in the civil case regarding validity of the agreement of the exchange of UAB Vingio Valdos and UAB Būsto Administravimo Agentūra shares (as presented under the Section *Legal and Arbitration Proceedings*, page 91). The litigation may result in (i) either the Company shareholding in UAB Vingio Valdos being restituted to 100% and loosing all the shares in UAB Būsto Administravimo Agentūra or (ii) the Company keeping its shareholding in UAB Vingio Valdos at 67% and a minority shareholding (approximately 37%) in UAB Būsto Administravimo Agentūra. The Company estimates the aforementioned shareholdings of an equivalent value and does not anticipate a substantial effect on the Company's operations in any case.

**The Group relies on performance and agreements with its major clients**

To a large degree the Company's and the Group's sales are concentrated among a limited number of clients. A larger portion of the Group's sales is generated by the management of heating facility renovation projects for two major clients – UAB Vilniaus Energija and UAB Litesko, jointly comprising around 54% of the Company's and 49% of the Group's sales in 2006 respectively (see the Sections *Management of heating facility renovation projects*, page 36, and *The clients*, page 38). Top 5 largest clients of the Company and the Group comprise respectively 76% and 70% of the sales in 2006. Though in 2007 the share of UAB Vilniaus Energija and UAB Litesko in the Company's and the Group's sales is planned to be diluted by the sales of the facility management services in Lithuania and other markets, the two major clients are still expected to account for 53% of the Company's and 31% of the Group's sales respectively.

The demand for the Company's services is directly dependent on investment budgets for renovation of heating facilities by UAB Vilniaus Energija and UAB Litesko in Vilnius and 9 smaller towns in Lithuania. Moreover, there is no full certainty whether the UAB Vilniaus Energija and UAB Litesko have complied with the applicable regulatory procedures in awarding contracts to the Company therefore the Company has no assurance that purchasing of Company's services by the aforementioned clients will be continued by similar scope or at all in the future.

Any significant changes in any other major clients' operating conditions, their preference for the Group's services and settlement terms may have a material impact on the Group's financial results. Although the Company believes that the Group's customer base is strong and diversified, the Group will continue to be dependent upon a relatively limited number of customers for a significant portion of its sales and loss or cancellation of business from the Group's most significant clients therefore could materially reduce the Group's revenues.

**The Group is dependent on its partnerships with real estate developers**

One of the major competitive edges of the Group lies within its partnership with the leading real estate developers in Lithuania. The Group possesses extensive knowledge in maintenance of civil engineering systems and therefore shares its knowledge with the real estate developers in designing efficient civil engineering systems in order to lower the costs of further maintenance of the systems. In turn, the Group is granted the preference in further maintaining the buildings either in disposition of the real estate developers or new owners of the property thereafter. Any significant changes in the Group's partners' operating conditions and their preference for the Group's services may have a material impact on the Group's financial results.

**The Group is dependent on key executive officers and personnel**

Much of the success of the Group to a significant degree depends on the continuity of the Management and other highly trained and experienced personnel who have deep understanding of the facility management and have dedicated substantial parts of their professional careers to the Group. Should the Group be unable to attract, retain and motivate the aforementioned personnel, in addition to potentially benefiting the competitors by its employees, the Group may have material adverse impact on its business and financial condition as hiring the personnel equivalent by knowledge and experience would entail inevitable additional costs and would not necessarily be immediately possible.

**The Group entities are exposed to high liability against clients**

The Group entities get an access to a number of client's premises with all equipment, personal belongings and other assets located inside those premises under facility management contracts and as service provider the Group assumes civil liability for the damage to the Client's property, operations, as well as to the persons that may be present in facilities. Subject to negotiations with the Client, to limited extent the Group restricts its liability contractually. The Company holds civil liability insurance in the amount of LTL 5 million. However, the aforementioned insurance policy is subject to applicable deductibles and non-insured events and, therefore, may not always adequately cover the liability the Company incurs.

**The Group's acquisitions may not be completed in planned timing or may not achieve the intended economic results**

The Group's success in implementing its long-term strategy will depend upon a number of factors including the factors inside and outside its control. In particular, the Group's acquisitions may not be completed in planned timing or may not achieve the intended economic results. The Company plans to acquire 5 residential facility management companies (RFMCs) in Lithuania in mid 2007, a RFMC in Latvia in the autumn 2007 and several RFMC in Russia by the end of 2007. The timing of the acquisitions and the planned performance of the acquired entities in Lithuania and Latvia are among the major underlying assumptions behind the forecasted financial results for 2007. However, the contemplated acquisitions of facilities management companies may be delayed or even not occur based on governmental and/ or municipal privatisation policies. Furthermore, Group's acquisition bids may not necessarily be successful due to competition by other potential bidders. Consequently, the Company cannot guarantee either that these acquisitions are made in aforementioned timing, or that the acquired entities will achieve the intended economic results or commercial viability, which in turn may adversely affect the Group's business, financial condition or the results of operations.

**The Group's capital expenditure for planned acquisitions may exceed the budgeted investment**

The Group's expansion plans are capital intensive. The Company plans to invest around LTL 18 million for several acquisitions in Lithuania, Latvia and Russia in 2007 alone. The Company plans to finance the estimated acquisition projects in 2007, or any other expansion projects that are still in the planning stage, by the net proceeds available from the Offering (LTL 22.8 million – LTL 25.8 million based on the Offer Price range) and cash generated from future operations. However, the Group cannot guarantee that the planned expansion projects will be completed within the Group's original budgets. Should the Group require additional funds and cannot obtain them in due timing, the Group may not be able to fully fund the necessary capital expenditure to implement the Group's business strategies. Should the Group be able to secure sufficient funding, the Group may still not be able to obtain the funds under relatively commercially favourable terms, which would result in increased financing costs. In case of occurrence, any of the abovementioned cases could impede the implementation of the Group's business strategies and/ or prevent the Group from entering into transactions, that would otherwise benefit the Group's business, and could adversely affect the Group's financial condition and results of operations.

**The Group's business and reputation may be affected by adverse publicity in relation to the Group's services**

The public interest in the facility management services and, concurrently, the publicity of the service are currently increasingly growing in Lithuania. Moreover, the residential facility management business inherently includes solving of utility problems many of which are beyond the Group's control, and dealing with a wide circle of price-sensitive private individuals, therefore, by nature many major events including accidents, breakdowns, emergencies and also price changes in residential facility management are periodically followed and in many cases inadequately reflected in the local mass media. As the Company is an outstanding market leader in Lithuania, the Group occasionally draws adverse publicity and may get engaged in public disputes for the Group's reputation. Should the latter occur, the adverse publicity and disputes may impose additional costs for defending these disputes and harm the Group's reputation, which could thereby have adverse effect on the Group's financial results.

**The Group may be unable to manage its future growth**

In 2007 and beyond, the Group anticipates an aggressive growth through both – horizontal and vertical acquisitions, as well as organic growth. The Group's expansion plans may place a significant strain on the Group's managerial, operational and financial resources as the Group's ability to manage its future growth will depend on the Group's ability to continue to expand, train, motivate and manage its workforce and pursue new clients, subcontractors, partners and acquisition opportunities on a timely basis.

The Company cannot guarantee that its personnel, systems, procedures and controls will be adequate to support the future growth. Failure to effectively manage the Group's expansion may potentially lead to increased costs and less optimal investment decisions and result in missed business opportunities.

## Shares Specific Risks

**An active market for the Shares may not develop**

Prior to this Offering, there has been no public market for the Shares. The Company can not provide any assurance an actively trading market for Shares will emerge, develop or be sustained after the completion of the Offering. The Offer Price will be determined through discussions among the Lead Manager, the Company and the Selling Shareholders. This initial Offer Price may vary from the market price of the Shares after the Offering. If you purchase any Shares, you may not be able to resell those Shares at or above the Offer Price.

In order to mitigate this risk, the Selling Shareholders have granted the Lead Manager an option to purchase up to 623,628 Shares at the price of the Offering solely to cover over-allotments, if any. This option is exercisable starting from the date of public disclosure of the final price for the Offer Shares and ends within 30 calendar days after the date of allotment.

The price of the Shares after this Offering may be volatile and may fluctuate significantly in response to numerous factors including the actual or anticipated fluctuations in the quarterly and annual results of the Company and those of its competitors; industry and market conditions; mergers and strategic alliances; changes in laws and regulations; shortfalls in the operating results of the Company or its competitors compared to levels forecasted by investment analysts; public announcements concerning the Company or its competitors; global and regional economic conditions and the general state of securities markets. Many of these factors may be beyond the control of the Company and are difficult or impossible to predict.

**Stocks listed on Vilnius Stock Exchange are volatile and of limited liquidity**

Application has been made to Vilnius Stock Exchange for Shares to be admitted to trading on Vilnius Stock Exchange's Main List. Though every effort will be made to ensure that listing will occur, the Company can not provide any assurance that Shares will be admitted to trading.

Vilnius Stock Exchange is substantially less liquid and more volatile than established markets such as those in other countries with highly developed securities markets. The relatively small market capitalisation and low liquidity of Vilnius Stock Exchange may impair the ability of shareholders to sell Shares on Vilnius Stock Exchange, which could increase the volatility of the price of Shares.

Since Vilnius Stock Exchange is characterised by relatively low investor activity, the impact of individual transactions on the market price of securities may be significant. Lower investor activity may lead to wider spreads between the bid and ask prices and a correspondingly lower liquidity of traded securities.

**The market price of the Shares may be affected by adverse publicity in relation to the Company and the Group**

The public interest in the facility management services and, concurrently, the publicity of the service are currently increasingly growing in Lithuania. Moreover, the residential facility management business inherently includes solving of utility problems many of which are beyond the Group's control, and dealing with a wide circle of price-sensitive private individuals, therefore, by nature many major events including accidents, breakdowns, emergencies and also price changes in residential facility management are periodically followed and in many cases inadequately reflected in the local mass media. As the Company is an outstanding market leader in Lithuania, the Group occasionally draws adverse publicity and may get engaged in public disputes for the Group's reputation. Should the latter occur, the adverse publicity and disputes may have adverse effect on the market price of the Shares.

**Payment of dividends is not guaranteed**

Shareholders of the Company adopted a policy to distribute as dividends at least 25% of the net profit of the reporting financial year reduced by (i) retained loss of the previous financial years (if any) and (ii) mandatory allocation to reserves. Notably, such dividend policy should be treated as intention of the current shareholders and may be overruled by a resolution of the annual General Shareholders Meeting.

**Major shareholder will be able to adopt major corporate decisions**

Despite the Offering, the Company will remain under the control of UAB Rubicon Group. Following the completion of the Offering UAB Rubicon Group will hold approximately 75% of the Shares of the Company. Said shareholder will be able to adopt all major corporate decisions that are in the competence of the General Shareholders Meeting of the Company (see the Section *The Company's Articles of Association*, page 93).

**Shares in the Company owned by UAB Rubicon Group and shares in certain subsidiaries are pledged**

5,250,000 of Company's shares owned by UAB Rubicon Group and constituting approximately 31% of the Company's share capital are pledged to AB DnB NORD bankas to secure obligations of UAB Rubicon Group. Furthermore, 3,570,000 of Company's shares owned by UAB Rubicon Group and constituting 21 % of the Company's share capital are pledged to AB SEB Vilniaus bankas to secure obligations of UAB Rubicon Aqua. Should UAB Rubicon Group default on the repayment of its aforementioned loans, the major shareholder of the Company may change. Furthermore, shares owned by the Company in its Lithuanian subsidiaries – ZA, BBP, VV, AV and MV – are pledged to AB DnB NORD bankas to secure obligations of the Company against the bank. Should the Company default on the repayment of the loan secured by the pledge of shares in its subsidiaries, the Company may loose control in such subsidiaries.

**Foreign exchange risk**

Shares are denominated in Lithuanian Litas, which is currently pegged to Euro at the rate of 1 Euro to 3.4528 Lithuanian Litas. Dividends and other distributions by the Company will also be paid in Lithuanian Litas.

# THE COMPANY

## Statutory Auditors

In accordance with the resolutions of the General Shareholders Meeting, the appointed financial auditor of the Group for financial years 2004, 2005 and 2006 is **UAB Ernst & Young Baltic**, Audit Company's licence No. 000514, register code 110878442, address Subačiaus 7, Vilnius, Lithuania.

On behalf of UAB Ernst & Young, the Company has been audited by Jonas Akelis (auditor's licence No. 000003) and Inga Gudinaitė (auditor's licence No. 000366).

## Selected Financial Information

*The tables below present certain selected consolidated financial information of the Company and the Group for the financial years ended 31 December 2004, 2005 and 2006. This information has been derived from the audited consolidated financial statements of the Company and the Group included elsewhere in this Prospectus. This information should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements and the related notes. The financial statements of the Company and the Group have been prepared in accordance with the IFRS (International Financial Reporting Standards) as adopted by the European Union.*

*The ratios and indicators set forth in the table below are provided to illustrate certain aspects of the business of the Company and its financial performance. Some of these ratios and indicators are used by the Management to evaluate the performance of the Company, while others are provided for the benefit of investors considering an investment in the Offer Shares. Although some of these ratios and indicators are not calculated in accordance with the IFRS, the Management believes that the ratios and indicators set forth below are customary and often used by public companies to illustrate their business and financial performance.*

*<u>Note</u>: please refer to the Section entitled Selected Financial Information, page 20, and Audited Financial Statements, page 86, for an extended version of the Financial Statements and Operating and Financial Review, page 56, for more detailed information on the historical financial results for 2004 – 2006.*

**Table 7. Financial Statements and key ratios and indicators (year ended 31 December) (LTL in thousands)**

| Income Statement | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| **Sales** | **190,851** | **117,232** | **113,607** | **108,818** | **95,986** | **103,447** |
| Cost of Sales | (139,170) | (96,127) | (94,795) | (89,291) | (82,002) | (86,756) |
| of which Depreciation and Amortisation | (2,215) | (468) | (54) | - | - | - |
| **Gross profit** | **51,681** | **21,105** | **18,812** | **19,527** | **13,984** | **16,691** |
| Salaries and social security taxes | (10,798) | (5,845) | (3,309) | (1,594) | (1,758) | (2,459) |
| Depreciation and Amortisation | (2,041) | (1,114) | (550) | (637) | (480) | (410) |
| Other operating expenses | (19,074) | (8,164) | (7,668) | (5,076) | (4,831) | (5,528) |
| **Total operating expenses** | **(31,913)** | **(15,123)** | **(11,527)** | **(7,307)** | **(7,069)** | **(8,397)** |
| Other activities (net) | 295 | 2,389 | 259 | 531 | 2,330 | 141 |
| **Operating Profit** | **20,063** | **8,371** | **7,544** | **12,751** | **9,245** | **8,435** |
| Financial and investment activities (net) | 1,492 | (2,179) | 2,106 | (1,005) | 5,525 | 760 |
| of which interest expenses | (1,022) | (158) | (136) | (28) | - | (137) |
| of which non-typical items* | 3,296 | (2,975) | 1,546 | 52 | 4,585 | 210 |
| Result of associated companies (net) | 29 | - | - | - | - | - |
| **Profit before income tax and minority interests** | **21,584** | **6,192** | **9,650** | **11,746** | **14,770** | **9,195** |
| Income tax expenses | (4,030) | (1,661) | (2,122) | (2,079) | (1,732) | (1,645) |
| **Net profit (loss)** | **17,554** | **4,531** | **7,528** | **9,667** | **13,038** | **7,550** |

| Attributable to: | | | | | | |
|---|---|---|---|---|---|---|
| The shareholders of the Company | 15,490 | 5,049 | 7,516 | 9,667 | 13,038 | 7,550 |
| Minority interests | 2,064 | (518) | 12 | - | - | - |

| Balance Sheet | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| Cash and cash equivalents | 3,922 | 1,747 | 4,972 | 939 | 1,512 | 2,570 |
| Trade receivables** | 46,064 | 43,747 | 53,253 | 30,951 | 43,480 | 52,600 |
| Inventories | 17,690 | 1,028 | 2,419 | 2,063 | 941 | 1,785 |
| Other current assets | 14,104 | 4,931 | 4,864 | 10,638 | 3,975 | 3,562 |
| **Total current assets** | **81,780** | **51,453** | **65,508** | **44,591** | **49,908** | **60,517** |
| Financial assets | 14,317 | 734 | 856 | 18,982 | 1,622 | 11,186 |
| Tangible assets | 20,333 | 1,994 | 8,732 | 3,652 | 1,584 | 2,141 |
| Intangible assets | 632 | 21 | 3,554 | 45 | 7 | 26 |
| Other non-current assets | 294 | 51 | 207 | - | 51 | 157 |
| **Total non-current assets** | **35,576** | **2,800** | **13,349** | **22,679** | **3,264** | **13,510** |
| **Total assets** | **117,356** | **54,253** | **78,857** | **67,270** | **53,172** | **74,027** |
| Trade creditors** | 23,689 | 19,998 | 29,052 | 16,662 | 20,215 | 27,464 |
| Short-term debt | 8,017 | 165 | 1,669 | 155 | 165 | 1,598 |
| Other short-term payables | 20,580 | 8,922 | 11,655 | 13,928 | 7,923 | 9,682 |
| **Total current liabilities** | **52,286** | **29,085** | **42,376** | **30,745** | **28,303** | **38,744** |
| Long-term debt | 5,510 | 311 | 4,767 | 394 | 287 | 4,651 |
| Other long-term payables and provisions | 362 | - | 244 | 187 | - | - |
| **Total non-current liabilities** | **5,872** | **311** | **5,011** | **581** | **287** | **4,651** |
| **Total liabilities** | **58,158** | **29,396** | **47,387** | **31,326** | **28,590** | **43,395** |
| Share capital | 10,500 | 10,500 | 10,500 | 10,500 | 10,500 | 10,500 |
| Reserves | 10,700 | 1,050 | 1,061 | 10,700 | 1,050 | 1,050 |
| Retained earnings | 23,005 | 13,304 | 19,309 | 14,744 | 13,032 | 19,082 |
| Minority share | 14,993 | 3 | 615 | - | - | - |
| **Total shareholder's equity** | **59,198** | **24,857** | **31,470** | **35,944** | **24,582** | **30,632** |
| **Total liabilities and shareholder's equity** | **117,356** | **54,253** | **78,857** | **67,270** | **53,172** | **74,027** |

| Cash Flow Statement | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| Cash flow from (to) operating activities | 8,455 | 610 | 6,915 | 7,818 | (784) | 6,935 |
| Cash flow from (to) investing activities | (21,251) | (1,373) | (6,948) | (14,066) | 2,665 | (9,186) |
| Cash flow from (to) financing activities | 5,334 | (1,412) | 3,258 | (2,097) | (1,308) | 3,309 |

| Key ratios and indicators | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| Number of shares *** | 105 | 10,500 | 10,500 | 105 | 10,500 | 10,500 |
| Earnings per share (EPS), LTL | 167.2 | 0.4 | 0.7 | 92.1 | 1.2 | 0.7 |
| Number of employees*** | 909 | 373 | 927 | 275 | 301 | 376 |
| Sales per employee (LTL in thousands) | 210 | 314 | 123 | 396 | 319 | 275 |
| EBITDA (LTL in thousands) | 27,057 | 8,161 | 10,561 | 12,577 | 15,479 | 9,913 |
| EBITDA adjusted (LTL in thousands) | 23,761 | 11,136 | 9,015 | 12,525 | 10,894 | 9,703 |
| EBITDA margin,% | 14.2% | 7.0% | 9.3% | 11.6% | 16.1% | 9.6% |
| EBITDA adjusted margin,% | 12.5% | 9.5% | 7.9% | 11.5% | 11.3% | 9.4% |
| Operating profit margin,% | 10.5% | 7.1% | 6.6% | 11.7% | 9.6% | 8.2% |
| Return on equity (ROE), % | 29.7% | 18.2% | 23.9% | 26.9% | 53.0% | 24.6% |
| Equity ratio, % | 50.4% | 45.8% | 39.9% | 53.4% | 46.2% | 41.4% |

| | |
|---|---|
| * | including write-off of negative goodwill, profit (loss) from disposal of investments and dividend income. |
| ** | including the accounts of related parties. |
| *** | as of the end of the financial year. |

| | | |
|---|---|---|
| EBITDA | = | Earnings before interest expenses, profit taxes, depreciation and amortisation. EBITDA is included as a supplemental item, since the Management believes that EBITDA, when considered in conjunction with cash flows from operating, investing and financing activities, may provide useful information. EBITDA is not a measure of operating performance calculated in accordance with IFRS and should not be considered as a substitute for operating profit, net income, cash flow from operations or other profit/ loss or cash flow data determined in accordance with IFRS. |
| EBITDA adjusted | = | EBITDA before atypical items. EBITDA adjusted is included as a supplemental item indicating steady profitability and eliminating results from atypical one-off events. |
| EBITDA margin | = | EBITDA / Sales. The EBITDA margin measures the relationship between EBITDA profitability and sales providing information about a company's profitability from the operations of its business and is independent of a company's financing and tax position as well as depreciation-related estimates. |
| EBITDA adjusted margin | = | EBITDA adjusted / Sales. The EBITDA adjusted margin measures the relationship between EBITDA adjusted profitability and sales providing information about a company's profitability from the operations of its business and is independent of a company's financing and non-typical and one-off financial activities and tax position as well as depreciation-related estimates. |
| Operating profit margin | = | Operating profit / Sales. The operating profit margin measures the relationship between operating profitability and sales providing information about a company's profitability from the operations of its business and is independent of both a company's financing and tax position. |
| Return on equity (ROE) | = | Net profit / Total equity. Return on equity excludes debt in the denominator and compares net income with total shareholders' equity. It measures the rate of return on shareholders' investment and is, therefore, useful in comparing the profitability of a company with its competitors. |
| Equity ratio | = | Equity / Total assets. Equity ratio is a measure of financial leverage which highlights the ratio of shareholders' equity to total assets. The analysis of the Company's financial leverage (or capital structure) is essential to evaluate its long-term risk and return prospects. |

# Information on the Company

# History and Development

## General information

The Company is an outstanding leader in facility management market in the Baltic States. The Company is also engaged in the management of heating facility renovation projects. At present, the Company and its subsidiaries serve more than 8.6 million $m^2$ of facilities, including various commercial facilities, i.e., office buildings, commercial properties and other commercial facilities, residential facilities, public buildings (education institutions) and even such atypical objects as networks of call-boxes, stalls and GSM stations all over Lithuania.

The Company is located in Lithuania and has headquarters in Vilnius and branches in Kaunas, Klaipėda, Šiauliai, Panevėžys, Alytus and Marijampolė. To date, the Company has 12 subsidiaries of which 7 in Lithuania, 3 in Russia, 1 in Latvia and 1 in Ukraine and plans to expand further to Eastern Europe in a 3 year perspective.

## Registration data

The Company's registration data is as follows:

| | |
|---|---|
| - Company legal and commercial name | Akcinė bendrovė „City Service"; AB City Service |
| - Country of incorporation | Lithuania |
| - Registration number | 123905633 |
| - Date of incorporation | 28 January 1997 |
| - Legal form | Public company (in Lithuanian - *akcinė bendrovė*) |
| - Legislation under which the Company operates | Law on Companies and other laws and secondary legislation of the Republic of Lithuania pertaining to Company's operations |
| - Registered address | Konstitucijos 7, LT-09308 Vilnius, Lithuania |
| - Principal place of business | Smolensko 12, LT-03201 Vilnius, Lithuania |
| - Contact details: | Tel.:(+370 5) 2394900<br>Fax: (+370 5) 2394848<br>E-mail: info@cityservice.lt |

The Company has undergone the following changes of its name and legal form:

On 28 January 1997, the Company was established as *UAB Rubikon Apskaitos Sistemos*.
On 3 January 2005, the Company's name was changed from *UAB Rubikon Apskaitos Sistemos to UAB Rubicon City Service*.
On 6 October 2005, the Company's legal form was transformed from private company to public company.
On 12 May 2006, the Company's name was changed from *AB Rubicon City Service* to *AB City Service*.

## History

The Company's history dates back to 28 January 1997, when UAB Rubikon Apskaitos Sistemos was established in Vilnius. It took over activities of the UAB Rubikon Apskaita, which had been primarily engaged in the production, revision and distribution of hot and cold water meters. As a result, the Company started production and installation of heat meters.

In May 1999, the Company also took over some activities of the UAB Bora (producer of heat supply substations) and UAB Vilniaus Vatas (engaged in maintenance of heat and hot water supply systems), which had previously won the public tender announced by Culture, Education and Sports Departments of Vilnius City Municipality, for the maintenance of heat and hot water supply systems in education institutions (secondary schools and kindergartens) in Vilnius in 1997. The deal enabled the Company to expand its activities and, in addition to the production of water and heat meters, produce heat supply substations, heat supply substation controllers, and provide the services of heat and hot water supply system maintenance.

In 1999, the Company actively expanded its activity of heat and hot water supply systems maintenance. Primarily, it won the public tender announced by AB Vilniaus Šilumos Tinklai for the maintenance of renovated heat supply substations in the residential facilities in Vilnius. Furthermore, it participated in the tender announced by Klaipėda City Municipality for maintenance of heat and hot water supply systems of residential buildings and won a 5-year contract for serving the largest share (around 1 million $m^2$) of residential facilities in Klaipėda. To establish a branch in Klaipėda, the Company acquired UAB Avarema, a provider of facility emergency service, on the basis of which the Company developed its further activities.

The year of 1999 was also a breakthrough of the facility management service in Lithuania. The Company acted as a pioneer and came first to offer professional integrated facility management services. In October 1999, the Company started managing the first office facilities (3,865 $m^2$) in Vinius, and serves the building to date. During the period of 1999 – 2001 the Company intensively worked on creating a market by participating in the exhibitions, distributing various information and educating the clients about the economic benefits of the facility management services. The strategy paid dividends, and in December 2000 the Company signed an agreement for the management of a business centre in Vilnius (18,000 $m^2$). In October 2001, the Company started to manage another business centre in Vilnius (5,480 $m^2$). In

November 2001, the Company started cooperation with one of the leading commercial banks in Lithuania and since 2002 the Company manages the client's offices and outlets in the Vilnius, Marijampolė, Panevėžys and Utena regions (24,193 $m^2$ in total).

In 2000, UAB Litesko won a tender for the running and renovation of heating facilities in different towns of Lithuania and afterwards contracted the Company for the management of separate projects of heating facility renovation. In 2002, UAB Vilniaus Energija won the tender for running and renovation of heating facilities in Vilnius, and contracted the Company on analogous terms (for more information see the Section *Management of heating facility renovation projects*, page 36, and *The clients*, page 38).

In June 2002, the Company won a public tender announced by Vilnius City Municipality, Culture, Education and Sports Department, and signed a 7-year agreement for the maintenance of heat and hot water supply systems in secondary schools and kindergartens in Vilnius and for the heat supply therein (around 723,000 $m^2$ of heated space in total).

In 2003, the Company successfully expanded its facility management services. During March – May 2003, the Company signed contracts with other two major commercial banks in Lithuania (46,274 $m^2$ and 36,681 $m^2$) and a fixed communication service provider in Lithuania (330,000 $m^2$ in 2003). The Company also started maintenance of a number of shopping and business centres in Vilnius. Most of the aforementioned facilities are managed by the Company to date.

In 2003, the Company acquired a shareholding in UAB Katra engaging in analogous activities of production and facility management service provision, therefore, the Company made a strategic decision to specialise in facility management services and management of heating facility renovation projects and transferred its activities of manufacturing of water and heat meters, heat supply substations and heat supply substation controllers to UAB Katra from which the Company took over the maintenance of facilities of a major retail chain in Lithuania.

During 2002 – 2004, the Company acted as the major holding of Rubicon Group and acquired a number of entities, including UAB Kazlų Rūdos Metalas (current UAB Axis Industries), producer of boiler-houses, UAB Katra, producer of heat and water meters, heat supply substations and provider of facility management services, UAB Skiedrynė, biofuel producer, UAB Aviridis, manager of construction waste amenity site, UAB Arkoveta, engaged in sale and lease of real estate, UAB Vilniaus Pramogų Parkas, engaged in entertainment and real estate development, and other entities.

In 2003, the Company participated in auctions for privatisation of entities providing residential facility management services for certain districts of multi-apartment houses and successfully acquired UAB Buitis Be Rūpesčių (BBR), UAB Vingio Valdos (VV) in Klaipėda and UAB Žaidas (ZA) in Alytus.

In 2004, the Company signed an agreement with a fixed telecommunication service provider for the maintenance of 5,600 call-boxes all over Lithuania. During the same year, the Company introduced a quality management system ISO 9001:2001 for the facility management services in order to assure its' compliance with the highest requirements. In 2005, the Company concluded an agreement with a media distributor for the maintenance of 500 press stalls and an agreement with a mobile telecommunication service provider for the maintenance of GSM stations in Central Lithuania.

During 2004-2005, the Company started crystallisation of its facility management and management of heating facility renovation projects activities and transferred the non-core businesses (including UAB Aviridis, UAB Arkoveta, UAB Vilniaus Pramogų Parkas and other businesses) to Rubicon Group. In 2005, the Company completely divested of heat supply equipment production and sold its shareholdings in UAB Katra and UAB Kazlų Rūdos Metalas. The Company also sold its shareholding in UAB Skiedrynė.

In 2006, the Company won the tender announced by Kaunas City Municipality for the management of the residential buildings in the districts of Dainava and the Old Town (1,166 thousand $m^2$). Since January 2007 the Company renders the services of the maintenance of heat and hot water supply systems in residential buildings in the district of Šilainiai. In 2006, the Company acquired additional three residential facility management companies UAB Marių Valdos (MV), UAB Ąžuolyno Valda (AV) and UAB Pempininkų Valdos (PV).

After the beginning of the reform of residential facility management in St. Petersburg, second largest city in Russia and fourth largest city in Europe, the Company made decision to expand to Russia and since September 2006 has acquired 3 local residential facility management companies in St. Petersburg. More information on the recent acquisitions is provided in the following section. The Company is currently managing around 2.8 million $m^2$ of residential facilities.

Most important milestones in the expansion of the Group's operations and business are summarised in *Table 8.*

**Table 8. Timeline of expansion of the Group's operations.**

| Date | Development |
|---|---|
| January 1997 | The Company is established under the name of UAB Rubikon Apskaitos Sistemos and engages in the activities of producing heat meters. |
| May 1999 | The Company merges with UAB Bora and UAB Vilniaus Vatas and expands its activity range to production of heat supply substations, heat supply substation controllers, and provision of heat and hot water supply system maintenance. |
| May – December 1999 | The Company starts heat and hot water supply system maintenance in residential facilities in Vilnius and Klaipėda. |
| October 1999 | The Company starts providing integrated facility management services. |
| June 2000 | The Company signs agreements for the management of heating facility renovation projects with UAB Litesko. |
| May and July 2002 | The Company signs agreements for the management of heating facility renovation projects with UAB Vilniaus Energija. |
| June 2002 | The Company starts maintenance of heat and hot water supply systems and management of energy resources for education institutions in Vilnius. |
| March – May 2003 | The Company signs facility management agreements with the leading commercial banks and a fixed communication service provider in Lithuania |
| April 2003 | VV is acquired in Lithuania. |
| June 2003 | The Company transfers its production activity to UAB Katra. |
| July 2003 | ZA is acquired in Lithuania. |
| September 2003 | BBR is acquired in Lithuania. |
| November 2004 | The Company received facility management quality certificate ISO 9001. |
| June – December 2005 | The Company sold its investment in UAB Katra and UAB Kazlų Rūdos Metalas (currently UAB Axis Industries) and UAB Skiedrynė. |
| January 2006 | AV is acquired from Klaipėda City Municipality in Lithuania. |
| January 2006 | MV is acquired from Klaipėda City Municipality in Lithuania. |
| April 2006 | RCS is established in Riga, Latvia. |
| August 2006 | KCS is established in Kiev, Ukraine. |
| September 2006 | PCS-1 is acquired from St. Petersburg City Municipality, Russia. |
| December 2006 | PV is acquired from Klaipėda City Municipality in Lithuania. |
| February 2007 | PCS-2 is acquired from a private entity in St. Petersburg, Russia. |
| January 2007 | UAB Ūkvedys is acquired from the private persons in Lithuania. |
| February 2007 | PCS-3 is acquired from a private entity in St. Petersburg, Russia. |

## Recent acquisitions

During the years 2006 and 2007 to date, the Company acquired 7 residential facility management companies in Lithuania and Russia and established subsidiaries in Latvia and Ukraine. Highlights of the acquisitions made by the Company from the beginning of 2006 to date, including acquisitions of residential facility management companies in Lithuania and St. Petersburg, Russia, are provided in *Table 9.*

The majority shareholdings in AV, MV and PV have been acquired from Klaipėda City Municipality in public auctions, while the rest of shares have been gradually acquired from minority shareholders. The entities provide residential facility management services in Klaipėda and currently serve facility space of around 180 thousand $m^2$, 265 thousand $m^2$ and 176 thousand $m^2$ respectively. UK has been acquired from private persons and serves residential facilities of around 128 thousand $m^2$ in Šiauliai.

In September 2006, PCS-1 was acquired from St. Petersburg City Municipality and currently serves residential facilities of around 1,377 thousand $m^2$ in St. Petersburg. In February 2007, the Company acquired PCS-2 and PCS-3 with respectively 880 thousand $m^2$ and 527 thousand $m^2$ of residential facilities served in St. Petersburg.

More detailed information on the Subsidiaries of the Company is provided in the Section *Structure of the Company*, page 52.

**Table 9. Mergers and acquisitions from the beginning of 2006 to date**

| Entity | Date | Country | The Seller of shares | Current shareholding (%) |
|---|---|---|---|---|
| AV | January 2006 | LT | Klaipėda City Municipality | 100% |
| MV | January 2006 | LT | Klaipėda City Municipality | 100% |
| PCS-1 | September 2006 | RU | St. Petersburg City Municipality | 100% |
| PV | December 2006 | LT | Klaipėda City Municipality | 75% |
| PCS-2 | February 2007 | RU | Private entity | 100% |
| UK | January 2007 | LT | Private natural persons | 100% |
| PCS-3 | February 2007 | RU | Private entity | 100% |

# Investment

## General information

Hereby please find the information on the Company's and the Group's investment in non-current assets (financial, tangible and intangible) during the financial years 2004 – 2006 and the budgeted investments in 2007. In 2007, the Company plans to invest LTL 20.7 million in financial assets (mostly acquisitions of RFMCs), LTL 1.3 million in tangible assets and LTL 105 thousand in intangible assets, while in total the Group will invest LTL 2.7 million in tangible assets and LTL 110 thousand in intangible assets.

The investments are planned to be financed by proceeds from the Offering and the Group's cash flows from operating activities, except for the investments in vehicles that will be financed by financial facilities (see the Sections *Capital Resources,* page 66, and *Use of proceeds*, page 99).

## Financial assets

Investments made into financial assets comprised the largest share of the Company's total capital expenditure during 2004 – 2006. Information on the Company's gross investments in financial assets is provided in *Table 10*. Note: Gross investment denotes the investment expenditure only and excludes the proceeds from disposal of financial assets.

In 2004, the Company's major financial investment was the acquisition of UAB Arkoveta (LTL 2,954 thousand), while the rest of the investments were comprised of the equity contributions to UAB Axis Industries, UAB Skiedrynė, UAB Aviridis and UAB Vilniaus Pramogų Parkas.

In 2005, the Company re-acquired BBR (LTL 500 thousand).

In 2006, the Company acquired/ established 6 entities, of which the largest by the total investment were MV (LTL 3,145 thousand), AV (LTL 2,548 thousand) and PV (LTL 2 million).

In 2007, the Company acquired 3 subsidiaries including PCS-2 and PCS-3 in Russia (LTL 1,225 thousand in total), UK in Lithuania (LTL 798 thousand) and increased its shareholding in MV from 86% to 100%. The Company also increased the share capital of RCS and KCS.

During 2007, the Company plans to further invest additional LTL 18 million in acquisition of State and/ or municipal-owned and private RFMCs in Lithuania, Latvia and Russia and budgets an investment of LTL 20.7 million in total.

**Table 10. The Company's gross investment in financial assets during 2004 – 2006 and budget for 2007 (LTL in thousands)**

| | 2004 | 2005 | 2006 | 2007F |
|---|---|---|---|---|
| Acquisition of former subsidiaries* | 4,794 | - | - | - |
| Acquisitions of current subsidiaries | - | 500 | 9,557 | 2,704 |
| Acquisitions of planned subsidiaries | - | - | - | 18,000 |
| **Total** | **4,794** | **500** | **9,557** | **20,704** |

* Excluding short-term investments in financial assets for resale.

## Tangible assets

The breakdowns of the Company's and the Group's investment in tangible assets are provided in *Table 11.*

**Table 11. Investment in tangible assets during 2004 – 2006 and budget for 2007 (LTL in thousands)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007F | 2004 | 2005 | 2006 | 2007F |
| Land and buildings | 642 | - | - | - | - | - | - | - |
| Vehicles | 3,459 | 1,129 | 1,063 | 1,715 | 739 | 725 | 872 | 775 |
| Other tangible assets | 11,669 | 831 | 405 | 975 | 1,005 | 568 | 289 | 520 |
| Construction in progress | 41,572 | 1,123 | 487 | - | - | - | - | - |
| **Total** | **57,342** | **3,083** | **1,955** | **2,690** | **1,744** | **1,293** | **1,161** | **1,295** |

**The Company**

Due to the business model specifics, majority of the Company's tangible investments are made into vehicles (LTL 739 thousand in 2004, LTL 725 thousand in 2005 and LTL 872 thousand in 2006). Other large investment groups have been comprised of the investment in working tools for the facility management activities (LTL 84 thousand in 2006) and computer hardware, i.e. the server base the spare capacity of which is rented for the whole Rubicon Group (LTL 128 thousand in 2006). The investment in the servers is fully covered by the income from the server rent, included in the *Other income*. Other investment in tangible assets includes purchase of communication devices, furniture for the Company's offices and household inventory.

In 2007, the Company plans to maintain a comparable investment level as in 2006. The Company plans to invest LTL 775 thousand in vehicle fleet, LTL 350 thousand into the major update of servers and LTL 100 thousand into the working tools.

**The Group**

The Group's investments in tangible assets in 2004 – 2006 were largely comprised of the capital expenditure of the contemporary subsidiaries (for the then composition of the Group see *Table 25*, page 58). The capital expenditure for land and buildings in 2004 were largely comprised of investments made by UAB Vilniaus Pramogų Parkas (construction of Siemens Arena).

In 2006, the Group's capital expenditure for vehicles mostly included the Company's investments, while the rest (LTL 192 thousand) were made by the subsidiaries in Lithuania. Major investments in other tangible assets also included investments in office furniture in RCS (LTL 75 thousand), computer hardware (LTL 72 thousand), working tools (LTL 89 thousand).

In 2007, the investments in tangible assets in the subsidiaries of the Company are budgeted as follows: LTL 495 thousand in subsidiaries in Russia, LTL 250 thousand – in Latvia, LTL 400 thousand - in Lithuania and LTL 250 thousand - in Ukraine. Of the total investment, the largest share will be comprised of the investment in vehicles: LTL 300 thousand in Russia, LTL 210 thousand in Latvia, LTL 240 thousand in subsidiaries in Lithuania and LTL 190 thousand in Ukraine.

## Intangible assets

During the financial years 2004 – 2006, the Company's and the Group's investments into intangible assets have been immaterial and consisted of update of the software in use.

**The Company**

The Company's investments in intangible assets were LTL 13 thousand in 2004 and LTL 30 thousand in 2006. The Company made no investment in intangible assets in 2005. In 2007, the Company plans to invest LTL 105 thousand into a major update of its software

**The Group**

The Group's investments in intangible assets were LTL 120 thousand in 2004, LTL 13 thousand in 2005 and LTL 40 thousand in 2006. In 2007, the Group plans to invest LTL 110 thousand in total into update of its software.

# Business Overview

# Principal Activities

## General overview

The Company is the leading facility management services provider in Lithuanian market. The Company has two business lines:

- *Facility management*. Facility management services include (i) pursuing administrative tasks, (ii) maintenance of civil engineering systems (heat and hot water supply, water supply and sewerage, ventilation and cooling, common usage power supply systems, etc.), (iii) management of energy resources (management of heat supply) and (iv) management of various subcontractors (interior and exterior cleaning, security, repair works and renovation, maintenance of gas system, elevators, etc.). The services are provided for commercial properties, offices and atypical properties, residential facilities and public facilities.

- *Management of heating facility renovation projects*. The Company is contracted for the supply and installation of heat pipelines and boiler-houses, heat supply substations (including remote data collectors *Rubisafe*), heat and water meters and heat cost allocators and manages subcontractors hired for separate works. The Company's main tasks include selection of subcontractors, negotiation, signing contracts with subcontractors and monitoring and acceptance of the works performed.

The breakdown of the Company's income by the services during the historical years of 2004 – 2006 is provided in the Section *Developments of Different Financial Items*, *(1) Sales*, page 59. Historically, the Company's major sales have been generated by the management of heating facility renovation projects (71% in 2004 and 63% in 2005 and 55% in 2006), as the Company successfully capitalised on the mainstream of the investment in the heat and hot water supply systems in Lithuania. However, the service is rapidly giving its positions up to the facility management due to both – the fast growth of facility management market in Lithuania and Company's aggressive entry in the new markets.

## Facility management

## General information

In Lithuania, the Company was the pioneer of professional facility management services (for more information see the Section *History and Development*, page 22). Back in 1999 – 2001, the Company acted as a market maker, as the result of which the Company currently is an outright facility management market leader in shopping mall and office facility management and keeps rapidly expanding its area served in residential facilities by acquisitions in Lithuania.

The Group currently serves 8,613 thousand m$^2$ in total, of which 6,609 thousand m$^2$ of residential facilities, 994 thousand m$^2$ of public facilities, 536 thousand m$^2$ of commercial facilities and 474 thousand m$^2$ of offices and atypical properties.

## Facility segments

According to the different service bundles provided for facilities (see the Section *Facilities management services provided*, page 29), service pricing and facility type, the main facility segments served by the Company and the Group are the following:

- *Commercial properties.* The segment includes commercial property of various size and purpose (from supermarkets and entertainment centres to small outlets of retail chains). For commercial properties, the Company normally provides a service bundle of taking over the administrative tasks from the client and maintenance of their civil engineering systems (heat and hot water supply, ventilation and cooling, power supply and other). The subcontractor services (e.g. interior and exterior cleaning, security, waste collection, environment maintenance, etc.) are in most cases managed by the client.

- *Offices and atypical properties*. In terms of space served and turnover generated, the segment is by major share comprised of the office buildings, however, also includes recreational facilities, industrial and atypical objects, such as call-boxes, press stalls, mobile communication stations, etc. For office buildings, the Company provides a service bundle of taking over administrative tasks from the client, maintenance of their civil engineering systems (heat and hot water supply, ventilation and cooling, power supply and other) and management of the subcontractor services (e.g. interior and exterior cleaning, security, waste collection, environment maintenance, etc.). In the management of atypical commercial facilities, the services are usually entirely tailored to the clients' needs.

- *Residential facilities*. The segment includes multi-apartment houses in the largest cities of Lithuania (currently in Vilnius, Kaunas, Klaipėda, Šiauliai and Alytus), as well as in St Petersburg in Russia. The services rendered for residential facilities mostly include pursuing of administrative tasks and maintenance of civil engineering systems (heat and hot water supply system, ventilation and cooling system, power supply system and part of fire-alarm security system). In many cases, the Company also manages subcontractors for cleaning, facility repair works and renovation and other various services (maintenance of gas supply system, maintenance of territory).

- *Public facilities.* The segment currently includes 322 secondary schools and kindergartens served in Vilnius and Šiauliai. For public facilities, the Company provides the service of management of energy resources (in Vilnius only) and maintenance of heat supply systems and water supply and sewerage systems.

## Facilities management services provided

### Service bundles for facility segments

The summary of service bundles rendered for different facility segments (commercial properties, offices and atypical properties, residential facilities, public facilities) are provided in *Table 12*.

**Table 12. Service bundles for different facility segments**

| | Administrative tasks | Maintenance of Civil Engineering Systems | | | | | Management of energy resources | Management of subcontractors | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Heat supply systems | Water supply and sewerage systems | Ventilation and cooling systems | Common use power supply systems | Other civil engineering systems | | Cleaning | Waste collection | Security | Repair works and renovation | Other services |
| **Commercial properties** | + | + | + | + | + | +- | - | - | - | - | - | +- |
| **Offices and atypical properties** | + | + | + | + | + | +- | - | +- | + | +- | - | +- |
| **Residential facilities** | + | + | + | + | + | + | - | +- | + | - | +- | +- |
| **Public facilities** | - | + | + | - | - | - | +- | - | - | - | - | - |

The Company and the Group currently provide the following facility management services:

- *Pursuing administrative tasks.* The principle of the service is assigning a specific person responsible for all actions required for the maintenance of all common-use facilities and ensuring their use according to their primary purpose. Administrative tasks include (i) coordination and quality control of services rendered for the Client (including both – the Company's services and those of subcontractors); (ii) administration of agreements with subcontractors and utility service providers (power suppliers, water suppliers, waste collectors, etc.); (iii) collection, calculation and allocation of facility management costs for dwellers; (iv) other services, e.g., informing and reporting on the facility condition.

- *Maintenance of civil engineering systems*. The aims of the service are (i) to secure streamlined functioning of civil engineering systems and (i) to increase the efficiency in usage of energy resources. The efficiency is attained by constant maintenance and preventive repair of civil engineering systems, analysis of energy usage and provision of suggestions. In several major commercial and entertainment properties in Vilnius (including Siemens arena), maintenance of civil engineering systems is supported by BMS, i.e. facility management tailor-made information system enabling an automatic control of all civil engineering systems of the facilities.

  The engineering systems denote: (i) heat and hot water supply systems; (ii) water supply and sewerage systems; (iii) ventilation and cooling systems; (iv) common usage power supply systems; and (v) other civil engineering systems (fire prevention, waste disposal system, etc.).

- *Management of energy resources.* The Company is supplying heat for the heating of public facilities and for the hot water preparation and commits to maintain a fixed temperature in the building. The contract price is set for a 1 degree of Celsius in the difference between the average indoor and outdoor temperatures. As the fee per certain temperature is fixed, the Company's primary source of profit is the efficient use of the heat supply system, therefore the Company has installed heat supply substation controllers allowing, for example, to automatically lower the temperature while the institution is closed. The main benefits for the client include possibility to more precisely plan and lessen the annual budgets for heating of premises due to efficient use of the energy.

- *Management of subcontractors*. In Lithuania, the usual subcontracted facility management services include interior and exterior cleaning, security, repair works and renovation, maintenance of gas system, elevators, security alarms, entry facilities and the territory adjacent to the building as well as various other services subject to the client's needs.

  To the Company's belief, management of repair works and renovation of multi-apartment houses is currently extremely promising activity due to (i) high energy consumption determined by the poor condition of the aged multi-apartment buildings and (ii) the growing energy prices that result in the growing household expenditure for heating. The Group currently manages repair works in several multi-apartment houses in Klaipėda, while the management of renovation projects is forecasted to take-off in short-term.

  In September 2004, the Government of Lithuania approved Modernisation Program for Multi-apartment Buildings in connection with which the State subsidies of up to 50% (depending on the relative energy efficiency of the modernisation project) of the project costs are to be provided for the renovation of residential facilities. According to the said program, the State expects to induce the modernisation of 78% out of over 12 thousand m2 of multi-apartment buildings[1] in Lithuania by the end of 2020. More information on the legislation of the residential facility renovation is provided in the Section *Market regulation*, page 44.

  To date, the State subsidies have been granted only for those residential facility owners that have organised in household communities or have signed joint activity agreements. As these forms of management comprise only a minor share in the facility management in Lithuania (less than 20%) and the State support has not induced expected volume of renovation projects to date, the Company considers inevitable the extending of the subsidy recipient base and application of the said program for the facilities managed by administrators in order to stimulate a major surge of renovation projects. The amendment of the legislation is expected to take place by the mid of 2007.

  In the management of the subcontractors' services, the Company's tasks include: (i) finding the relevant subcontractors and suppliers, (ii) negotiating and signing the agreements, and (iii) undertaking the responsibility for the service quality.

[1] The Company's estimate.

**Benefits of facility management**

As formulated in the Company's mission statement, the purpose of the facility management services is to *enable the client to focus on its major activities by offering effective services and solutions for facility maintenance*. The main benefits ensured by the outsourced facility management services are as follows:

- Economy of scale. According to the Company's estimations, an outsourced facility management service saves the client around 15-50% of the building maintenance costs depending on the building's purpose and type, since specialised technical staff is allocated for several buildings.

- Reliability. Outsourced facility management service is especially quintessential for the clients, the primary activity of which largely depends on the streamlined functioning of its facilities (e. g. commercial properties and entertainment centres), as a specialised facility manager is in a better position to offer reliable full-scale service due to its expertise in the field, certified professional operation management and civil liability insurance. Facility management providers are also in a position to offer such services as control-room twenty four hours a day, seven days a week.

- Flexibility. The client remains flexible to receive the services upon actual need as the agreements with facility manager are periodically updated and provisions of various additional services upon request are usually included in the contract. The client is also in a position to negotiate with the facility manager concerning taking over of the client's employees.

## Facility space served and the largest clients

**General overview**

Facility space served as of the end of 2004 – March 2007 is provided in *Table 13*. The Group currently serves facility space of 8,613 thousand $m^2$ in total. The largest share of the space served is currently comprised of the residential facilities (6,609 thousand $m^2$).

Note: for the details on historical developments of facility space served by the Group please refer to the Section *Developments of Different Financial Items*, *Facility space served*, page 60.

**Table 13. Dynamics of the facility space served by the Group and the Company as of the end of the period ($m^2$ in thousands)**

| | The Group | | | | | The Company | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **Current **** | **CAGR*** | **2004** | **2005** | **2006** | **Current **** | **CAGR *** |
| Commercial properties | 385 | 432 | 534 | 536 | 16% | 385 | 432 | 534 | 536 | 16% |
| Offices and atypical properties | 493 | 464 | 480 | 474 | -2% | 493 | 464 | 480 | 474 | -2% |
| Residential facilities | 851 | 1,334 | 4,606 | 6,609 | 149% | 679 | 1,163 | 3,095 | 3,509 | 108% |
| *Lithuania* | *851* | *1,334* | *3,278* | *3,809* | *95%* | *679* | *1,163* | *3,095* | *3,509* | *108%* |
| *Russia* | - | - | *1,328* | *2,784* | *210%* | - | - | - | - | *0%* |
| *Latvia* | - | - | - | *16* | *n/a* | - | - | - | - | *0%* |
| *Ukraine* | - | - | - | - | *n/a* | - | - | - | - | *0%* |
| Public facilities | 742 | 742 | 994 | 994 | 14% | 742 | 742 | 994 | 994 | 14% |
| **Total** | **2,471** | **2,972** | **6,614** | **8,613** | **74%** | **2,299** | **2,801** | **5,103** | **5,513** | **48%** |

* Cumulative annual growth rate (CAGR) indicates average growth per annum and, in this case, includes the growth of space served during January – March 2007.

** As of 30 April 2007.

**Commercial properties**

Details on the estimated total shopping mall facility space in Lithuania are provided in the Section *Principal Markets, Market overview*, page 40.

The Company currently serves 536 thousand m$^2$ of shopping mall space, which is increasing apace. Information on the developments of commercial property space served during the historical years 2004 – 2006 is provided in the Section *Developments of Different Financial Items*, *Facility space served*, page 60.

In alphabetical order, the Company's main commercial properties served include Europa, IKI, Ikiukas and Leader Price retail outlets, Mandarinas, Maxima retail outlets, Mega Plaza, Molas, Savas, Vilniaus Centrinė Universalinė Parduotuvė (VCUP).

**Table 14. The largest clients of commercial facility management**

| Client/ Project | Location | Facility space served (m$^2$) |
|---|---|---|
| Client No. 1 | Different towns in Lithuania | 168,415 |
| Client No. 2 | Different towns in Lithuania | 150,000 |
| Client No. 3 | Vilnius | 38,623 |
| Client No. 4 | Vilnius | 24,500 |
| Client No. 5 | Kaunas | 13,600 |
| Client No. 6 | Vilnius | 9,449 |
| Client No. 7 | Vilnius | 6,895 |
| Client No. 8 | Kaunas | 5,740 |

**Offices and atypical properties**

The segment is by the largest share comprised of the office buildings served by the Company. The Company currently serves 474 thousand m$^2$ of offices. Information on the developments of offices and atypical properties served during the historical years 2004 – 2006 is provided in the Section *Developments of Different Financial Items*, *Facility space served*, page 60.

The largest facilities among the Company's credentials in commercial facility management are provided in *Table 15*.

**Table 15. The Company's largest clients/ projects in commercial facility management.**

| Client/ Project | Facility type | Location | Facility space served(m$^2$) |
|---|---|---|---|
| Fixed communication service provider | Offices and outlets | Different towns in Lithuania | 154,798 |
| Wear manufacturer | Industrial facilities | Utena | 48,874 |
| Commercial bank No. 1 | Offices and outlets | Different towns in Lithuania | 46,274 |
| Commercial bank No. 2 | Offices and outlets | Different towns in Lithuania | 38,493 |
| Commercial bank No. 3 | Offices and outlets | Different towns in Lithuania | 36,681 |
| Entertainment centre | Entertainment centre | Vilnius | 24,693 |
| Business centre No. 1 | Offices | Vilnius | 18,600 |
| Business centre No. 2 | Offices | Vilnius | 18,000 |
| Business centre No. 3 | Offices | Vilnius | 8,000 |
| Business centre No.4 | Offices | Vilnius | 5,480 |
| Hotel | Hotel | Vilnius | 2,000 |

Among atypical commercial facilities managed by the Company (not included into the space served) currently come such facilities as:

- Call-boxes of fixed communication service provider (3,417 units);
- Mobile communication stations of mobile communications service provider in Vilnius and Kaunas regions (400 units);
- Press retail chain (445 units);
- Two drugstore retail chains (131 units in total);
- Territory of a power supplier (200 hectares).

**Residential facilities**

The Group currently serves 6,609 thousand $m^2$ of residential facilities, of which 3,809 thousand $m^2$ in Lithuania and 2,784 thousand $m^2$ in Russia (St. Petersburg City). The Company currently serves 3,509 thousand $m^2$ of residential facilities in Vilnius, Kaunas and Klaipėda, while the subsidiaries (ZA and UK) are serving additional 300 thousand $m^2$ in Alytus and Šiauliai. In 2007, the Company started maintenance of heat and hot water supply systems in Kaunas (464 thousand $m^2$).

Note: the residential facility space served by the Company to a large extent includes the space that is co-managed collectively with its subsidiaries in Klaipėda and Kaunas, as the Company is maintaining the heat and hot water supply systems in the residential facilities managed by BBR, VV, AV, MV and PV in Klaipėda and ZA in Kaunas (2,062 thousand $m^2$ of co-managed residential facility space in total).

Information on the developments of residential facility space served during the historical years 2004 – 2006 is provided in the Section *Developments of Different Financial Items*, *Facility space served*, page 60.

The largest residential facilities served by the Company in Lithuania are provided in *Table 16.*

**Table 16. The Company's largest clients/ projects in residential facility management.**

| Client/ Project | Town | Facility space served ($m^2$) |
|---|---|---|
| Residential facilities No. 1 | Vilnius | 300,000 |
| Residential facilities No. 2 | Vilnius | 26,000 |
| Residential facilities No. 3 | Kaunas | 12,000 |
| Residential facilities No. 4 | Vilnius | 12,000 |
| Residential facilities No. 5 | Vilnius | 11,920 |
| Residential facilities No. 6 | Vilnius | 8,602 |

**Public facilities**

The Company currently serves 322 education institutions, including 245 secondary schools and kindergartens in Vilnius, 77 schools, kindergartens and other establishments in Šiauliai.

The Company manages energy resources and maintains the heat, water supply and sewerage systems for all schools in Vilnius starting from June 2002 (except for 12 secondary schools served from February 2006). The total area served is 742,469 $m^2$, including 725,029 $m^2$ of a heated space. For the details on the services provided for public facilities refer to the Section *Facilities management services provided*, page 29.

In January 2006, the Company won the tender and signed an agreement with Šiauliai City Municipality for maintaining and repairing heat, water supply and sewerage systems and other facility management services in 39 secondary schools, 27 kindergartens and 11 complementary education establishments for a period of one year. In January 2007, the Company won a repeated tender for period of 3 years. The total area served is 251,625 $m^2$, including 218,183 $m^2$ of the heated space.

The Company intends to sign a 25-year agreement with Kaunas City Municipality for multi-service management of education institutions in Kaunas. According to the draft of the agreement, for a fixed concession fee of LTL 57 million and investment return fee of LTL 10.5 million (including VAT), in three years the Company should invest no less than LTL 146.1 million into renovation of 192 secondary schools and kindergartens (550 thousand $m^2$) in Kaunas. In total, the Company's investment should be no less than LTL 179.1 million. In addition, the Company would commit to provide a complete bundle of facility management services, including management, maintenance and repair of civil engineering systems and subcontracting other service providers (cleaning and security). The tender is currently suspended by Kaunas City Municipality and disputed in court. Further information is provided in the Section *Legal and Arbitration Proceedings*, page 91.

## The operations

### General overview

In Lithuania, the Company's main operational headquarters are based at Smolensko 12, Vilnius, where the control-room is accommodated. The Company has remote offices in all biggest towns of Lithuania – Klaipėda, Kaunas, Panevėžys, Šiauliai, Marijampolė and others.

The Company has three regional facility managers in charge of local facility managers who are directly communicating with clients and solving the organisational matters. The Company and its branches are fully equipped with vehicles, welding machines, equipment for metal works, drilling, cutting, grinding, sewerage cleaning, air-pumping, etc.

In St. Petersburg, Russia, the subsidiaries have operating headquarters in the districts served, while key executive management (Marijus Jarockis, representative of the Company, Director of Development and Chief Energy Specialist) and control-room are located in the head office.

### Principal agents

The principal agents in the facility management operation are as follows:

*Call Centre*. The Company has an agreement with *UAB Lintel* providing the Company with call management service twenty four hours a day/ seven days a week. The Call Centre has the following functions:

- Registering routine and emergency failures and other events, entering the information to the system and informing responsible persons in the Company;
- Informing the client about the estimated time necessary for the repair and the status of the failure;
- In separate cases, monitoring the failure handling process;
- Under request, providing relevant information regarding the Company's services to the clients.

*The Facility Manager*. The Facility Manager functions as a coordinator and controller of the personnel maintaining facilities and therefore is directly responsible for the quality and timing of services. The main activities of the Facility Manager include:

- Communication with the client on housekeeping issues on the daily basis;
- Collection, check-up and submission of readings of meters for energy suppliers;
- Calculation and allocation of services costs for facility tenants;
- Quality control of services rendered for facility tenants;
- Coordination and control of subcontractors' work and warranties;
- Administration of agreements related to the facility management (with subcontractors and utility suppliers);
- Informing and reporting on the issues related to the facility condition;
- Rendering suggestions regarding the improvement of facility engineering systems and other equipment;
- Organisation of other services required by the client.

*Technical Staff*. The main function of the technical staff is the daily maintenance of engineering systems of facilities 8 hours a day and 5 workdays a week. The man activities are:

- Monitoring the engineering systems;
- Reacting and eliminating the failures;
- By all means, maximizing the efficient use of the energy resources.

*Mobile Specialist Team.* The main function of the mobile specialist team is executing the more complex maintenance tasks according to the schedule agreed with the client, and it includes inspection of engineering systems for the prevention of emergency failures and documentation of the defects and failures detected.

*Quality Manager*. The main function of the quality manager is surveying, examining and analysing the complaints of the clients and the work of the personnel assigned for certain projects and developing the processes of the quality management system in the Company.

**Operation Scheme**

The principal scheme of the Company's facility management operation is provided in *Figure 1.* The operation is organised as follows:

> *Reception of the Client's requests*. The Call Centre handles the main stream of the clients' requests and registers the information in the dedicated information system. Developed in 2003 by UAB Axis Industries, the database of the call register is run on the Company's servers, while input information is remotely registered by Lintel. After data registration, Lintel informs the appropriate persons pre-defined by the agreement with the Company. In case of preference, the client is also able to communicate the request to the Facility Manager directly. The Quality Manager is involved in the process only in case the Client complains about the work of the Call Centre, Control-room or of Facility Manager.
>
> *Arranging a crew for fixing the problem*. After receiving the information, subject to the emergency and complexity of the client's request, the Call Centre is communicating the client's request to the Control-room and/ or the Facility Manager, who are organising either the technical staff or the mobile specialist team for solving the issue.
>
> *Process quality control*. In case the client's complaint is received, the Quality Manager of the Company settles the issue with the Call Centre and the Facility Manager. The Facility Manager is in turn responsible for the quality control of the subcontractors' work.

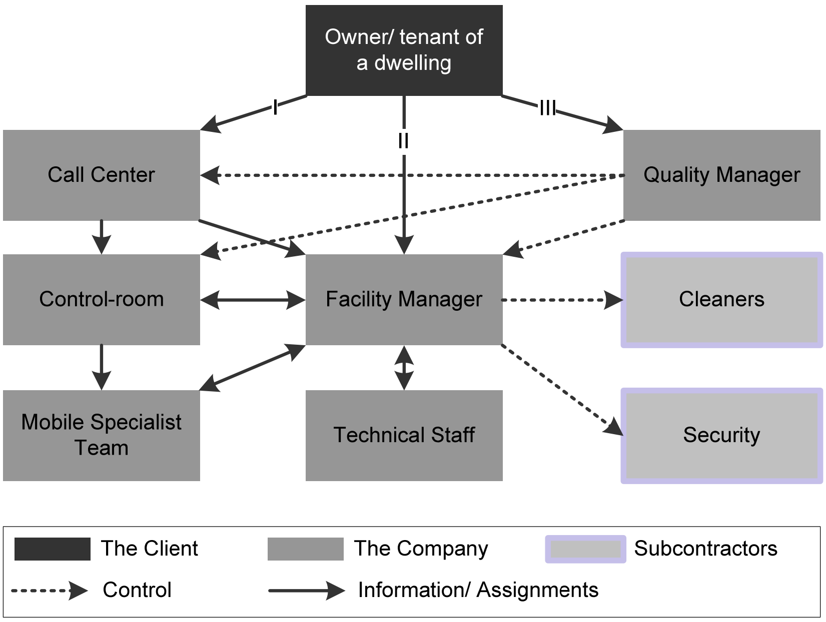


**Figure 1. Scheme of facility management operation.**

**Quality Control System**

The Company has implemented process quality control system for facility management and complies with international quality standard ISO 9001:2000. In November 2004, the Company received the Quality Management Certificate ISO 9001:2000 from UAB Bureau Veritas International. The certificate is renewed every three years.

The main processes in the Company (Sales, Design, Purchase, Facility management and Maintenance of Power Devices) are defined in written procedures and measured by quantitative indicators throughout all stages: planning, implementation, control and development.

The Company's quality control system includes the following instruments and procedures:

- *Quality policy*, including the mission, vision and value statements;

- *Quality goal setting, evaluation* (quarterly);
- *Evaluation of feedback from the clients* (quarterly);
- *Internal quality audit* (annual);
- *External quality audit* (every 9 months). The Company is audited by UAB Bureau Veritas International.

## Management of heating facility renovation projects

## General Information

The history of the Company's management of heating facility renovation projects dates back to 2000, when UAB Litesko owned by Dalkia Group (see the Section *The clients*, page 38) won the first public tenders for the running and renovation of heating facilities in different towns of Lithuania (Marijampolė, Vilkaviškis, Telšiai, Kazlų Rūda and Kelmė in 2000, Palanga and Alytus in 2001 and Druskininkai and Biržai in 2003). The aforementioned contracts have duration of 15-30 years until a repeated tender is arranged by the municipalities or the contracts are prolonged. In 2002, UAB Vilniaus Energija owned by Dalkia Group won an analogous tender in Vilnius (15-year contract duration). During the contract period, UAB Vilniaus Energija and UAB Litesko are supplying heat for the abovementioned districts in return to their commitment to maintain and by a large scale renovate the heating facilities. According to the publicly available information, the investment in heat and hot water supply systems in Vilnius City had reached LTL 340 million by the end of 2006.

Since UAB Vilniaus Energija and UAB Litesko had no adequate capacities for the renovation of heating facilities, the entities contracted the Company as the then producer of heat supply substations, heat and water meters and heat supply substation controllers. In mid 2003, the Company transferred its production activities to a subsidiary (UAB Katra) and became a project manager of the heating facility renovation, as the Company retained the expertise in the heating facility renovation and further maintenance of heat supply systems, as well as association with the major suppliers of heat supply substations, boiler-houses, heat and water meters and heat supply substation controllers (former UAB Katra, UAB Kazlų Rūdos Metalas and UAB Limatika, currently UAB Axis Industries) via the Group and, after re-organisation, via Rubicon Group.

According to the contracts for the management of heating facility renovation projects, the Company's main functions include:

- Preparation and coordination of technical specifications for the tenders with the client;
- Organisation of the tenders;
- Analysis of the submitted tender bids and rendering of recommendations regarding selection of the winner for the client;
- Signing of agreements with the client and subcontractors (except in the management of the engineering projects);
- Monitoring and control of the works performed;
- Acceptance and transfer of the works completed.

## Services of management of heating facilities renovation projects

### Historical development

After signing the agreement for the management of heating facility renovation projects with UAB Litesko in June 2000, the Company formed a team of highly qualified professionals and started production and installation of the heat pipelines and boiler-houses. During the peak, the Company employed 200 people engaged in the production and installation activity. In 2003, following Rubicon Group's reorganisation, the Company focused on its core activities – integrated facility management services – and outsourced the production and installation of heat supply substations, heat and water meters and heat supply substation controllers to Related Parties in return to the facility management service provision taken over from them. By the end of 2003, the Company transferred the production and installation activity to UAB Katra (currently - UAB Axis Industries, formed after a merger of UAB Katra, UAB Limatika and UAB Kazlų Rūdos Metalas) and continues providing the management of heating facility renovation projects only.

Note: Unless otherwise stated, all management of heating facility renovation projects are currently provided in Lithuania and Russia, though the Company is planning to expand the activities in Ukraine as well.

The breakdown of the income from the management of heating facility renovation projects is provided in the Section *Developments of Different Financial Items*, *(1) Sales*, page 59.

**Heat pipelines and boiler-houses**

The Company is contracted for constructing and repairing heat pipelines and boiler-houses by UAB Vilniaus Energija and UAB Litesko. The Company is currently employing 5 highly qualified professionals the primary activity of whom is selection, negotiation and signing contracts with subcontractors and monitoring and acceptance of the works performed. The main suppliers of heat pipelines and boiler-houses are UAB Axis Industries, UAB Alvora, UAB Kazlų Rūdos Metalas, UAB Limatika and others (see the Section *The Suppliers*). In the future, the Company is planning to offer the warranty service for an additional price.

**Heat supply substations**

As a part of the heat and hot water supply system renovation and modernisation project, UAB Vilniaus Energija and UAB Litesko are currently heavily investing into installing heat supply substations in order to cut down the excessive energy consumption in residential facilities. The Company’s role includes the subcontractors’ work organisation and monitoring. Currently, the management of heat supply substation installation (including Rubisafe system) is handled by 10 employees. After the re-organisation, the heat supply substations are produced by UAB Axis Industries.

**Heat supply substation controllers (Rubisafe)**

Invented and developed within the Company, *Rubisafe* is a hardware and software system that enables remote collection of data and control of heat supply substations. The development of the Rubisafe system has been the main factor enabling the management of energy resources, as the system allowed to follow the temperatures and regulated the heat supply by remote control, which lowered the need for personnel and increased the efficiency. Since 2002, Rubisafe hardware is installed and sold with all heat supply substations for UAB Vilniaus Energija and UAB Litesko, however, the subscription for the software is provided for an additional price calculated per one heat supply substation. Rubisafe hardware is currently produced by UAB Axis Industries.

**Heat and water meters**

The Company’s services related to heat and water meters consist of the management of installation of the meters to residential buildings and of the revision of the meters every 2 years (according to the State regulation). The installation and revision of the meters are carried out by UAB Axis Industries, while the Company has a general contractor’s function. The activity is currently carried out in Lithuania, while signing of the agreements for supply for heat meters in Russia, St. Petersburg, is currently in progress. In the Company, the activity is currently handled by 1 employee.

**Heat cost allocators**

Heat cost allocators denote the hardware and software installed into multi-apartment houses that enables to collect and retain the data of heat supply. Historically, the need for heat cost allocators has arisen in connection to the residents’ demand for a more accurate calculation and for the possibility to regulate the energy consumed. UAB Vilniaus Energija and UAB Litesko are currently using the heat cost allocators for the automatic collection of the meter data for the billing purposes. The Company’s role is the management of the heat cost allocator installers and the largest value added by the Company is the relations with the dwellers of multi-apartment houses, as the Company’s primary role is to organise and manage the signing of agreements by the residents. Currently, 3 people are engaged in the provision of the service.

## Operation scheme

The principal scheme of the Company's management of heating facility renovation projects is provided in *Figure 2.* The operation is organised as follows:

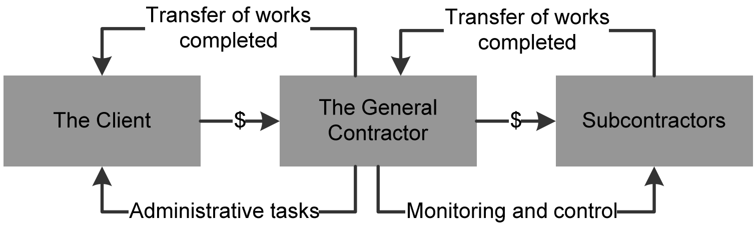


**Figure 2. General scheme of management of heating facility renovation projects activities.**

## <u>The clients</u>

Top 15 largest clients of the Company in 2006 and their respective shares in sales in 2005 and 2004 are provided in the *Table 17*.

In 2006, the largest share of the total sales was comprised of the sales to UAB Vilniaus Energija and UAB Litesko owned by Dalkia Group (management of heating facility renovation projects) and to Vilnius City Municipality (management of energy resources). The rest of the client base is well-diversified and by a large share consists of the commercial facility management clients (offices and commercial properties). In alphabetical order, the rest of the 15 largest clients in 2006 were: UAB Axis Industries, UAB Baltisches Hous, Dainava district in Kaunas, UAB Fabeta, AB Hansabankas, AB DnB Nord bankas, UAB Palink, UAB Pinus Proprius, UAB Rubicon Eventus, AB TEO, AB SEB Vilniaus bankas and UAB Žaidas (see the Section *Related Party Transactions*, page 82).

*<u>Dalkia Group</u>* is the largest energy service provider in Europe. The entity employs 41,000 people in 35 countries worldwide. In total, Dalkia Group serves around 4.6 million flats, commercial facilities with total space of 110 million m$^2$ and maintains 600 different heat, cold and hot water supply systems. In the Central and Eastern European countries, Dalkia Group has implemented over 47 projects of heating facility renovation in Hungary, Poland, Czech Republic, Slovakia, Romania, Latvia and Estonia. In Lithuania, Dalkia Group operates via its subsidiaries – UAB Vilniaus Energija and UAB Litesko.

*<u>UAB Vilniaus Energija</u>* is a centralised heat supplier serving around 195 thousand flats in Vilnius City and suburbs (Grigiškės, Salininkai and Trakų Vokė) and commercial buildings. On 1 February 2002, UAB Vilniaus Energija won the tender for the running and renovation of centralised heat and hot water supply system of Vilnius for a period of 15 years (with potential to be further extended for 10 years) and contracted the Group for the supply of heat supply substations, boiler-houses and heat and water meters. During 2002-2008, the entity will have invested around LTL 110 million into modernisation of heat supply substations in Vilnius. By the end of 2006, the total amount invested in heat and hot water supply systems in Vilnius had reached around LTL 340 million, including construction and/ or repair of over 70 kilometres of heat pipelines.

*<u>UAB Litesko</u>* is a centralised heat supplier serving around 60 thousand flats in different towns and their suburbs in Lithuania (Marijampolė, Alytus, Palanga, Telšiai, Vilkaviškis, Druskininkai, Kelmė, Kazlų Rūda and Biržai). In parallel with UAB Vilniaus Energija, the entity has been managing and renovating the heating facilities in aforementioned towns since 2000.

*<u>Vilnius City Municipality</u>*. Vilnius City Municipality contracts the Company for the management of energy resources (heat supply) and for the maintenance of heat and hot water supply systems for 322 education institutions in Vilnius (heated space totals in 725,029 m$^2$). Signed in June 2002, the agreement is valid for 7 years (heating seasons) with a potential to be extended for additional 5 years by mutual agreement of parties.

**Table 17. Top 15 largest clients as of 2006 (LTL in thousands)**

| Client | Service | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| UAB Vilniaus Energija | MHFRP | 56,219 | 30,680 | 36,723 |
| UAB Litesko | MHFRP | 17,893 | 29,456 | 19,174 |
| Vilnius City Municipality | Heat supply | 15,063 | 15,099 | 17,871 |
| Client No. 4 | FM | 2,506 | 3,496 | 3,134 |
| Client No. 5 | FM | 1,903 | 2,057 | 2,180 |
| Client No. 6 | FM | - | - | 2,004 |
| UAB Axis Industries | FM | - | 1,234 | 1,694 |
| Client No. 8 | FM/ MHFRP | 1,113 | 1,384 | 1,549 |
| Client No. 9 | MHFRP | 1,259 | 871 | 1,451 |
| UAB Žaidas | FM | - | - | 1,006 |
| Client No. 11 | FM/ MHFRP | - | 468 | 890 |
| Client No. 12 | MHFRP | - | 641 | 888 |
| UAB Rubicon Eventus | FM | - | 1234 | 886 |
| Client No. 14 | FM/ MHFRP | 885 | 808 | 826 |
| Client No. 15 | MHFRP | - | - | 714 |

## The suppliers

Top 15 largest suppliers of the Company in 2006 and their respective supply amounts in 2004 and 2005 are provided in the *Table* 18. In 2006, the largest share of the purchases was made from UAB Alvora, UAB Axis Industries, UAB Gandras Energoefektas, UAB Katra, UAB Limatika, UAB Logstor, AB Montuotojas, UAB Rubicon Group, UAB Statoil Lietuva, UAB Šilda, UAB Terma, UAB Top Clean, UAB Vilniaus Energija, UAB Žaidas (ZA) and UAB Žemkasta (in alphabetical order).

The purchases from Top 10 suppliers amounted to LTL 68.1 million in 2004, LTL 55.3 million in 2005 and LTL 58.1 million in 2006.

For the details on the Company's purchases from UAB Axis Industries, UAB Katra, UAB Limatika, UAB Žaidas and UAB Rubicon Group refer to the Section *Related Party Transactions*, page 82. UAB Vilniaus Energija supplies heat for schools and kindergartens in Vilnius under the Company's contracts for management of energy resources for the aforementioned facilities (see the Section *Facility space served and the largest clients*, page 31).

**Table 18. Top 15 largest suppliers and subcontractors in 2006 (LTL in thousands)**

| Supplier | 2004 | 2005 | 2006 |
|---|---|---|---|
| UAB Axis Industries | 4,141 | 5,475 | 20,602 |
| UAB Vilniaus Energija | 10,976 | 10,597 | 12,795 |
| Supplier No. 3 | 5,807 | 5,622 | 8,288 |
| Supplier No. 4 | - | - | 6,687 |
| UAB Katra | 30,671 | 13,061 | 5,574 |
| Supplier No. 6 | - | 2,550 | 4,123 |
| Supplier No. 7 | 1,449 | 1,558 | 2,205 |
| Supplier No. 8 | 5,697 | 4,763 | 1,918 |
| UAB Limatika | 3,125 | 8,411 | 1,592 |
| Supplier No. 10 | 716 | 1,414 | 1,502 |
| Supplier No. 11 | 3,950 | 1,842 | 1,429 |
| UAB Žaidas | - | - | 1,132 |
| UAB Rubicon Group | - | 1,352 | 1,045 |
| Supplier No. 14 | 863 | 1,044 | 972 |
| Supplier No. 15 | - | - | 915 |

# Principal Markets

*To the best of the Company's knowledge, no current, reliable and comprehensive reviews of the competitive situation in the markets in which the Company operates were publicly available prior to the date hereof. As a consequence, in presenting the overview below of the competitive position of the Company in the relevant markets, the Management has relied principally on its own assessment and analysis of such competitive position. In doing so, the Management has used the market information collected by its own staff and advisors for such purpose, either available on the basis of public information or derivable from the same.*

## Market overview

### Facility management

**Lithuania**

As identified by the Company, the facility management market in Lithuania consists of three basic segments – commercial facilities, residential facilities and education facilities.

***Commercial properties and offices***

*Market size.* According to the Company's estimates, the total facility space of commercial properties was 2.21 million $m^2$, while the office space comprised around 1.01 million $m^2$ at the end of 2006. Note: estimated facility space of commercial properties and office buildings includes only the target market of the Company and therefore represents only a fraction of the total commercial facility space estimated by the Statistics Department of Lithuania. In a 10-year period, in connection with the growing market demand, the shopping mall space is expected to grow two-fold and reach 4.43 million $m^2$, while the office space will grow three-fold and result in 3.02 million $m^2$.

*Market players.* Besides the Company, the main market players and competitors in the commercial facility management are:

- YIT Technika. The entity was established in 1994 as a subsidiary of ABB Group as an installer of ventilation and cooling systems. In 2003, the entity was sold to YIT Construction Ltd. in connection to the ABB's divestment from the engineering system business in the Northern and Eastern Europe. The entity is currently engaged in the installation of engineering systems (mainly ventilation and cooling, facility management, services for IT and telecommunication sectors and installation and repair of shipping equipment).

  According to the publicly available information, the sales of YIT Technika were LTL 85.5 million in 2006 and are expected to reach LTL 91 million in 2007. However, according to the Company's estimates the facility management business constitutes merely up to 10% of the total turnover of YIT Technika.

- Corpus A. Established in 1999 as UAB Valymo Sistemos, the entity is currently the cleaning service market leader in Lithuania. Facility management service has been introduced since 2002 and, by the Company's estimates, makes less than 10% of the entity's turnover. Corpus A employs around 1,000 people and serves part of commercial bank and insurance broker outlets in Lithuania. In the cleaning area, the entity comes among the main subcontractors of the Company.

- Yglė. Established in 1995, the entity is mainly engaged in the installation of different civil engineering systems, including heat pipelines, boiler plants and heat supply substations, ventilation and air conditioning systems, domestic and industrial water supply systems and other. Yglė announces to have reached turnover of LTL 29 million in 2005. Though the entity's facility management sales are growing, the facility management turnover is still marginal and does not constitute considerable share in the entity's total turnover.

- Bonus Ventus. Based in Klaipėda, the entity is mainly a real estate developer. The entity's first client in Vilnius is the shopping centre BIG. The Company expects that income from the facility management service comprises a minor share in the turnover of Bonus Ventus.

- Other market players – ISS Namų Valda. The entity is a part of ISS Group, the largest world-wide facility management company, currently owned by American investors. ISS Namų Valda is currently in a start-up phase in Lithuania, with intentions to grow via acquisitions of local players. Yet none of them is currently for sale. ISS Namų Valda currently does not hold any significant market share and its further development through either organic growth or acquisitions remains questionable. The growth remains constant due to relatively small market and limited operating resources (especially blue-collar personnel), and the existing facility management companies are not to give up their positions due to long-term partnerships with their clients.

***Residential facilities***

*Market size.* The latest residential facility data available from the Statistics Department of Lithuania is provided in *Table 19*. As of the end of 2005, the residential facilities (multi-apartment houses) in urban areas in Lithuania were estimated to amount to 42 million $m^2$ including 11 million $m^2$ in Vilnius, 5.6 million $m^2$ in Kaunas and 3.4 million $m^2$ in Klaipėda. According to the Statistics Department of Lithuania, the construction in 2005 amounted to 235 thousand $m^2$ (including 175 thousand $m^2$ in Vilnius) which was estimated to accelerate in 2006 and 2007.

**Table 19. Residential facilities in Lithuania ($m^2$ in thousands)**

| City Municipality | Facility space (at the end of the year) | | Construction during the year | |
|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 |
| Vilnius | 9,798 | 11,002 | 224 | 175 |
| Kaunas | 5,617 | 5,581 | 8 | 23 |
| Klaipėda | 3,388 | 3,423 | 21 | 32 |
| Other | 21,481 | 21,822 | 3 | 6 |
| **Total** | **40,284** | **41,828** | **256** | **235** |

*Facility management tariffs.* The prices for different activities in residential facility management with respect to the facilities where an Administrator is appointed are set by municipalities and vary in different towns. Depending on the bundle of services sold for the residential facility management, price in Lithuania varies from LTL 0.30 to LTL 0.50 a month per 1 $m^2$ of facilities served (including LTL 0.12 for administrative tasks and LTL 0.20 for maintenance of heat and hot water supply systems in Vilnius). The tariff, however, does not include the charge for additional services, for example building repair works which is fluctuating from year to year. In 2006, the cost for additional services for the residential facilities has varied between LTL 0.11 a month and LTL 0.51 a month per 1 $m^2$ of facilities served in different entities in the Group.

*Market players.* Under the regulations of Lithuania, the residential facilities (multi-apartment houses) can be managed by the following legal forms (see the Section *Market regulation*, page 44):

- House community. Dwellers form a legal body responsible for the management of the dwelling. House communities account for around 18% of the total residential facilities in Lithuania.

- Joint activity agreement. Joint activity agreements are largely unpopular and comprise mere 0.2% of the total residential facilities in Lithuania since they require agreement between each and every resident of the house and certification of the agreement by a notary.

- Administration. Where the owners of a multi-apartment building have not selected any of the above two management forms, an administrator is appointed by the municipality, and it can be changed at any time by an agreement of simple majority of dwellers and signing an official request to the municipality. Multi-apartment houses under administration account for 71.8% of the residential facilities in Lithuania.

The main market players in the residential facility management in Lithuania remain State or municipality owned residential facility management companies (RFMCs), which were historically appointed for certain districts and have neither means nor economic motivation for expansion to other districts. The privatisation of RFMCs started in 2003 and has gained momentum in Klaipėda and Vilnius, while Kaunas and other towns in Lithuania are lagging behind. In Klaipėda, the municipality has already privatised 9 out of 12 RFMCs, of which the Company acquired 5 RFMCs and became an outstanding leader in residential facility management. In Vilnius, 8 RFMCs have been privatised, however, the Company's tenders have been unsuccessful as the tender prices have been boosted up to economically unreasonable levels either by the generously available acquisition financing and sentiments of the incumbent management or by the valuation of the real estate or municipality owned by RFMCs, which has doubled and tripled in prices in the last several years in Vilnius. As a result, RFMCs in Vilnius so far have been privatised either by the incumbent management or by the real estate developers. The residential facility management reform in Kaunas has gone in another way – the municipality arranged public tenders for the three-year facility management contracts in separate districts, of which the Company and ZA has won the tenders for the Centre and Dainava districts (1.16 million $m^2$ in total). Namų Priežiūros Centras has won the tenders for residential facilities of 0.5 million $m^2$. In Kaunas, 3 RFMCs still remain owned by the municipality.

In addition to the RFMCs, the Company identifies the following market players in the facility management of residential flats:

- Namų Priežiūros Centras (NPC). This entity is the main competitor of the Company in the residential facility management and manages around 50 houses (120,000 $m^2$) in Vilnius (out of 4,000 as estimated by the Company) and 500,000 $m^2$ in Kaunas.

- Auksinis Varnas. Established in 1997, the entity currently employs 600 people and is engaged primarily in the cleaning services. The company's turnover is around LTL 10 million.

- Corpus A (see more details in the Section describing the commercial facility market);

***Public facilities***

While in the Western European and Nordic countries the management of a wide range of public facilities (including hospitals, municipal hostels and facilities of various public agencies) in many cases is entrusted to private facility management companies, the public facility management market in Lithuania is still highly underdeveloped and offers a great potential for growth. To date, the Company defines its public facility market as education facilities (secondary schools and kindergartens), the management of which have been outsourced in Vilnius (since June 2002) and Šiauliai (since 2006).

According to the Company's information, in total there are 4,691 education institutions (secondary schools and kindergartens) in Lithuania, of which the Company is currently serving 322 in Vilnius and Šiauliai. Proportionally to the education institutions served by the Company at the moment, the total space of the education facilities could be over 10 million $m^2$.

Subject to a positive resolution of the court proceedings, the Company has expectations to sign a 25-year agreement with Kaunas City Municipality for a multi-service management of 192 education institutions (550 thousand $m^2$) in Kaunas (see the Section *Legal and Arbitration Proceedings*, page 91).

**Russia**

*General overview*. Via subsidiaries, the Company currently operates in St. Petersburg in Russia. The commercial facility management market in St. Petersburg is currently characterised by comparably high profit margins and by the dominance of several specialised market players, while the residential facility management in St. Petersburg is undergoing a liberalisation reform. The residential facilities in St. Petersburg are divided into separate districts served by 42 residential facility management companies (RFMCs). Historically, RFMCs have been State-owned owned and had the civil engineering systems on their balance. In 2004, the ownership of civil engineering systems was transferred to the possession of the residents and RFMCs were reorganised into providers of the civil engineering system maintenance service, which starting from 2005 had to participate in the auctions for the district management (with contract period of 1 year). In order to stimulate the rivalry among RFMCs, in 2006 private facility management companies, with a number of restrictions, including the requirement of a local facility management experience, were allowed to participate in the tenders for facility management. The opening tenders were organised in September 2006 and reached the peak during October-November 2006 with 3-4 tenders a week.

As the maximum tariffs of residential facility management in St. Petersburg are fixed and set at municipalities' level, the participants of the tenders are competing on the basis of free of charge works suggested by participants in their bids. During the period of district facility management contract, the facility managers are well-positioned to offer the dwellers of separate houses in the district to sign long-term contracts for managing the facilities either as Facility Manager or as a subcontractor for a house community (legal body). The houses not having chosen a Facility Manager or established a house community are put up for a repeated tender.

*Market players.* The second step of the residential facility management reform in St. Petersburg is expected to be a large scale privatisation of State-owned RFMCs. According to the public sources, the privatisation of State-owned RFMCs is expected to begin by the end of 2007 and to involve at least 10 RFMCs. Of 42 RFMCs in St. Petersburg, 36 are currently owned by the local government, 3 are 100% owned by the Company, while the remaining 3 are owned by separate local entities/ private persons.

*Market size.* In total, residential facility space in St. Petersburg is estimated to be around 101 million $m^2$, of which 37 million $m^2$ are constituted of the houses served by house communities, 4 million $m^2$ are hostels, and the remaining 60 million $m^2$ are served by the RFMCs. The market is currently rapidly growing due to intensive construction (over 1 million $m^2$ per annum). During the reform of RFMCs, out of the residential houses of around 60 million, 40 million $m^2$ have already been assigned short-term Facility Managers, while the rest are expected to be put up for tenders during 2007. The Company estimates that up to 20-30% of the houses assigned a short-term Facility Manager during 2006-2007 will sign long-term agreements, while the rest (around 30 million $m^2$) will be put up for the new tenders after a year. The Company has set a goal to sign long-term agreements with no less than 50% of the houses currently served in St. Petersburg by the Subsidiaries.

*Facility management tariffs.* The tariffs for the standard facility management services are fixed and set by the municipality. Since July 2004, when dramatically increased, the tariffs are revised twice a year and usually indexed to the inflation in Russia. Current tariffs for the facility management consist of the fees for the maintenance of civil engineering systems, cleaning of the territory and the staircases, waste collection, waste tube and elevator maintenance and add up to RUB 12.34 – RUB 12.78 equivalent to LTL 1.23 – LTL 1.28 a month per 1 $m^2$ of residential facilities served.

**Latvia**

*General overview*. Facility management sector in Latvia is comparable to the one in Lithuania. A certain share of commercial facilities is managed by smaller local players offering separate facility management services, while most of the residential facilities are managed by private or municipal owned RFMCs.

*Market players*. To date, the Company does not recognise any large exclusively facility management companies in Latvia as most of the facility management companies are still operating as branches of developers and/ or building and construction companies and/ or their turnover from the facility management usually does not exceed LVL 2-3 million. The main market players in the commercial facility management currently are RBS Skals, Urban Art and Majas Service.

*Market size.* In total, residential facility space in Riga is estimated to be around 18 million $m^2$.

*Facility management tariffs.* The tariffs for the residential facility management are set at the municipality's level only with respect to the management of municipality-owned buildings. In Riga the tariff currently is LVL 0.148 equivalent to LTL 0.74 a month per 1 $m^2$ of residential facilities served. It is important to note, that there are no statutory limits to the residential facility management fees for the management of all other buildings. Such fees depend only on the mutual agreement of the contracting parties.

**Ukraine**

*General overview*. The facility management sector in Kiev, Ukraine, is in many cases comparable to this in St. Petersburg, Russia. Integrated facility management for the commercial facilities is yet non-existent, while the residential facilities are as a rule served by municipal RFMCs. The local government is currently considering the possible market liberalisation models and is expected to follow the RFMCs reform in St. Petersburg and to announce public tenders for serving separate districts. The Company estimates that the tenders are to start by the end of 2007.

*Market players.* While commercial facilities are still managed by their owners/ tenants, the residential facility management market is dominated by municipal RFMCs. The Company identifies three private RFMCs in Kiev – Kovalska Zitloservice, Lipkij Zitloservice and Dussmann.

*Market size.* In total, residential facility space in Kiev is estimated to be around 50 million $m^2$, of which the house communities comprise up to 10%.

*Facility management tariffs.* The pricing of a defined list of residential facility management services is regulated by Kiev City Municipality and currently is set at 0.76-1.08 UAH which is equivalent to around LTL 0.27 – LTL 0.39 a month per 1 $m^2$ of residential facilities served.

## Management of heating facility renovation projects

**Lithuania**

Heating facility renovation market is currently defined by the large-scale renovation of heat and hot water supply systems in Vilnius. Since 2000 and 2002 respectively, the mainstream investments are made in Vilnius, Marijampolė, Alytus, Palanga, Telšiai, Vilkaviškis, Druskininkai, Kelmė, Kazlų Rūda and Biržai by UAB Litesko and UAB Vilniaus Energija (for more details see the Section *Principal Activities*, *Management of heating facility renovation projects*, page 36, and *The clients*, page 38). According to the public sources, by the end of 2006, UAB Vilniaus Energija had already invested LTL 340 million into the renovation of heat pipelines and boiler-houses and planned to invest LTL 110 million in the upgrade of heat supply substations in Vilnius by the end of 2008.

Having long-term partnership with UAB Vilniaus Energija and UAB Litesko and locally unique 7-year experience in the management of heating facility renovation projects, combined with the know-how in facility management, the Company is an outright leader in the market and identifies only two market players with comparable competences – AB Panevėžio Statybos Trestas (PST) and AB Montuotojas. PST is a construction company that is known as currently managing a construction of a thermo power-station in Panevėžys. AB Montuotojas has an experience and know-how in the renovation of heat and hot water supply systems and potentially can offer the project management service though currently acts as the Company's subcontractor for separate tasks.

**Russia**

The St. Petersburg's residential facility market is currently offering a great potential for the management of the installation of heat supply substations and heat and water meters due to the impressive market size and relatively high profit margins. The residential facility space in St. Petersburg is estimated to be around 101 million $m^{2,}$, of which heat and water meters are installed only in 35% and the modern heat supply substations are practically absent. The market is currently immature in terms of know-how and remains dominated by a limited number of incumbent local distributors. As a result, the prices of the heat and water meters and heat supply substations are induced to abnormal levels and currently exceed the prices in Lithuania by respectively 13 times and 5-8 times offering the distributors extremely favourable profit margins, even accounting for the higher supply costs.

**Ukraine**

In Ukraine, the Company has plans to manage the installation of heat and water meters. In total, the residential facility space in Kiev is estimated to be around 50 million $m^2$, of which the heat and water meters are currently installed into up to 10-15% only (based on the data retrieved from heat suppliers in Kiev).

## Market regulation

*This Section provides a short summary of laws and legal regulations in Lithuania, Latvia, Russia and Ukraine valid at the moment of preparing this Prospectus that in the Company's opinion are relevant for carrying out its business activities. Please note that the selection of legal provisions to describe has been made at the sole discretion of the Company and this does not purport to be a complete overview of the relevant regulatory systems. Please note that laws and regulations are subject to changes and amendments and the information contained herein is not updated following the issuance of the Prospectus. Investors are advised to make their own investigation and obtain independent legal advice should they wish to incorporate regulatory information into their investment decisions.*

**Lithuania**

With specific exceptions described below by segment, entry into both facility management and heating facility renovation management markets is open to any entity. Business activities on those markets in general are subject to the underlying principle of freedom of contract set forth in the article 6.156 of the Civil Code, which means that the parties are free to choose whether to enter into contracts, and if so, with whom to enter into contracts and on which terms and conditions, including the price. At the same time, those undertakings that hold a dominant position on the relevant market are prohibited by article 9 of the Law on Competition from abusing it by acts that limit or may potentially limit competition, unduly restrict freedom of other market participants or violate consumer interests, namely (i) directly or indirectly imposing predatory pricing or other contractual terms; (ii) restrictions on trade, production or technical progress to the detriment of consumers; (iii) imposing discriminatory contractual terms and conditions for certain undertakings thus distorting their competitive situation; (iv) imposing excess contractual terms that by their purpose and commercial nature are not directly related to the object of the agreement.

***Facility management***

*General information.* The above fully applies with no exceptions with respect to the facility management activities in the commercial customers segment and in the part of the residential segment, where the owners are organised in associations or have signed joint activity agreements. Services are freely sold on the market terms based on private commercial contracts that are signed with the customer.

The below described regulations apply only in cases where the owners are not organised to take care of joint ownership objects and systems in the residential multi-apartment houses. Following article 4.84 of Lithuanian Civil Code an Administrator has to be appointed by the local municipality. Usually, RFMCs that have traditionally managed residential buildings in certain areas of the city are appointed to manage newly built apartment buildings in those areas. However other service providers also gain appointments by requests of more than ½ of owners of the residential multi-apartment house. Administration is the ordinary facility management in the sense of article 4.239 of the Civil Code, i.e. the Administrator is obliged to take all measures to preserve the assets and warrant their use for the ordinary purposes. The fact of administration is recorded in the Real Estate Register.

*Requirements for and obligations of the administrator.* Pursuant to article 4.237 of the Civil Code in order to be appointed as an Administrator the individual or legal person must be permitted by the legal acts and regulations to engage in the provision of asset administration services. On 23 April 2002 the Minister of Environment has approved the construction technical regulation STR 1.12.04:2002 on the certification of the administrators of common use objects in the residential multi-apartment houses and approved a special certification commission to that end. The purpose of the certification is to examine applicant's reliability, financial status and capabilities to carry out administration functions, as well as the history of his contractual performance and compliance with other certification requirements, and to determine the fitness of the company to professionally engage in carrying out the functions of the administrator of common use objects in the residential multi-apartment houses as set forth in the respective legal acts and regulations. The chief executive officer of the company must hold a qualification certificate from the approved training program on the maintenance and administration of residential multi-apartment houses. Similarly, construction, technical maintenance and safety at work personnel must be duly certified and hold respective certificates. Administrator's certificate is issued for 5 years and may be renewed on the application. Certificate is revoked if its holder fails to ensure required quality of services or when the laws and legal regulations that govern the service provision are changed. Facility management activities of such formally certified and appointed administrator are subject not to the contract with the owners but to the municipally set rules of administration that generally follow the model form approved on 23 May 2001 by the Government order No 603 (further in this Section – *Model Rules*). The Model Rules set forth a number of specific obligations for the administrator, including the main one to carry out technical maintenance of the common use objects and systems in the building to ensure compliance with the mandatory legal requirements related to mechanical reliability and stability of the building constructions, fire, hygiene, health and environmental safety, as well as energy and heat efficiency. They also require compliance with the established procedures for the selection of a separate provider of heat and hot water systems maintenance in the form of survey of the owners' opinion, on the basis of cost and quality criteria. The Administrator may be displaced at any time if more than ½ of the owners sign for that.

*Administration tariffs.* Pricing of the administration services is subject to the regulation of local municipalities. Pursuant to item 8 of the Model Rules, monthly charges for the owners are calculated by the Administrator in proportion to their ownership share (the useful area of the owned premises) as follows: (i) tariffs for the administration service are set in the municipal appointment decision or must follow special municipally approved calculation methodology; (ii) tariffs or the methodology for their calculation as regards the regular technical maintenance of the common use objects and systems (except heating and hot water supply) are approved by the municipal council taking into account the maintenance works list approved by the head of municipal administration; (iii) upper limits of tariffs for the maintenance of heating and hot water supply systems are set by the municipal council following the methodology approved by the 7 August 2003 decree No 03-54 of the National Control Commission for Prices and Energy; (iv) for other works and services (such as repair works outside the scope of regular maintenance, emergency works, power used for common needs, elevator etc.) as a general rule the Administrator can charge to the owners according to their actual costs.

*State funding for renovation of residential facilities.* The market for the renovation works in the residential sector highly depends on the state funding available to the owners of the residential multi-apartment buildings. Currently the state subsidies are granted pursuant to the article 13 of a special Law on State Support for Housing Acquisition or Renting and for Modernisation of Multi-apartment Buildings, which is further developed in the Modernisation Program for Multi-apartment Buildings approved by the 23 September 2004 Government decision No 1213 and the rules for granting state subsidies approved by the 12 August 2005 joint order of Finance and Environment Ministers No 1K-237/ D1-394. Only owners that are organised in the house communities or have signed joint activity agreements are eligible for support. Depending on the relative energy efficiency of the modernisation project, state subsidies may amount from 15 to 50% of the investment. The state budget allocations for the modernisation program are planned in the state budget for the respective coming year, taking into account the financial capabilities of the state. According to the said program it is expected that as a result 70% of multi-apartment residential houses will be modernised. State budget funds are supplemented by the structural funding from the EU. In total, in the 2007-2013 programming period Lithuania is planning to get 23 billion LTL from the EU structural funds. Structural support granted by the European Union consistently mitigates social and economic differences between EU Member States or individual regions. The Strategy for the use of EU structural funds is developed in the Action Programs of the 2007-2013 programming period. According to the draft of the Cohesion Promotion Action Program, in the current programming period Lithuania is planning to get approximately 200 million LTL for the development of facility in problematic regions of Lithuania. The information contained in this paragraph shall be deemed as forward-looking statements.

***Management of heating facility renovation projects***

*General information.* Law on Construction lists a number of specific rights and obligations for a contractor, the most important of which is: (i) an obligation to appoint (hire) a certified construction works manager who is responsible for the quality compliance of the object; and (ii) to ensure safety at work, fire and environmental safety, proper work hygiene at the construction site, as well as preservation of surrounding environment, natural and immovable objects of cultural value, safety of third persons from construction hazards. The law also provides for a possibility to assume only the functions of construction manager who acts on behalf of the client in organising the construction and hiring contractors for the actual works instead of assuming a full role of a general contractor.

*Mandatory civil liability insurance.* According to article 37 of the law, civil liability of the designer and of the contractor of a construction works must be insured with compulsory insurance, regardless of the sources of design and construction financing, a type of the ownership of a construction works, and the legal status of the designer, the contractor and the builder (client). The subject matter of insurance is civil liability of the designer and the contractor of a construction works for the damage caused to the builder (client) and the third parties. Insurance of civil liability of the contractor must cover civil liability of its subcontractors as well. When the insured is a contractor, the insurance company pays directly the builder (client) or the third parties insurance disbursements to cover the damage caused by the insured to person's health or the damage caused due to deprivation of life, or the damage caused to property. In the event when the insured himself compensates the caused damage, the insurance company pays insurance benefits to the insured. The contractor must take out a separate insurance for each object. The minimum required cover is set forth in the approved mandatory civil liability insurance rules.

*Certification.* In addition, Article 16 of the Energy law requires that companies engaged in the maintenance of energy systems and equipment were certified. Certification for specific maintenance works is carried out by the State Energy Inspection pursuant to the requirements and procedures approved by the 22 December 2003 order No 4-482 of the Minister of Economy of the Republic of Lithuania.

**Russia**

***Facility management***

*General information*. In Russia, administration of housing and utility services depends on the type of apartment buildings' management. Owners of apartments may choose to establish a condominium and to enter into direct contracts with suppliers of housing and utility services (further in this Section - *Suppliers*), or to engage a special management company (further in this Section - *Facility Manager*) responsible for the administration of housing and utility services. However, it is common practice that most of apartment buildings, which are not condominiums, are managed by the authorised state agencies. These may enter either into direct contracts with Suppliers or into trilateral agreements on the management of common property in multi-apartment buildings with Facility Managers and a State-owned clearing company which is responsible for collection, allocation and transfer of payments for housing and utility services (further in this Section - *Agreements*).

*Selection of Facility Manager*. State housing agencies are responsible for conducting the tenders for the right to enter into the Agreements. Resolution of the St. Petersburg Government No. 947-R dated 15 September 1997 sets forth general conditions for such tenders. An applicant must comply with certain technical requirements depending on the scope of housing and utility services to be rendered, such as: (i) to have relevant licenses and permits (e.g. construction license, license to maintain fire alarm systems, waste disposal license), (ii) to employ duly qualified personnel, (iii) to comply with specific labour regulations. An applicant that lacks some of these must have subcontracts with companies complying with the said requirements.

*Scope of Agreements*. Resolution of the Government of Russian Federation No. 307 dated 23 May 2006 provides for mandatory minimum requirements applicable to housing and utility services, including the minimum scope and quality of such services but the parties to the Agreements are free to agree additional conditions on scope and quality. Although there is no standard form of the Agreement, in practice substantive terms and conditions of the Agreements are similar. In some cases the state housing agencies include into the Agreements '*pro-bono*' conditions that oblige the Facility Managers to render certain housing and utility services free of charge.

*Facility management tariffs*. Facility Managers' fees are fixed in the Agreement and usually equal to those proposed in the tender bid of the winner. However, state housing agencies have the right to evaluate the level of services rendered and a poor evaluation may entail reduction of fees or unilateral termination of the Agreement by the state housing agency. Order of the Housing Committee of the St. Petersburg Government No. 5-R dated 20 January 2005 provides for the reduction scale depending on the results of evaluation.

***Management of heating facility renovation projects***

Under Russian legislation, renewal of utility facilities, e.g. heat supply systems, may be carried out by persons having the construction license. General contractors which do not perform the renewal works themselves are not obliged to have this license. Note that according to Article 2 of Federal Act No. 252-FZ dated 29 December 2006, licensing of construction activities will be abolished from 1 July 2007.

**Latvia**

***Facility management***

*General information*. There are no specific regulations for facility management services. Following the general principle of freedom of contract, the scope of services and management fees depend on the agreement of the contracting parties. Specific arrangements also depend on the type of ownership, which can be categorised as follows:

- *Single-owned property* is where there is only one owner (natural person or legal entity) of the real property (usually including land and premises). The Civil Law of Latvia (Article 1084) requires the owner of a building to maintain it in such condition, that no harm can result from it to any third party. The owner may manage the property himself, or may engage any third party for the management on a contractual basis.

- *Notional shares to real property* is an ownership type where the joint ownership of the property is organised under the agreement on joint property usage, which specifies apartments to be used by each owner. It may also provide for the contractual regulation of the facility management issues. Joint owners are jointly liable for the compliance with the requirements of Article 1084 of the Civil Law. Legally, any activities concerning the object of the joint ownership may be carried out only with a consensus of all owners, which is too complex and burdensome in practice. Thus, the management of this type of buildings often is of a very poor quality and sometimes such buildings are not managed at all. This type of arrangement is most often present at the pre-Soviet-era buildings, which were returned to their former owners after Latvia regained its independence.

- *Apartment property* is a form of ownership arising under the Law on Apartment Property, where each apartment forms an independent object of ownership, to which notional shares to the jointly used premises (for example, a staircase) are automatically added. The said Law requests mandatory organisation of management of such buildings, as well as an obligation of each owner to take part in the financing of the necessary expenses made with respect to the management of the building. The General Shareholders Meeting of the owners resolves on such issues as: (a) management of the joint ownership object; (b) management fee; (c) approval of a contract between the owners of apartment property and management company; (d) commencement and termination of heating; (e) saving of financial assets and usage thereof for substantial renovation works; and (f) other issues regarding the management of the joint ownership object of the residential multi-apartment house. Its resolutions are binding on all owners of apartments irrespective of their presence and/or vote at the General Shareholders Meeting. This type of ownership arrangement mainly exists in the privatised residential multi-apartment houses or the so called new projects recently developed by the real estate developers.

*Privatised residential buildings*. Prior to the privatisation, the management of residential buildings was entrusted to the management companies established by the local municipalities. As a result of privatisation, such buildings are divided into apartment properties and within 6 months from the close of privatisation process in a specific building the owners must resolve on taking over its management and on the specific management arrangements (including possible engagement of an external service provider). The resolution is filed with the local municipality and the transfer of management to the owners is completed by signing a transfer note. Currently there are a considerable number of privatised residential buildings where the owners have not adopted resolutions on the management yet and thus these properties are still managed by municipalities.

*New residential buildings*. The new residential multi-apartment houses are usually divided into apartment properties at the very outset of the project. This makes the further operation and usage of the building clearer to the potential owners. Another common feature of the new projects is that the real estate developers choose and engage a management company prior to the actual transfer of apartment properties to their future owners. Thus, when entering into preliminary agreements on the purchase of apartment, the purchasers are informed of the prospective management system, management company, management fee and management services covered by this fee. The draft management contract is attached to each apartment purchase agreement. In case later the owners of apartment properties are not satisfied with the provided management services, they are entitled by law to convene a General Meeting of the owners and resolve on the termination of the management contract and entry into a new contract with any other third party. This right is however limited by the early termination penalty clauses in the management contracts initially entered into by the real estate developers and management companies.

*Regulatory reform*. An extensive reform of the facility management may take place during the coming years to improve facility management in the country. It is expected that a new Apartment Property Law and the Management Law should be enacted by the Parliament and supplemented with a number of governmental regulations, providing for (a) minimum requirements to the facility management (minimum scope of management services); (b) mandatory formation and constant updating of the building file (passport), including the information on the owners, reconstruction, re-planning etc.; (c) calculation of management fee, and other. The information contained in this paragraph shall be deemed as forward-looking statements.

**Ukraine**

***Facility management***

*General information*. Under Ukrainian law, management of residential and commercial property facilities is in general governed by the provisions of the Civil Code of Ukraine, No. 435-IV, dated January 16, 2003 (as amended) (CCU), the Law of Ukraine No. 1875-IV On Residential and Communal Services, dated June 24, 2004 (the Law), Order No. 60 of the State Committee of Ukraine for Residential and Communal Matters On Approval of the Procedure for Determining a Performer of Residential and Communal Services for the Residential Fund, dated April 25, 2005 (the Order), and other rules and regulations.

The Law defines residential and communal services as business activities aimed at ensuring proper dwelling and stay conditions for persons in residential and non-residential premises, buildings, complexes of buildings and other structures (further in this Section – *Buildings*). They are classified as follows:

- *Communal services* (such as centralised supply of cold and hot water; water discharge; gas and power supply; centralised heating; removal of (household) waste, etc.);

- *Maintenance of Buildings with adjacent areas* (such as cleaning of buildings and adjacent areas; sanitation and technical services; maintenance of civil engineering systems ; elevator maintenance services; provision of lighting for common use areas; current repairs; removal of (household) waste; etc.);

- *Management (administration) of Buildings* (i.e., so-called asset holding, where an entity, whether an owner or a third party contracted by the owner to that end, keeps the Buildings on its books, prepares accounting, statistical and other legally required reports, carries out calculation of the funds necessary for capital and current repairs and maintenance, ensures the management (administration) of such assets and is responsible for their operation in compliance with the law; conclusion of contracts for provision of services; monitoring performance of these contracts; etc.);

- *Repair of Buildings* (such as replacement and reinforcement of structural elements and networks; reconstruction; restoration of bearing capacity; etc.).

The Law defines a Building manager (administrator) as an entity, which according to an agreement with an owner or asset holder carries out its management (administration) and which ensures its proper operation in compliance with the laws and the contract. Although providers of certain types of residential and communal services must obtain a quality compliance certificate and some activities (e.g., centralised water supply) are subject to licensing, facility management services as such can be offered to the market freely by any business entity that has included provision of the respective services in its by-laws as its business purpose.

*Selection of service providers*. Providers of the following residential and communal services for residential houses are selected by the municipalities unless the owners do this on their own: (i) management (administration) of Buildings; (ii) maintenance of Buildings and territories adjacent thereto; (iii) repair of Buildings (i.e., replacement and reinforcement of structural elements and networks, reconstruction, restoration of the structure's bearing capacity, etc.); and (iv) centralised heating supply, centralised supply of hot and cold water, and centralised water discharge. Owners may authorise Building management service providers to subcontract other residential and communal services. If a local municipality has included a particular service on the list of services, which may be provided by a service provider selected via a tender, then such tender must be held in accordance with the provisions of the Law.

*Regulation of tariffs and service provision*. The prices/tariffs of residential and communal services can be set forth either: (i) by specially authorised central bodies of executive power; (ii) by the local municipalities; or (iii) on a contractual basis between the relevant parties (as is the case for the facility management services).

Relations between participants (owners, consumers, providers and manufacturers) of the residential and communal services market are carried out on the basis of an agreement (contract). Asset holders and managers (administrators) can participate in the market in the capacity of consumers, providers or manufacturers of services.

Under Ukrainian Law, a manager (administrator) is bound by the duty to ensure the operation of Buildings and objects on their adjacent territory according to the terms and conditions of respective contracts and the applicable standards, norms, rules and regulations. It is liable for proper performance of its obligations both under the contract and under general laws of Ukraine.

*Regulatory reform*. Currently, the residential and communal services industry in Ukraine is under reform. A new Ministry of Residential and Communal Matters of Ukraine was established on 1 March 2007 after reorganisation and splitting of the Ministry of Construction, Architecture and Residential and Communal Matters, which is now responsible for implementing state policies in the sphere of residential and communal matters and residential housing. It has stated intentions to participate in the development and implementation of a new Residential Code, which is currently drafted by the Cabinet of Ministers of Ukraine.

***Management of heating facility renovation projects***

*General information*. According to Article 18 of the Law of Ukraine On Electric Energy Sector, the design and construction (including new construction, expansion, renovation (reconstruction) and technical re-equipment) of property in the energy sector is carried out pursuant to the general rules set forth for construction.

The general rules are set forth in the Civil Code of Ukraine, as well as the Commercial Code of Ukraine, which require that construction contracts are concluded in order to carry out new construction, capital renovation, reconstruction (technical re-equipment) of buildings, structures, installation and engineering works, commissioning and other works related to the object in question. The legal relations between a customer and a contractor (general contactor) are regulated by a construction contract. A contractor, upon consent of the client, may hire subcontractors by way of entering into subcontractor contracts with them. The mandatory terms and conditions for a capital construction contract are set forth in Article 318 of the Commercial Code of Ukraine. Capital construction contracts are concluded and performed according to the general rules of concluding and performing construction contracts approved by the Cabinet of Ministers of Ukraine.

*Permits and licensing*. Further, Article 24 of the Law of Ukraine On the Development of Territories requires that legal entities or natural persons that intend to carry out property construction (hereinafter the term *construction* includes new construction, reconstruction, renovation, restoration, capital renovation, expansion and technical re-equipment of facilities) must obtain a construction permit from the executive bodies of corresponding local councils. A construction permit grants the right to clients to obtain initial data for design works, as well as to obtain a permit to carry out construction works. According to Article 29 of the Law of Ukraine On the Development of Territories, a permit to carry out construction works is a document, evidencing the right of a customer and its contractor to carry out construction works, to connect the construction object to engineering networks and units, and to issue orders to carry out ground works. A permit to carry out construction works is issued by the state architecture and construction control inspectorates.

According to the Law of Ukraine On Licensing of Certain Kinds of Business Activities, the Ministry of Construction of Ukraine is authorized to issue licenses for the construction activities (exploration and design works for purposes of construction, erection of bearing and enclosing structures, construction and installation of engineering and transport networks).

# Organisational Structure

## Structure of Rubicon Group

The Company is a subsidiary of UAB Rubicon Group. The Structural Chart of Rubicon Group (at the end of 2006) and additional information on separate entities in Rubicon Group are provided in *Figure 3* and *Table 20*.

Note: The Structural Chart of Rubicon Group provided includes the directly owned subsidiaries only.

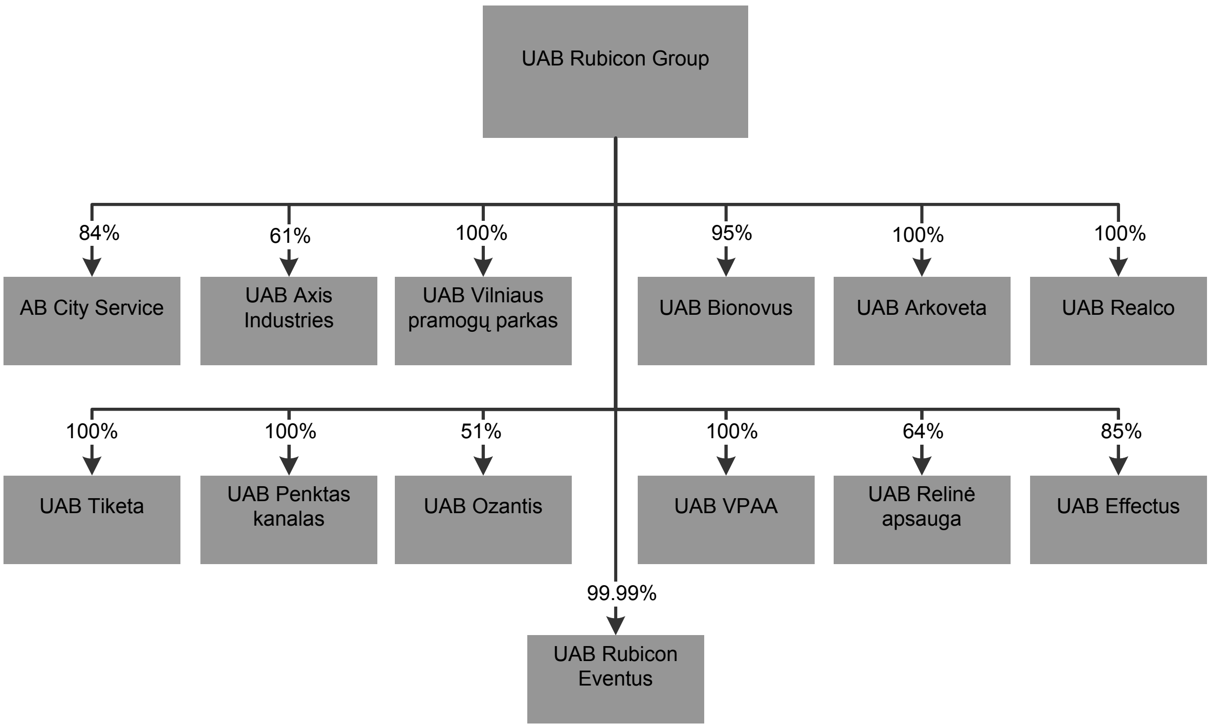


**Figure 3. Structural chart of Rubicon Group (at the end of 2006)**

**Table 20. Share ownership in Rubicon Group (at the end of 2006)**

| Company | Business area | Shareholding (%) |
|---|---|---|
| AB City Service | Facility Management | 84% |
| UAB Axis Industries | Heavy industry | 61% |
| UAB Vilniaus Pramogų Parkas | Entertainment and real estate | 100% |
| UAB Rubicon Eventus | Entertainment and real estate | 99.99% |
| UAB Bionovus | Ecology, Energy | 95 % |
| UAB Arkoveta | Real estate | 100% |
| UAB Realco | Real estate | 100% |
| UAB Tiketa | Entertainment and IT | 100% |
| UAB Penktas Kanalas | Media | 100% |
| UAB Ozantis | Real estate | 51% |
| UAB Verslo Plėtros ir Administravimo Agentūra (VPAA) | Accounting and consulting services | 100% |
| UAB Effectus | Entertainment | 85% |
| UAB Relinė Apsauga | Heavy industry | 64% |

*UAB Axis Industries.* Address: Kulautuvos st. 45 A, Kaunas, Lithuania. The entity was established on the basis of UAB Kazlų Rūdos Metalas. In 2006, the entity merged with UAB Katra and UAB Limatika and, collectively with its own subsidiaries, comes among the leaders in the national sectors of heavy industry in energy facilities. The entity also has ambitious plans to extend its activities to the Eastern European and EU markets. UAB Axis Industries currently employs over 650 people and has main divisions set up in Vilnius, Kaunas, Klaipėda and Kazlų Rūda.

*UAB Vilniaus Pramogų Parkas.* Address: Konstitucijos 7, Vilnius, Lithuania. The entity is designing and implementing entertainment park project in Vilnius (Vilnius Entertainment Park). The project will be developed in the territory of 60 ha, 4 km from the centre of Vilnius and shall be unique by its size and design in the whole Baltic region. Vilnius Entertainment Park includes three projects – a multi-purpose Siemens arena (already established), water park Vichy, trade and entertainment centre Ozas and a family entertainment park (developed by UAB Ozantis).

*UAB Rubicon Eventus.* Address: Ozo 14, Vilnius, Lithuania. The entity is an owner and manager of Siemens arena – one of the three Vilnius Entertainment Park objects, opened in November 2004. Siemens arena is a multi-purpose complex for sport, entertainment and business events of international level and facilitates most important events of Lithuania.

*UAB Bionovus.* Address: Konstitucijos 7, Vilnius, Lithuania. The entity is operating in ecological fuel production business and employs around 160 people in headquarters (in Vilnius) and in branches (in Kelmė and Kazlų Rūda).

*UAB Arkoveta.* Address: Konstitucijos 7, Vilnius, Lithuania. Established in 2001, the entity is a real estate broker. Since 2004, the entity is also engaged in renting of the premises.

*UAB Realco.* Address: Konstitucijos 7, Vilnius, Lithuania. Active in Lithuania and other markets, the entity is a developer of complex real estate projects.

*UAB Tiketa.* Address: Ozo 14, Vilnius, Lithuania. The entity is a ticket distributor offering an electronic portal and a network of ticket distribution stands.

*UAB Penktas Kanalas.* Address: Smolensko 12, Vilnius, Lithuania. The entity is a leader among Lithuanian regional TVs that broadcasts not only in Vilnius, but also in Kaunas and Alytus. The channel was formed on the basis of Vilniaus Televizija broadcasted in Vilnius and AR TV broadcasted in Kaunas. Rubicon Group has invested over LTL 4 million into the entity in order to renovate the hardware of the television, equip brand new studio and optimise the television management.

*UAB Ozantis.* Address: Konstitucijos 7, Vilnius, Lithuania. The entity, in cooperation with ECE Projektmanagement managing around 90 commercial properties in Europe, is developing the shopping mall and entertainment centre *Ozas* in Vilnius Entertainment Park. The shopping mall and entertainment centre will have facility space of 83 thousand $m^2$ and is planned to be opened in 2008.

*UAB Verslo Plėtros ir Administravimo Agentūra*. Address: Šv. Ignoto g. 5, Vilnius, Lithuania. The entity is providing accounting services for entities of Rubicon Group and consulting services to third parties.

*UAB Effectus.* Address: Smolensko 12, Vilnius, Lithuania. Established in 2003, Effectus is an event organisation company engaged in the organisation of business, private and public events. In 2005, the entity joined Rubicon Group, initiated strategic cooperation with Siemens arena and started organising performances of worldwide stars (Phil Collins, Depeche Mode, Deep Purple, Nazareth, Simply Red and other).

*UAB Relinė Apsauga*. Address: Taikos 102, Kaunas, Lithuania. Established in 1998, the entity designs, installs, sets, tunes and operates different industrial and energy devices of up to 330 kW voltage. The major clients of the entity include AB Lietuvos Energija, AB Rytų Skirstomieji Tinklai and AB Vakarų Skirstomieji Tinklai. On February 15, 2005, the entity received the ISO 9001:2000 Quality Management Certificate.

# Structure of the Company

## General information

The current Structural Chart of the Company and its subsidiaries (the Group) is provided in *Figure 4*. Highlights of the Group's details are provided in *Table 21.*

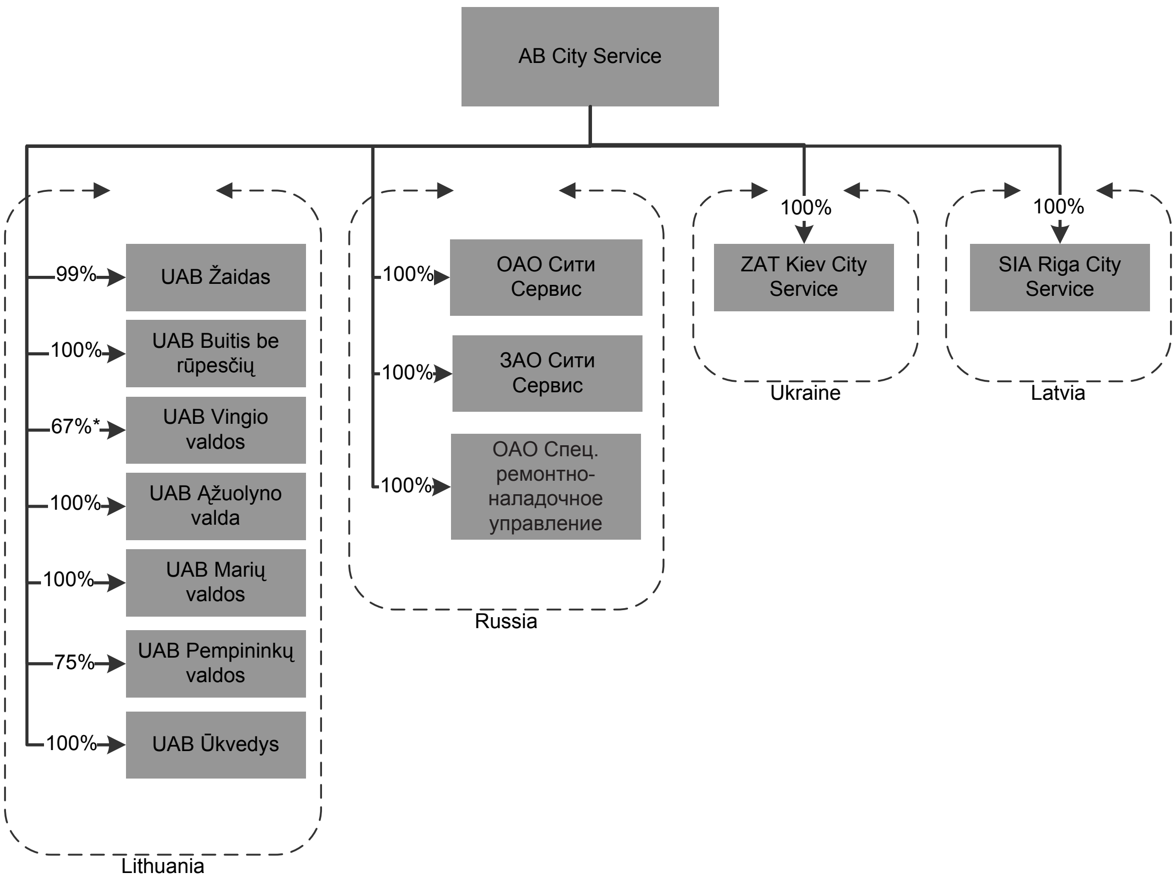


**Figure 4. Structural Chart of the Group.**

**Table 21. Ownership of the Company's significant subsidiaries**

| Entity | Abbreviation. | Shareholding | Country | Description |
|---|---|---|---|---|
| AB City Service | Company | 100% | Lithuania | Main operating FM and MHFRP entity in Lithuania |
| UAB Žaidas | ZA | 99% | Lithuania | RFMC in Lithuania |
| UAB Buitis Be Rūpesčių | BBR | 100% | Lithuania | RFMC in Lithuania |
| UAB Vingio Valdos | VV | 67%* | Lithuania | RFMC in Lithuania |
| UAB Ąžuolyno Valda | AV | 100% | Lithuania | RFMC in Lithuania |
| UAB Marių Valdos | MV | 100% | Lithuania | RFMC in Lithuania |
| UAB Pempininkų Valdos | PV | 75% | Lithuania | RFMC in Lithuania |
| UAB Ūkvedys | UK | 100% | Lithuania | RFMC in Lithuania |
| ОАО Сити Сервис | PCS-1 | 100% | Russia | RFMC in Russia |
| ЗАО Сити Сервис | PCS-2 | 100% | Russia | RFMC in Russia |
| ОАО Специализированное ремонтно-наладочное управление | PCS-3 | 100% | Russia | RFMC in Russia |
| SIA Riga City Service | RCS | 100% | Latvia | Start-up in Latvia |
| ZAT Kiev City Service | KCS | 100% | Ukraine | Start-up in Ukraine |

* Please note that for the purposes of preparing financial statements for the years ended 31 December 2005 and 2006 the Management considered that the Company owned 100% of the shares in UAB Vingio Valdos. However, there is a dispute related to shares in UAB Vingio Valdos and UAB Būsto Administravimo Agentūra as described in the Section Section *Legal and Arbitration Proceedings* page 91.

The Company owns a minority shareholding of 37% in UAB Būsto Administravimo Agentūra, a residential facility management company in Kaunas, and 100% of shares in UAB Sostinės Naujienos that did not carry any activities during 2004 – 2006 and is planned to be liquidated.

## Brief description of the Group

The Group is comprised of 13 entities involved in facility management and management of heating facility renovation projects in Lithuania, Russia, Latvia and Ukraine. The Company and 7 subsidiaries (ZA, BBR, VV, AV, MV, PV and UK) are facility management companies serving residential facilities in Lithuanian cities Vilnius, Klaipėda, Kaunas and Alytus. 3 entities (PCS-1, PCS-2 and PCS-3) serve residential facilities in St. Petersburg City, Russia. Established in 2006, the entities in Ukraine and Latvia (KCS and RCS) are facility management start-ups with plans to fully take-off with their activities in 2007-2008.

**Lithuania**

*AB City Service (the Company).* Address Smolensko 12, Vilnius, Lithuania. The entity is the holding company of the Group acting as a facility management company serving around 2,148 thousand $m^2$ of residential facilities and around 1,010 thousand $m^2$ of commercial facilities, as well as the manager of heating facility renovation projects for UAB Vilniaus Energija and UAB Litesko.

*UAB Žaidas (ZA).* Address Žiburio 10-2, Alytus, Lithuania. Acquired in July 2003, the entity is a residential facility management service provider in Alytus and Kaunas. UAB Žaidas not only performs facility management, but also repairs civil engineering systems, performs construction work and rents premises. The whole area managed by UAB Žaidas constitutes around 605 thousand $m^2$.

*UAB Buitis Be Rūpesčių (BBR).* Address Taikos 117, Klaipėda, Lithuania. Acquired in September 2003, the entity operates in the residential facility management in Klaipėda. The entity serves 72 residential buildings with around 197 thousand $m^2$ of the total area.

*UAB Vingio Valdos (VV).* Address I. Simonaitytės 10, Klaipėda, Lithuania. Acquired in April 2003, the entity operates in the residential facility management in Klaipėda. VV takes care of 22 residential buildings, i.e. around 80 thousand m² area.

*UAB Ąžuolyno Valda (AV).* Address Kauno 5, Klaipėda, Lithuania. In January 2006, the majority shareholding in the entity was acquired from Klaipėda City Municipality in an auction. The entity manages residential facilities of around 180 thousand m² in Klaipėda.

*UAB Marių Valdos (MV).* Address Minijos 130, Klaipėda, Lithuania. The entity was acquired from Klaipėda City Municipality on the same day as AV. MV operates in the residential facility management in Klaipėda and serves residential space of around 265 thousand $m^2$.

*UAB Pempininkų Valdos (PV).* Address Šilutės 40, Klaipėda, Lithuania. The entity was purchased from Klaipėda City Municipality in December 2006. PV operates in the residential facility management in Klaipėda and serves around 176 thousand $m^2$.

*UAB Ūkvedys (UK).* Address Žemaitės 20, Šiauliai, Lithuania. In January 2007 acquired from private persons, UK operates in the facility management in Šiauliai and maintains around 128 thousand $m^2$.

**Russia**

*ОАО Сити Сервис (PCS-1)* (former – *ОАО Ремонтно строительное предприятие*). Address Петергофское шоссе дом 3/2, St. Petersburg, Russia. The entity was acquired in an auction announced by St. Petersburg City Municipality in September 2006. Prior to the privatisation, PCS-1 had been serving residential facilities of 1,328 thousand $m^2$ in St. Petersburg. In connection with the current RFMCs reform (see the Section *Market overview*, page 40), PCS-1 had to participate in the public tender for managing certain districts of residential facilities, and turned to win the tenders for districts different than those managed prior to the privatisation. When transferring the prior districts to other RFMC, the Company agreed to transfer a part of its employees for the new facility manager and downsized its staff from 408 to 250. PCS-1 currently manages 1,377 thousand $m^2$ and continues to participate in tenders. Starting from 2007, PCS-1 is planning to undertake MHFRP activity and to manage the installation of meters in residential facilities. The meters will be supplied by UAB Axis Industries, one of the major suppliers of the Company in Lithuania.

*ЗАО Сити Сервис (PCS-2) (former – Ремонтно-эксплуатационная служба № I).* Address Кораблестроителей 32, St. Petersburg, Russia. In January 2007, the entity was acquired from a private entity ЗАО Управляющая компания – Строительный холдинг Эталон-ЛенСпецСМУ[2]. Prior to the acquisition, PCS-2 had been serving residential facility area of 880 thousand $m^2$ and has successfully won the tenders for managing the same districts for another year.

*ОАО Специализированное ремонтно-наладочное управление (PCS-3).* Address Бобруйская 5, St. Petersburg, Russia. In February 2007, the entity was acquired from a private entity *OOO APT*. PCS-3 is serving residential facilities with total area of 527 thousand $m^2$.

**Latvia**

*SIA Riga City Service (RCS).* Address Gunara Astras iela 8b, LV-1082 Riga, Latvia. Established in mid 2006, the entity has launched its operations in 2007 and has already concluded a facility management agreement for residential facilities of 16 thousand $m^2$. By the end of 2007, RCS is planning to serve around 500 thousand $m^2$ of residential facilities in Riga. RCS is led by Jonas Šimkevičius who had served as a Project Manager in the Facility Management Department of the Company since 2005. Jonas Šimkevičius had been responsible for the management of several atypical projects in Lithuania. Prior to joining the Company, he has worked for a leading real estate developer in Lithuania as a Construction Project Manager.

**Ukraine**

*ZAT Kiev City Service (KCS)*. Address M. Київ, Вул. Патріса Лумумби, 15а, Ukraine. Established in 2006, the entity is planning to manage around 200 thousand $m^2$ of residential facilities in Kiev by the end of 2007. KCS is managed by Arūnas Kubilius who has extensive experience in facility management in Lithuania. Arūnas Kubilius had served as Head

[2] In English – *Construction Holding Etalon – LenSpecSMU.*

of Facility Management Department in the Company since 2002. Prior to joining the Company, he was responsible for facility management activity in a leading real estate developer in Lithuania.

## Share capital of the Group entities

Information on the current share capital of the Group entities is presented *Table 22*.

**Table 22. Share capital of the Group entities**

| Entity | Share Capital | Shares | Par Value |
|---|---|---|---|
| Company | LTL 17,000,000 | 17,000,000 | LTL 1 |
| ZA | LTL 300,846 | 3,458 | LTL 87 |
| BBR | LTL 177,300 | 17,730 | LTL 10 |
| VV | LTL 103,110 | 10,311 | LTL 10 |
| AV | LTL 143,380 | 14,338 | LTL 10 |
| MV | LTL 349,770 | 34,977 | LTL 10 |
| PV | LTL 53,950 | 5,395 | LTL 10 |
| UK | LTL 88,848 | 4,936 | LTL 18 |
| PCS-1 | RUB 2,247,000 | 2,247 | RUB 1000 |
| PCS-2 | RUB 10,000 | 100 | RUB 100 |
| PCS-3 | RUB 1,421,058 | 1,421,058 | RUB 1 |
| RCS | LVL 200,000 | 2,000 | LVL 100 |
| KCS | UAH 500,000 | 500,000 | UAH 1 |

# Property, Plant and Equipment

## General information

The breakdown of the Company's and the Group's fixed (non-current tangible) assets is provided in *Table 23*. The largest share of the Company's fixed assets is comprised of 71 vehicles (LTL 1,418 thousand in 2006), of which 39 are under the leasing arrangements. The land and buildings of the Group consist of the real estate presented in *Table 24.* Other tangible assets of the Company and the Group consist of office furniture, machinery, IT and office equipment. To the best of the Managements knowledge, it is in good working order and no material investment is foreseen. The investment provisions for 2007 are provided in the Section *Investment*, page 26. Fixed assets of the Company and of its subsidiaries are not pledged.

The Company is not involved in any production activities, does not use any natural resources; to the best of the Company's knowledge, there were no environmental damage, claims, environmental audits or environmental impact assessments or contacts with state authorities concerning environmental matters.

**Table 23. Breakdown of fixed assets (LTL in thousands)**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| Land and buildings | 8,607 | 358 | 5,628 | 1,566 | - | - |
| Vehicles | 4,460 | 829 | 1,742 | 1,071 | 794 | 1,418 |
| Other tangible assets | 7,056 | 807 | 989 | 1,015 | 790 | 723 |
| Construction in progress | 210 | - | 373 | - | - | - |
| **Total tangible assets** | **20,333** | **1,994** | **8,732** | **3,652** | **1,584** | **2,141** |

## Real estate

The list of the premises owned by the Group is provided in *Table 24*. The Company does not own any real estate and (sub)leases its premises from ZA, UAB Arkoveta and several third parties. Five subsidiaries (ZA, BBR, MV, PV and UK) currently own real estate, however, in the short-term the Group intends to sell the premises and lease them. Real estate of the companies is not mortgaged.

**Table 24. Real estate owned, leased and leased out by the Group**

| Entity | Own premises | Leased premises | Leased-out premises |
|---|---|---|---|
| Company | None | Leases premises from the Related Parties and third parties | The Company subleases-out spare space of leased premises to the Related Parties |
| ZA | Premises at Žiburio 10-1, 10-2, 10-3, Alytus | Leases premises from third parties | Part of premises in Žiburio 10, Alytus is leased out to the Company |
| BBR | Premises at Taikos 117, Klaipėda | None | Part of the premises is leased out to the third party |
| VV | None | None | None |
| AV | None | None | None |
| MV | Premises at Kalnupės 1, Minijos 130 and Minijos 130D, Klaipėda | Part of the premises in Minijos 130, Klaipėda, is leased-out to the Related Party | Part of the premises in Kalnupės 1, Klaipėda, is leased-out to the third party |
| PV | Premises at Baltijos 11A, Baltijos 99A ir Šilutės 40, Klaipėda | None | None |
| UK | Premises at Žemaitės 20, Šiauliai | Leases part of the premises to the Company | None |
| PCS-1 | None | Leases premises from third parties; some third party's premises are used on gratuitous lease basis | None |
| PCS-2 | None | Uses some third party's premises on gratuitous lease basis | None |
| PCS-3 | None | Leases premises from third parties | None |
| RCS | None | Leases premises from third parties | None |
| KCS | None | Leased premises from third parties | None |

# Operating and Financial Review

*This Section accommodates the discussion on the results of the operation of the Company for financial years ended 31 December 2004, 31 December 2005 and 31 December 2006 to compare to a respective previous year, as well as the important developments affecting results of operations in financial year 2007. This Section should be read in conjunction with the other parts of the Prospectus which include important information on the operations and financial condition of the Company, as well as in conjunction with the consolidated audited annual reports of the Company for the years ended 31 December 2005 (including corresponding information for 2004) and 2006.*

# Developments Having Effect on Results of Operations

From the establishment up to the end of 2005, Lithuanian market was the principal market of the Company and there were no sales generated outside Lithuania. In 2006 the Company entered Russian market by winning a tender in St. Petersburg city for managing 1,328 million m$^2$ of residential facility space.

The most important developments in the operations of the Group during the financial years 2004 – 2006 were the following:

- *Divestment from production operations.* In 2005, the Company transferred its shareholdings in UAB Katra, UAB Skiedrynė and UAB Kazlų Rūdos Metalas (UAB Axis Industries since 1 January 2006) to UAB Rubicon Group and became fully oriented towards the provision of facility management services.

- *Aggressive expansion in foreign markets.* In 2006, the Company acquired PCS-1 and started provision of residential facility management services in Russia. SIA Riga City Service in Latvia and ZAT Kiev City Service in Ukraine have been established in order to start operations in these markets.

- *Acquisitions in Lithuania.* During 2006 the Company acquired a significant number of RFMCs. The total amount of facility space served by the Group in Lithuania increased from 1,334 thousand $m^2$ to 3,278 thousand $m^2$.

- *Building strategic partnership with leading property developers.* The Company has signed strategic partnership agreements with the leading property developers in Lithuania and the Baltic States. This allows having preference in obtaining facility management contracts for the facilities newly build by these companies.

- *Promotion of integrated solutions to the clients.* The Company is aiming to provide integrated solutions to the clients. This approach includes provision of all needed services packed into a single contract, i.e. administrative tasks, maintenance of civil engineering systems, cleaning, security, loading services and other. As a result, the client can get the following benefits: a better price, ability to concentrate on the core business, lower costs and twenty four hour service.

# Factors with Constant Effect on Results of Operations

The most important factors with a constant effect on the results of operations during the financial years 2004 – 2006 were the following:

- *Outsourcing.* Outsourcing is one of the major factors determining the market size in all segments of facility management sector. Increasing outsourcing of facility management services is currently mostly observable in the commercial facility management. The residential facilities are currently provided with increasingly larger scale of services, the public institutions are *en route*.

- *Price regulation in residential facility management.* As the tariffs for residential facility management remains under regulation by municipalities in most of the Countries where the Group operates, the Company's income per 1 $m^2$ of facilities served changes in line with the changes in the legal base.

- *Increasing total facility space*. The facility space in Lithuania has a great growth potential, as the facility space per capita lags behind the Western European levels by two-fold or even three-fold in different segments.

- *Disposable income*. The impact of macro-economic conditions on facility management sector, though by no means linear, can not be underestimated. The overall economic growth of the regions in which the Group operates translates into higher disposable income for the population, having in turn a beneficial effect on facility management.

- *Investment into heating facility renovation in Lithuania*. Since the Company has contracts with UAB Vilniaus Energija and UAB Litesko, the Company's sales from the management of heating facility renovation projects is to a great extent influenced by the investment decisions made by the abovementioned companies.

- *Cost structure.* The biggest components of the Group's total cost base (including costs of sales and operating expenses) are the subcontractor expenses and the cost of staff that represent 75% and 15% of the total cost base of the Group in 2006 respectively. In the operating expenses, other significant components of the Group's cost base include rent of premises and other assets and fuel expenses, each representing 10% and 9% of total operating costs respectively. The total balance of these operating costs in financial year ended 31 December 2006 comprised approximately LTL 11.1 million.

# Developments of Different Financial Items

## Composition of the Group

During 2004 – 2006, the structure of the Group underwent significant changes that account for the remarkable alterations in the Group's turnover, cost structure and profit margins for the financial years 2004, 2005 and 2006. In 2004 and 2005, a large share of the Company's turnover was generated by the then subsidiaries UAB Katra (producer of heat and water meters, heat supply substations and heat supply substation controllers), UAB Skiedrynė (producer of biofuel) and UAB Kazlų Rūdos Metalas (producer of boiler-houses). The entities were sold throughout 2005, and financial result of UAB Skiedrynė is consolidated for the full year of 2005, while financial results of UAB Katra and UAB Kazlų Rūdos Metalas – for half a year of 2005 (see *Table 25*). The change in the Group's composition has significantly affected the consolidated financial result of the Group, and therefore makes the Group's financial results for 2004, 2005 and 2006 beyond comparison in many aspects.

The subsidiaries consolidated since 2006 are operating in the same business sector as the Company (AV, MV), though not always in the same country (PCS-1).

**Table 25. The consolidated structure of the Group as of financial years 2004, 2005 and 2006**

| Entity | Products/ Services | Majority share consolidated (%) | | | Period of financial result consolidation | | |
|---|---|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| The Company | FM | 100% | 100% | 100% | Full-year | Full-year | Full-year |
| UAB Aviridis | Construction waste amenity site | 100% | - | - | Full-year | - | - |
| UAB Arkoveta | Real estate | 100% | - | - | Full-year | - | - |
| UAB Vilniaus Pramogų Parkas | Real estate and entertainment | 97% | - | - | Full-year | - | - |
| UAB Katra | Meters, heat supply substations, FM | 51% | 51% | - | Full-year | 1st half-year | - |
| UAB Kazlų Rūdos Metalas | Boiler-houses | 46% | 46% | - | Full-year | 1st half-year | - |
| UAB Skiedrynė | Biofuel | 51% | 51% | - | Full-year | Full-year | - |
| ZA | FM | 99% | 99% | 99% | Full-year | Full-year | Full-year |
| VV | FM | 100% | 100% | 100% | Full-year | Full-year | Full-year |
| BBR | FM | 100% | - | 100% | Full-year | -* | Full-year |
| UAB Sostinės Naujienos | Is planned to be liquidated | 100% | 100% | 100% | Full-year** | Full-year** | Full-year** |
| AV | FM | - | - | 100% | - | - | Full-year |
| MV | FM | - | - | 86% | - | - | Full-year |
| PCS-1 | FM | - | - | 100% | - | - | 4th quarter |

* BBR was sold to UAB Rubicon Group in December 2004 and re-acquired in September 2005.

** UAB Sostinės Naujienos did not carry any activities during 2004 – 2006 and is planned to be liquidated.

*** Please note that for the purposes of preparing financial statements for the years ended 31 December 2005 and 2006 the Management considered that the Company owned 100% of the shares in UAB Vingio Valdos. However, there is a dispute related to shares in UAB Vingio Valdos and UAB Būsto Administravimo Agentūra as described in the Section *Legal and Arbitration Proceedings* page 91.

The subsidiaries that were acquired either at the end of 2006 or in the beginning of 2007 and did not contribute to the consolidated income statement for 2006 include PV, RCS, KCS, PCS-2, PCS-3 and UK. The current structure of the Group is provided in the Section *Structure of the Company*, page 52.

In 2004, the Company also possessed a number of non-consolidated short-term financial investments that were accounted at fair value, as they were held for resale (for more details see the audited financial statements of the Company provided in Appendices 1-2).

## Selected Financial Information for 2004 - 2006

Selected financial information for the financial years 2004, 2005 and 2006 is provided in *Table 26*.

**Table 26. Financial highlights for the financial years 2004 – 2006 (LTL in thousands)**

| | Note | The Group | | | The Company | | |
|---|---|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| **Sales** | **(1)** | **190,851** | **117,232** | **113,607** | **108,818** | **95,986** | **103,447** |
| Cost of Sales | | (139,170) | (96,127) | (94,795) | (89,291) | (82,002) | (86,756) |
| of which Depreciation and Amortisation | | (2,215) | (468) | (54) | - | - | - |
| **Gross profit** | **(2)** | **51,681** | **21,105** | **18,812** | **19,527** | **13,984** | **16,691** |
| Salaries and social security taxes | **(3)** | (10,798) | (5,845) | (3,309) | (1,594) | (1,758) | (2,459) |
| Depreciation and Amortisation | | (2,041) | (1,114) | (550) | (637) | (480) | (410) |
| Other operating expenses | | (19,074) | (8,164) | (7,668) | (5,076) | (4,831) | (5,528) |
| **Total operating expenses** | **(3)** | **(31,913)** | **(15,123)** | **(11,527)** | **(7,307)** | **(7,069)** | **(8,397)** |
| Other activities (net) | **(4)** | 295 | 2,389 | 259 | 531 | 2,330 | 141 |
| **Operating Profit** | | **20,063** | **8,371** | **7,544** | **12,751** | **9,245** | **8,435** |
| Financial and investment activities (net) | **(5)** | 1,492 | (2,179) | 2,106 | (1,005) | 5,525 | 760 |
| of which interest expenses | | (1,022) | (158) | (136) | (28) | - | (137) |
| of which non-typical items | | 3,296 | (2,975) | 1,546 | 52 | 4,585 | 210 |
| Result of associated companies (net) | | 29 | - | - | - | - | - |
| **Profit before income tax and minority interests** | | **21,584** | **6,192** | **9,650** | **11,746** | **14,770** | **9,195** |
| Income tax expenses | | (4,030) | (1,661) | (2,122) | (2,079) | (1,732) | (1,645) |
| **Net profit (loss)** | | **17,554** | **4,531** | **7,528** | **9,667** | **13,038** | **7,550** |
| **Attributable to:** | | | | | | | |
| The shareholders of the Company | | 15,490 | 5,049 | 7,516 | 9,667 | 13,038 | 7,550 |
| Minority interests | | 2,064 | (518) | 12 | - | - | - |

## (1) Sales

**General overview**

The breakdown of sales is provided in *Table 27*. The remarkable decrease in the Group's consolidated sales (from LTL 190.9 million in 2004, to LTL 117.2 million in 2005 and LTL 113.6 million in 2006) is attributable to the sale of UAB Aviridis, UAB Arkoveta and UAB Vilniaus Pramogų Parkas in 2004 and UAB Katra, UAB Skiedrynė and UAB Kazlų Rūdos Metalas in 2005 (of which UAB Katra and UAB Kazlų Rūdos Metalas were consolidated until 30 June 2005). In 2005, the consolidated turnover of UAB Katra and UAB Kazlų Rūdos Metalas were LTL 10.8 million and LTL 9.8 million respectively. In 2006, the Group's sales included the results of newly acquired BBR (consolidated turnover of LTL 1,803 thousand), AV (LTL 1,335 thousand), MV (LTL 1,395 thousand) and the fourth quarter sales of PCS-1 (LTL 4,770 thousand).

In 2004 – 2006, the Company's and the Group's financial results were also influenced by the diminishing turnover of the heating facility renovation project management (LTL 77.8 million in 2004, LTL 60.8 million in 2005 and LTL 56.9 million in 2006), which was set-off by increasing sales of the facility management (LTL 30.8 million in 2004, LTL 34.6 million in 2005 and LTL 45.4 million in 2006). The tendency is explained in more details in the following sections.

Note: where applicable, the measure of cumulative annual growth rate (CAGR) of different items is presented for analytical purposes. The measure denotes the average growth per year during the historical period.

**Table 27. The breakdown of sales by the product groups (LTL in thousands)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | CAGR | 2004 | 2005 | 2006 | CAGR |
| **Facility management** | **35,661** | **36,244** | **51,950** | **21%** | **30,849** | **34,616** | **45,394** | **21%** |
| Commercial properties | 2,279 | 4,524 | 4,574 | 42% | 2,079 | 4,524 | 4,574 | 48% |
| Offices and atypical properties | 10,487 | 10,968 | 14,958 | 19% | 10,487 | 10,968 | 14,958 | 19% |
| Residential facilities | 7,666 | 4,979 | 14,635 | 38% | 3,054 | 3,351 | 8,078 | 63% |
| Public facilities | 15,229 | 15,773 | 17,783 | 8% | 15,229 | 15,773 | 17,783 | 8% |
| | | | | | | | | |
| **Management of heating facility renovation projects** | **125,606** | **79,088** | **57,436** | **-32%** | **77,775** | **60,762** | **56,899** | **-14%** |
| Heat pipelines and boiler-houses | 49,254 | 54,010 | 37,640 | -13% | 31,604 | 46,404 | 37,640 | 9% |
| Heat supply substations | 59,478 | 16,510 | 10,246 | -58% | 34,577 | 6,309 | 10,246 | -46% |
| Heat and water meters | 10,929 | 4,421 | 4,101 | -39% | 5,649 | 3,903 | 3,564 | -21% |
| Heat cost allocators | 5,672 | 3,701 | 4,913 | -7% | 5,672 | 3,701 | 4,913 | -7% |
| Rubisafe subscription | 273 | 446 | 536 | 40% | 273 | 446 | 536 | 40% |
| | | | | | | | | |
| **Other services** | **29,584** | **1,900** | **4,221** | **-62%** | **194** | **609** | **1,154** | **144%** |
| | | | | | | | | |
| **Total** | **190,851** | **117,232** | **113,607** | **-23%** | **108,818** | **95,986** | **103,447** | **-2%** |

**Facility management**

The turnover of facility management activity is determined by three factors – total facility space served, the composition of the bundle of services sold to the clients and the pricing for separate services in the bundle. The latter two factors are compounded in the indicator of sales per 1 $m^2$ of facilities served, presenting the developments during historical period in more detail.

During 2004 – 2006, the largest share of the Company's and the Group's facility management sales was comprised of the income from public facilities (39% of the Company's facility management sales in 2006) and from the offices and atypical properties (33% in 2006). During the historical period, the income from public facilities has on average increased by 7% per annum due to the start of maintenance of heat and hot water supply systems in schools and kindergartens in Šiauliai. The increase of income from offices and atypical properties has on average been 21% per annum, which is mainly attributable to the increased income per 1 $m^2$ of facilities served.

***<u>Facility space served</u>***

Facility space served as of the end of financial years 2004 – 2006 is provided in *Table 28*. Taking into account (i) the incremental growth of facility space served during the year and (ii) the timing of the acquisitions planned, the weighted average facility space served by the Company and the Group during 2004, 2005 and 2006 is provided in *Table 29*.

Current facility space served by the Company and the Group is provided in the Section *Principal Activities, Facility management, Facility space served and the largest clients*, page 31.

**Table 28. Facility space served as of the end of the financial year ($m^2$ in thousands)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | CAGR | 2004 | 2005 | 2006 | CAGR |
| Commercial properties | 385 | 432 | 534 | 18% | 385 | 432 | 534 | 18% |
| Offices and atypical properties | 493 | 464 | 480 | -1% | 493 | 464 | 480 | -1% |
| Residential facilities | 851 | 1,334 | 4,606 | 133% | 679 | 1,163 | 3,095 | 113% |
| Public facilities | 742 | 742 | 994 | 16% | 742 | 742 | 994 | 16% |
| **Total average** | **2,471** | **2,972** | **6,614** | **64%** | **2,299** | **2,801** | **5,103** | **49%** |

**Table 29. Weighted average facility space served during the financial year ($m^2$ in thousands)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | CAGR | 2004 | 2005 | 2006 | CAGR |
| Commercial properties | 345 | 409 | 483 | 18% | 345 | 409 | 483 | 18% |
| Offices and atypical properties | 494 | 479 | 472 | -2% | 494 | 479 | 472 | -2% |
| Residential facilities | 832 | 1,092 | 2,638 | 78% | 660 | 921 | 2,129 | 80% |
| Public facilities | 742 | 742 | 994 | 16% | 742 | 742 | 994 | 16% |
| **Total average** | **2,413** | **2,722** | **4,587** | **38%** | **2,241** | **2,550** | **4,078** | **35%** |

*Commercial properties.* During 2004 – 2006, the commercial property space served grew at an average rate of 18% per annum (from 385 thousand $m^2$ at the end of 2004 to 534 thousand $m^2$ at the end of 2006), which is to a large extent attributable to the rapid expansion of the Company's clients (retail chains) in Lithuania.

*Offices and atypical properties*. During 2004 – 2006, the served space of offices and atypical properties fluctuated as a result of two reverse factors – (i) decreasing facility space of the long-term clients of the Company and (ii) attracting of the new clients to outweigh the decrease in space served.

During 2004 – 2006, the Company's four major clients were increasing efficiency of their operations and selling-out their non-operating real estate. As a result, the total facility space of the four major clients has decreased from 311 thousand $m^2$ in the end of 2004 to 242 thousand $m^2$ in the end of 2006 (see *Table 30*). The Company has set-off the decrease in the facilities of the four largest clients by attracting new clients. Up to date, the aforementioned clients have already sold their non-operating property and have already started to increase the facility space of their facilities by opening new branches.

**Table 30. The real estate property of the Company's four largest clients of the Company as of the end of the year ($m^2$ in thousands)**

| | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|
| Fixed communication service provider | 304 | 183 | 151 | 120 |
| Commercial bank No. 1 | 56 | 51 | 51 | 45 |
| Commercial bank No. 2 | 34 | 36 | 36 | 40 |
| Commercial bank No. 3 | 39 | 41 | 36 | 37 |
| **Total** | **433** | **311** | **274** | **242** |

*Residential facilities.* During 2004 – 2006, the space of residential facilities served by the Group was steadily growing mainly due to the acquisitions of RFMCs in Lithuania. In 2006 alone, the Company acquired 3 RFMCs in Lithuania (573 thousand $m^2$ in total) and a RFMC in St. Petersburg City (1,377 thousand $m^2$). For more details on the Company's acquisitions see the Section *History and Development*, *Recent acquisitions*, page 25).

In 2006, the Company more than doubled the residential facility space served by winning the tenders of management and maintenance of two districts in Kaunas (1,166 thousand $m^2$ in total).

*Public facilities.* During 2004 – 2006, the space of public facilities served increased due to the start of maintenance of heat and hot water supply system in Šiauliai in January 2006 (see the Section *Principal Activities, Facility space served and the largest clients*, page 31).

***Sales per 1 m² of facilities served***

The average sales per 1 $m^2$ of facilities served are provided in *Table 31*.

**Table 31. Average sales per 1 $m^2$ per annum (LTL in thousands)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **CAGR** | **2004** | **2005** | **2006** | **CAGR** |
| Commercial properties | 6.61 | 11.07 | 9.47 | 20% | 6.03 | 11.07 | 9.47 | 25% |
| Offices and atypical properties | 21.23 | 22.92 | 31.69 | 22% | 21.23 | 22.90 | 31.69 | 22% |
| Residential facilities | 9.22 | 4.57 | 5.55 | -22% | 4.63 | 3.64 | 3.79 | -9% |
| Public facilities | 20.52 | 21.26 | 17.89 | -7% | 20.52 | 21.26 | 17.89 | -7% |
| **Total average** | **14.78** | **13.32** | **11.33** | **-12%** | **13.76** | **13.58** | **11.13** | **-10%** |

*Commercial properties.* In 2005, the income from 1 $m^2$ of commercial properties served has been growing due to (i) the additional services, e.g., repair works, sold for the clients, (ii) increase of facility management prices by 10-20% since mid 2006 for most of the clients (for the rest the new pricing is applicable since the beginning of 2007). In 2006, the income from 1 $m^2$ of commercial properties served has decreased because of lower income from additional services provided for commercial properties.

*Offices and atypical properties.* The income per 1 $m^2$ of offices and atypical properties has been significantly growing due to (i) the increasing sales of additional services, (ii) increasing number of atypical projects served that do not add to the space served, however, generate income with comparably higher profit margins. The prices for office and other commercial facility management were not increased during 2004 – 2006, however the Company has already agreed upon new tariffs with most of the clients and the prices are up by 10-20% since the start of 2007.

*Residential facilities.* The sales per 1 $m^2$ of residential facilities have been influenced by several factors: (i) changing proportions of the residential facilities provided with a total bundle of services and maintenance of heat and hot water supply systems only, (ii) increasing facility management tariffs. In 2005, the Company's sales per 1 $m^2$ were diluted by the newly served facilities that the Company was providing with the maintenance of heat and hot water supply systems only. However, in separate subsidiaries of the Company, the sales per 1 $m^2$ of residential facilities served have been growing due to the additional services provided, including the management of building repair works. The tariffs for the residential facility management in the houses under Administration have been gradually growing as well. In November 2004, Vilnius City Municipality increased the tariff for maintenance of heat and hot water supply systems from LTL 0.09 to LTL 0.22 per 1 $m^2$ per month. In Klaipėda, the tariffs for the administration were increased by on average 10% in March 2007 and will become effective since May 2007.

*Public facilities*. The sales per 1 $m^2$ of public facilities served have been variable depending on the average outside temperature during the winter period, length of the heating period and the energy prices. The decrease in sales per 1 $m^2$ has been mainly caused by the shorter heating period and dilution of the income by the new public facilities served in Šiauliai where the Company is providing maintenance of heat and hot water supply systems only.

**Management of heating facility renovation projects**

The Company's income from the management of heating facility renovation projects (MHFRP) is linked to the capital expenditure budgets of UAB Vilniaus Energija and UAB Litesko (see the Section *The clients*, page 38). Since the start of heating facility renovation in Lithuania, the main investment flow has been directed to the most problematic heating facility areas, including the heat pipelines, boiler-houses and heat supply substations, therefore the Company has successfully capitalised on the turnover of these product groups. In 2004, the aforementioned product groups comprised 85% of the Company's sales from MHFRP. Large share of heat supply substations were renovated by the end of 2004, therefore the income from this product group has decreased from LTL 34.6 million in 2004 to LTL 6.3 million in 2005. The Company is currently generating most of MHFRP turnover from the renovation and installation of heat pipelines and boiler-houses.

The Company estimates further large-scale supply of heat supply substations until 2009, while the sustainable investments into the heat supply systems will lie within the amortisation of the currently installed heat supply substations and within the requirement of heat supply substations for newly constructed residential facilities.

Detailed information on the Company's and the Group's forecast for 2007 is provided in the Section *Profit Forecast*, page 68.

**Other services**

Other services rendered by the Company are comprised of IT services to related parties (see the Section *Related Party Transactions*, page 82). Other services rendered by the Group in 2004 included the sales of all subsidiaries engaged in a wide range of activities not related to facility management or management of heating facility renovation projects.

## (2) Cost of Sales and Gross Profit

**Breakdown by main activities**

The breakdown of gross profit from the main activities of the Company and the Group is provided in *Table 32*.

**Table 32. The gross profits and gross margins from the main activities (LTL in thousands)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **CAGR** | **2004** | **2005** | **2006** | **CAGR** |
| Facility management | 27,281 | 26,474 | 40,670 | 22% | 23,821 | 26,480 | 35,952 | 23% |
| *Gross margin, %* | *23.5%* | *27.0%* | *21.7%* | *-3.9%* | *22.8%* | *23.5%* | *20.8%* | *-4.4%* |
| Management of heating facility renovation projects | 97,973 | 68,651 | 50,554 | -28% | 65,348 | 55,121 | 50,054 | -12% |
| *Gross margin, %* | *22.0%* | *13.2%* | *12.0%* | *-26.2%* | *16.0%* | *9.3%* | *12.0%* | *-13.2%* |
| Other | 13,916 | 1,002 | 3,571 | -49% | 122 | 401 | 750 | 148% |
| *Gross margin, %* | *53%* | *89%* | *15.4%* | *-13.4%* | *37.1%* | *34.2%* | *35.0%* | *-2.9%* |
| **Total** | **139,170** | **96,127** | **94,795** | **-17%** | **89,291** | **82,002** | **86,756** | **-1%** |
| ***Gross margin, %*** | ***27.1%*** | ***18.0%*** | ***16.6%*** | ***-21.8%*** | ***17.9%*** | ***14.6%*** | ***16.1%*** | ***-5.2%*** |

*Facility management.* The dynamics of gross margins in the facility management is driven by two major factors: (i) gradually increasing costs and (ii) periodically increased prices for the services. For example, in 2006 the decrease in the total gross margin of facility management was caused by the increased personnel costs, while the increased tariffs for the management of offices and commercial properties have become effective starting from January 2007 only.

*Management of heating facility renovation projects (MHFRP)*. The total gross margin of the management of heating facility renovation projects activity is very dependent on the sales mix during the year, as the margins highly differ in different products groups (the highest margins are earned on the sale of heat supply substations). Thus, during 2004 – 2006, the decrease in the total gross profit margin of MHFRP activity was caused by the decrease in the sales from heat supply substations.

**Breakdown by expenses**

The breakdown of cost of sales according to the main costs of the Company and the Group is provided in *Table 33*.

**Table 33. The breakdown of cost of sales by expense type (LTL in thousands)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **CAGR** | **2004** | **2005** | **2006** | **CAGR** |
| Subcontractor goods and services | 97,082 | 79,363 | 79,860 | -9% | 80,780 | 73,597 | 75,834 | -3% |
| Salaries and social security taxes | 10,198 | 8,823 | 12,867 | 12% | 4,734 | 6,593 | 9,029 | 38% |
| Cost of goods sold | 27,210 | 7,376 | 1,914 | -73% | 3,777 | 1,812 | 1,893 | -29% |
| Depreciation | 2,215 | 468 | 54 | -84% | - | - | - | 0% |
| Other | 2,465 | 97 | 100 | -80% | - | - | - | 0% |
| **Total** | **139,170** | **96,127** | **94,795** | **-17%** | **89,291** | **82,002** | **86,756** | **-1%** |
| *Gross margin, %* | *27.1%* | *18.0%* | *16.6%* | -22% | *17.9%* | *14.6%* | *16.1%* | -5% |

*Subcontractor goods and services*. Subcontractor goods and services constituted the largest share of the Company's and the Group's cost of sales (respectively 87% and 84% in 2006). The costs include the expenditure for subcontractors of management of heating facility renovation projects (construction of heat pipelines, boiler-houses, heat supply substations, etc.) and facility management (heat supply, cleaning, maintenance of territory, security, etc.).

*Salaries and social security taxes.* Most of the total salaries and social security taxes expenses are allocated to the cost of sales and comprise 15% of the total cost of sales in 2006. During 2004 – 2006, the average salary of blue-collar employees in the Company was steadily growing by on average 10-15% per annum.

## (3) Operating expenses

The breakdown of the Company's operating expenses is provided in *Table 34.*

**Table 34. Breakdown of operating expenses (LTL in thousands)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **CAGR** | **2004** | **2005** | **2006** | **CAGR** |
| Salaries and social security taxes | 10,798 | 5,845 | 3,309 | -45% | 1,594 | 1,758 | 2,459 | 24% |
| Rent of premises and other assets | 1,493 | 1,280 | 1,076 | -15% | 335 | 902 | 964 | 70% |
| Fuel expenses | 1,162 | 1,169 | 983 | -8% | 496 | 827 | 967 | 40% |
| Depreciation and amortisation | 2,041 | 1,114 | 550 | -48% | 637 | 480 | 410 | -20% |
| Consulting and similar expenses | 3,667 | 1,088 | 810 | -53% | 1,139 | 700 | 699 | -22% |
| Advertising | 1,080 | 585 | 330 | -45% | 256 | 416 | 293 | 7% |
| Communication expenses | 1,015 | 533 | 449 | -33% | 393 | 344 | 366 | -3% |
| Repair and maintenance of premises and other assets | 1,206 | 455 | 357 | -46% | 322 | 284 | 285 | -6% |
| Charity and support | 1,083 | 413 | 140 | -64% | 282 | 192 | 87 | -44% |
| Taxes other than income tax | 1,264 | 355 | 99 | -72% | 439 | 139 | 50 | -66% |
| Utilities | 644 | 297 | 221 | -41% | 149 | 120 | 139 | -3% |
| Commissions | 128 | 139 | 342 | 63% | 128 | 100 | 249 | 39% |
| Business trips and training | 547 | 131 | 203 | -39% | 85 | 7 | 201 | 54% |
| Allowance for and write-off of receivables | 952 | (1,011) | 1053 | 5% | 314 | 1 | 415 | 15% |
| Other | 4,833 | 1,719 | 1,605 | -42% | 738 | 800 | 813 | 5% |
| **Total** | **31,913** | **15,123** | **11,527** | **-40%** | **7,307** | **7,069** | **8,397** | **7%** |

*Salaries and social security taxes.* Salaries and social security taxes comprise the largest share of the expenses (29-30% of total operating expenses in 2006). In absolute terms, salaries and social tax expenses have been growing due to both – the increasing number of employees and to the growth of gross salaries. During 2004 – 2006, the average salary of white-collar employees in the Company was steadily growing by on average 10-15% per annum.

*Rent of premises and other assets*. The expense is comprised of the Company's rent of premises from UAB Arkoveta and of the rent of vehicles from the third parties. It has been growing in relation to the growing operations of the Company and the Group.

*Fuel expenses*. The Company's fuel expenses have been largely influenced by the growing turnover of the Company's operations and by the growing fuel prices.

## (4) Other operating income

Other operating income and expenses include rent of premises, rent of vehicles, net proceeds from the sale of non-current assets and the net proceeds from the resale of IT products. The breakdown of other operating income of the Company and the Group is provided in *Table 35*.

**Table 35. Breakdown of other operating income (LTL in thousands)**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** |
| Sale of non-current assets (net) | 170 | 2,215 | 57 | 36 | 2,187 | (1) |
| Rent (net) | 106 | 177 | 153 | 344 | 177 | 137 |
| Depreciation | (166) | (229) | (171) | (166) | (229) | (171) |
| Other income | 185 | 226 | 220 | 317 | 195 | 176 |
| **Total** | **295** | **2,389** | **259** | **531** | **2,330** | **141** |

## (5) Net financial items

Breakdowns of financial items of the Company and the Group are provided in *Table 36.* The Company's dividends in 2005 include the dividends from UAB Katra, UAB Axis Industries, UAB Ecoservice, and UAB Livestos Serviso Centras that were sold in 2005. The Group's dividend income includes the dividends from UAB Ecoservice (former UAB Vienituras) and UAB Livestos Serviso Centras.

**Table 36. Breakdown of financial items (LTL in thousands)**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** |
| Realisation of negative goodwill on acquisition of PCS-1 | - | - | 1,486 | - | - | - |
| Discounting of long-term receivables | - | 208 | 430 | - | 208 | 430 |
| Interest income | 509 | 827 | 231 | 412 | 779 | 235 |
| Dividend income | - | 466 | 60 | 59 | 3,641 | 210 |
| Foreign currency exchange gain | - | 27 | 1 | - | - | 1 |
| Profit from disposal of investments | 3,296 | 159 | - | - | 981 | - |
| Other financial income | 498 | - | 46 | 8 | - | 21 |
| **Total financial income** | **4,303** | **1,687** | **2,254** | **479** | **5,609** | **897** |
| | | | | | | |
| Interest expenses | (1,022) | (158) | (136) | (28) | - | (137) |
| Loss from disposal of investments | - | (3,600) | - | (7) | (37) | - |
| Foreign currency exchange loss | (161) | - | - | (16) | - | - |
| Discounting of long-term receivables | (637) | - | - | (637) | - | - |
| Impairment of investment | (791) | - | - | (791) | - | - |
| Other financial expenses | (200) | (108) | (12) | (5) | (47) | - |
| **Total financial expenses** | **(2,811)** | **(3,866)** | **(148)** | **(1,484)** | **(84)** | **(137)** |

## Additional information

**Liquidity and capital resources**

For the information concerning the Company's capital resources, please refer to the Section *Capital Resources*, page 66, and to the consolidated financial statements of the Company for financial years ended 31 December 2005 (including corresponding figures for the year ended 31 December 2004 restated to IFRS) and 31 December 2006 (Appendices 1-2).

**Non-cash items**

Additional information on the Company's and the Group's non-cash operations for the historical years 2004 – 2006 is provided in *Table 37*.

**Table 37. The breakdown of non-cash items (LTL in thousands)**

| | Note | The Group | | | The Company | | |
|---|---|---|---|---|---|---|---|
| | | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| **Non-cash investment activity:** | | | | | | | |
| Non-cash acquisition of subsidiaries and associates (set-off against intercompany receivables) | | - | 720 | - | - | 720 | - |
| Non-cash sales of investments (set-off against intercompany payables) | * | 11,245 | 17,429 | - | 11,245 | 17,429 | - |
| Property, plant and equipment acquisitions financed by financial lease | | 1,527 | 211 | 1,066 | 441 | 211 | 851 |
| Non-cash dividends received (set-off against intercompany payables) | ** | - | 1,043 | - | - | 1,043 | - |
| Non-cash interest received (set-off against intercompany payables) | | - | 570 | - | - | 570 | - |
| | | | | | | | |
| **Non-cash financing activity:** | | | | | | | |
| Non-cash dividends to shareholders (set-off against intercompany receivables) | * | - | 23,400 | - | - | 23,400 | - |
| Non-cash repayments of loans (set-off against accounts receivable for non-current assets sold) | *** | 2,750 | - | - | 2,750 | - | - |

* The sums in 2004 and 2005 denote the sale of financial assets (including the sale of UAB Aviridis, UAB Arkoveta, UAB Vilniaus Pramogų Parkas and other in 2004 and the sale of UAB Katra, UAB Skiedrynė and UAB Kazlų Rūdos Metalas in 2005). The accounts receivable from UAB Rubicon Group have been set-off against the dividends and other accounts payable to shareholders.

# Capital Resources

## General overview

The total balance sheet of the Company and the Group as of the financial year ended 31 December 2006 was LTL 74 million and LTL 78.9 million (an increase of 39% and 45% respectively compared to financial year ended 31 December 2005). Of the above, current assets formed 82% (LTL 60.5 million) and 83% (LTL 65.5 million) in 2006, with the remaining 18% (LTL 13.5 million) and 17% (LTL 13.3 million) in non-current assets. The current assets of the Company and the Group as of the end of 2006 include the accounts receivable from UAB Rubicon Group for the financial investments sold (LTL 17,940 thousand) that should be excluded when calculating the working capital needed for the Company's operations.

Out of the non-current assets of the Company and the Group, the non-current tangible assets comprised 16% (LTL 2,141 thousand) and 65% (LTL 8,732 thousand) respectively.

For more information concerning the Company's capital resources, please refer to the consolidated financial statements of the Company (Appendices 1-2).

**Table 38. Highlights of the financial status (LTL in thousands)**

| | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| Total assets | 117,356 | 54,253 | 78,857 | 67,270 | 53,172 | 74,027 |
| Total current assets | 81,780 | 51,453 | 65,508 | 44,591 | 49,908 | 60,517 |
| Total non-current assets | 35,576 | 2,800 | 13,349 | 22,679 | 3,264 | 13,510 |
| Total current liabilities | 52,286 | 29,085 | 42,376 | 30,745 | 28,303 | 38,744 |
| EBITDA | 27,057 | 8,161 | 10,561 | 12,577 | 15,479 | 9,913 |
| Total equity | 59,198 | 24,857 | 31,470 | 35,944 | 24,582 | 30,632 |
| Short-term financial debt | 8,017 | 165 | 1,669 | 155 | 165 | 1,598 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Long-term financial debt | 5,510 | 311 | 4,767 | 394 | 287 | 4,651 |
| | | | | | | |
| Total equity / Total assets | 0.50 | 0.46 | 0.40 | 0.53 | 0.46 | 0.41 |
| Total financial debt / Total assets | 0.12 | 0.01 | 0.08 | 0.01 | 0.01 | 0.08 |
| Total financial debt/ EBITDA | 0.50 | 0.06 | 0.61 | 0.04 | 0.03 | 0.63 |
| Total current assets / Total current liabilities | 1.56 | 1.77 | 1.55 | 1.45 | 1.76 | 1.56 |
| | | | | | | |
| Net cash flows from (to) operating activities | 8,455 | 610 | 6,915 | 7,818 | (784) | 6,935 |
| Net cash flows (to) from investing activities | (21,251) | (1,373) | (6,948) | (14,066) | 2,665 | (9,186) |
| Net cash flows (to) from financial activities | 5,334 | (1,412) | 3,258 | (2,097) | (1,308) | 3,309 |
| **Net (decrease) increase in cash and cash equivalents** | **(7,462)** | **(2,175)** | **3,225** | **(8,345)** | **573** | **1,058** |

### Borrowing requirements and funding structure

As of the end of 2006, the Company's and the Group's total financial debts were LTL 6,249 thousand and LTL 6,436 thousand respectively. The total financial debt included the Company's secured loan of LTL 5,305 thousand from AB DnB Nord, financial liabilities for vehicle leasing from UAB SEB VB Lizingas and UAB Sampo banko lizingas comprising the rest of the financial debt (LTL 944 thousand of the Company and LTL 1,113 thousand of the Group).

The Company has no outstanding and/or due obligations under the guarantees or surety letters.

## Research and Development, Patents and Licences

In line with the nature of its business, the Company currently does not carry out any significant research and development activities. For details please see the Section *Investment*, page 26.

## Trend Information

As of the end of 2006, the Company's total facility space served in Lithuania made 5,286 thousand $m^2$, of which 3,278 thousand $m^2$ was comprised of residential facilities, 534 thousand $m^2$ of commercial properties, 480 thousand $m^2$ of offices and atypical properties, while the remaining 994 thousand $m^2$ – of public facilities. The Company had newly established subsidiaries in Latvia (RCS) and Ukraine (KCS) with no operations there and a local RFMC acquired in St. Petersburg (PCS-1) in September 2006 with 1,328 thousand $m^2$ of residential facilities served.

**Lithuania**

*Facility management.* In 2007, the Company acquired UAB Ūkvedys (UK) that manages 128 thousand $m^2$ in Šiauliai. The Company also concluded an agreement for the maintenance of heat and hot water supply systems in Šilainiai, Kaunas (464 thousand $m^2$). In April 2007, the Company won a tender for UAB Lazdynų Būstas, a RFMC with 404 thousand $m^2$ of residential facilities served in Vilnius, and is currently in progress to conclude an acquisition. In May 2007, the Company also plans to conclude acquisition of UAB Atidumas, a RFMC with 170 thousand $m^2$ of residential facilities served in Šiauliai.

In relation to the management of public facilities, one of the major events was winning of the repeated tender of maintenance of heat and hot water supply systems and other facility management services for 77 education institutions (252 thousand $m^2$) in Šiauliai for a period of three years.

**Russia**

*Facility management.* During February 2007, the Company acquired two entities (PCS-2 and PCS-3) with 880 thousand $m^2$ and 527 thousand $m^2$ of residential facility space under management. As RFMCs had to participate in tenders for the management of certain residential facility districts in St. Petersburg (see the Section *Market overview*, page 40) and PCS-1 won the tenders for districts different than those managed before, the Company currently manages 2,784 thousand m$^2$ of residential facilities in total. The Company is currently proactively working on signing long-term agreements with separate residential facilities for their management.

After the acquisition of the third entity in St. Petersburg, the Company started a reorganisation of the entities, as a result of which a head office with common key executive officers and a shared control-room have been established for the entities.

*Management of heating facility renovation projects.* Since the end of 2006, the Company has also an agreement with UAB Axis Industries for the supply of heat meters that are planned to be installed in residential facilities in 2007.

**Latvia**

Since the beginning of 2007, the Company has started signing of facility management agreements and so far manages residential facilities of 16 thousand m$^2$. In relation to that, the Company started forming the blue-collar personnel and currently employs 5 people.

**Ukraine**

In Kiev, the Company currently employs two people, including Arūnas Kubilius who has extensive experience in facility management within the Company in Lithuania (see the Section *Brief description of the Group*, *Ukraine*, page 54). Kiev based employee is currently exploring the market for the new project and potential acquisition opportunities.

# Profit Forecast

*Hereby please find presented the profit forecast for the year ending 2007 following the definition in the Prospectus Regulation, Article 2, paragraph 10 and 11. The main assumptions underlying the profit forecast including both that lie within and outside the Management's control should be evaluated in the light of risks presented in the Section Risk Factors, page 14. The Company is not aware of any extraordinary items which have arisen or is likely to arise in forecasted year ending 31 December 2007. For historical financial information for the years ended 31 December 2004 – 2006, refer to the Section Developments of Different Financial Items, page 57.*

# Main Assumptions

## Internal factors

*The internal factors denote strategic objectives and short term goals that either fully lie within the control of the Management or can be influenced by the Management. The internal factors also include the developments accomplished to date. The assumptions on the internal factors should be evaluated in the light of risks presented in the Section Risk Factors, page 14.*

### Consolidated structure of the Group

In 2006 and 2007 to date, the Company acquired 7 RFMCs (see the Section *Recent acquisitions*, page 25) of which AV and MV were already consolidated for the full financial year of 2006 and PCS-1 was consolidated for the 4$^{th}$ quarter of 2006 only (see the Section *Developments of Different Financial Items*, *Composition of the Group*, page 57).

In 2007 in Lithuania the Company plans further acquisitions of 5 RFMCs (1,372 thousand m$^2$ of residential facilities served in total). In Latvia, the Company plans an acquisition in the second half-year (350 thousand m$^2$ of residential facilities served). The planned consolidated structure of the Group in 2007 is provided in *Table 39.* Forecasted investments for acquisitions in Lithuania, Russia and Latvia in 2007 are presented in the Section *Investment*, page 26).

**Table 39. The planned consolidated structure of the Group as of 2007**

| Entity | Majority share consolidated (%) | Period of financial result consolidation |
|---|---|---|
| **The Group as of today** | | |
| The Company | 100% | Full-year |
| ZA | 99% | Full-year |
| VV*** | 100% | Full-year |
| BBR | 100% | Full-year |
| UAB Sostinės Naujienos | 100% | Full-year |
| AV | 100% | Full-year |
| MV | 100% | Full-year |
| PCS-1 | 100% | Full-year |
| PV | 75% | Full-year |
| RCS | 100% | Full-year |
| KCS | 100% | Full-year |
| PCS-2 | 100% | Full-year |
| PCS-3 | 100% | Full-year |
| UK | 100% | Full-year |
| **Planned acquisitions** | | |
| CS-2* | 100% | Since June 2007 |
| CS-3* | 100% | Since June 2007 |
| CS-4* | 100% | Since June 2007 |
| CS-5* | 100% | Since October 2007 |
| CS-6* | 100% | Since October 2007 |
| RCS-2** | 100% | Since October 2007 |

* CS-2, CS-3, CS-4, CS-5 and CS-6 denote the planned acquisitions of 5 RFMCs in Lithuania.

** RCS-2 denotes the planned acquisition of RFMC in Latvia, Riga.

*** There is a dispute related to shares in UAB Vingio Valdos and UAB Būsto Administravimo Agentūra as described in the Section *Legal and Arbitration Proceedings* page 91. When preparing the forecast the Management assumed that the Company ownes 100% of the shares in UAB Vingio Valdos.

Though the Management expects the above acquisitions to take place as showed in the table above, the timely completion of these acquisitions depends also on certain factors that are out of control of the Management. These factors are discussed in the Section *External factors*, page 72.

## Goodwill

Based on the initial assessment of the fair values of the assets acquired and liabilities and contingent liabilities assumed on the acquisitions completed up to date, the Management noted no indication that a material negative goodwill would result from these acquisitions. Due to the limitations of the information available, for the acquisitions forecasted to be completed during the year the Management assumed that these acquisitions will not result in any negative goodwill to be recorded as income for 2007. The Management assumed that there will be no material impairment charges in respect of the carrying value of goodwill as of 31 December 2007 therefore no goodwill impairment charge has been forecasted in 2007.

## Sales

### *General overview*

In 2007, the major part of the Company's and the Group's sales will be comprised of income from facility management and management of heating facility renovation projects. In 2007, on the Group's level, the facility management is forecasted to surpass the management of heating facility renovation projects and comprise more than half of the total turnover. Significant growth is forecasted in the Group's income from residential facility management, since 5 out of 7 RFMCs acquired during 2006 to date will be consolidated full-year starting from 2007 (including PCS-1 that was consolidated only for the 4th quarter in 2006).

The forecasted sales of the facility management activity are mainly based on the current structure of the Group. The forecast include the sales of the planned acquisitions as well, however, the latter comprise less than 10% of the total facility management sales in 2007.

## *Facility management*

**General information**

For the accomplished acquisitions as of today and existing projects, the Company and the Group forecast the facility management sales on a monthly basis according to each project based on (i) the planned facility space served and (ii) forecasted facility management prices. The forecasts for the planned projects are made according to the available information and the Group's knowledge and experience in analogical acquisitions/ projects.

**Facility space served**

By the end of 2007, the Group plans to serve 10,736 thousand $m^2$ of facilities in Lithuania, Russia, Latvia and Ukraine in total. The forecasted facility space served by separate segments is provided in *Table 40.*

**Table 40. Planned facility space served as of the end of the financial year 2007**

| | The Group | | The Company | |
|---|---|---|---|---|
| | $m^2$ in thousands | Change from 2006, % | $m^2$ in thousands | Change from 2006, % |
| Commercial properties | 553 | 4% | 553 | 4% |
| Offices and atypical properties | 530 | 10% | 530 | 10% |
| Residential facilities | 8,659 | 88% | 3,624 | 17% |
| Public facilities | 994 | 0% | 994 | 0% |
| **Total** | **10,736** | **62%** | **5,701** | **12%** |

In total, the Group plans to start serving additional 4,122 thousand $m^2$ of total facilities, of which 598 thousand $m^2$ of facilities will be served by the Company in 2007. To date, the Group and the Company have already achieved respectively 49% and 69% out of the targeted growth in facility space served. The facility space currently served by the Company and the Group are provided in *Table 41*.

**Table 41. Facility space served as of 30 April 2007**

| | The Group | | The Company | |
|---|---|---|---|---|
| | $m^2$ in thousands | Change from 2006, % | $m^2$ in thousands | Change from 2006, % |
| Commercial properties | 536 | 0% | 536 | 0% |
| Offices and atypical properties | 474 | -1% | 474 | -1% |
| Residential facilities | 6,609 | 44% | 3,509 | 13% |
| Public facilities | 994 | 0% | 994 | 0% |
| **Total** | **8,613** | **31%** | **5,513** | **8%** |

*Commercial properties.* In 2007, the Company plans to start serving additional 19 thousand $m^2$ of commercial properties including newly constructed facilities and facilities of newly attracted clients. In 2007 to date, the Company has already started to serve 2 thousand $m^2$ of commercial facilities. Most of the planned increase represents expected organic growth based on the existing relationships with the real estate developers.

*Offices and atypical properties.* In 2007, the Company plans to start serving additional 50 thousand $m^2$ of office buildings. Most of the planned increase represents expected organic growth based on the existing relationships with the real estate developers.

*Residential facilities.* In 2007, the Company and the Group plan to start the management of respectively 529 thousand $m^2$ and 4,053 thousand $m^2$ of additional residential facilities Lithuania and Latvia in comparison with 2006. In 2007 to date, the Company and the Group have already started serving 414 thousand $m^2$ and 2,003 thousand $m^2$ respectively by signing new agreements or acquiring RFMCs in Lithuania and foreign countries.

The Group is expected to undergo significant growth in the residential facility space served through the acquisitions in Lithuania and Latvia. In Lithuania, the Company plans to acquire 5 RFMCs with total residential facility space served of 1,372 thousand $m^2$. By the end of 2007, the subsidiaries in St. Petersburg are forecasted to grow by participating in tenders for the management of separate districts and to increase their residential facility space served by 280 thousand $m^2$ in total. In Latvia, the Company plans to grow both – organically (up to 150 thousand $m^2$ served) and via acquisitions (by 350 thousand $m^2$ of residential facilities served). In Kiev, Ukraine, the Company's subsidiary is planning to participate in tenders and end up with 200 thousand $m^2$ served by the end of 2007.

*Public facilities.* The Company does not plan any growth in the public facility space served in 2007. The public facility space served by the Company is forecasted according to the long-term agreements with the municipalities of Vilnius and Šiauliai.

**Sales per 1 $m^2$ of facilities served**

*Commercial properties.* The Company's sales per 1 $m^2$ of commercial properties served are forecasted to grow by 10-20% for different clients since to date with most of clients the Company has negotiated increased facility management prices that become effective since the beginning of 2007.

*Offices and atypical properties.* The Company's sales per 1 $m^2$ of offices and atypical properties served are to grow by 10-20% for different clients since to date with most of clients the Company has negotiated increased facility management prices that become effective since the beginning of 2007.

*Residential facilities.* The Company's sales per 1 $m^2$ residential facilities served are forecasted to insignificantly improve due to forecasted increase in income from additional services. The Group's overall sales per 1 $m^2$ of facilities served are forecasted to almost double mainly due to the following factors:

(i) Increased sales per 1 $m^2$ of residential facilities served in St. Petersburg where the Group provides a wider service bundle (see the Section *Market overview*, page 40);

(ii) almost two-fold increase of income per 1 $m^2$ of facilities served in Lithuania, which in turn depends on the following factors:

a. for the Company's subsidiaries in Lithuania increased income from additional services including management of building repair works in 2007 is planned (for more details see the Section *Principal Activities*, *Facilities management services provided*, page 29);

b. the Company is already maintaining heat and hot water supply systems in 628 thousand $m^2$ of the residential facilities managed by the subsidiaries that will be consolidated in the Group since 2007; therefore the acquisitions adds turnover while the space served remains constant.

*Public facilities.* The sales per 1 $m^2$ of public facilities totally dependent on external factors (see the Section *External factors*, page 72).

## *Management of heating facility renovation projects*

In Lithuania, the Company plans its sales of heating facility renovation projects based on the signed agreements and the investment plans of the major clients (UAB Vilniaus Energija and UAB Litesko) (see the Section *The clients*, page 38, for more information). In 2007, the Company plans to increase its sales in management of heating facility renovation projects due to increased sales of heat supply substations and heat and water meters. The Company also plans to significantly increase its sales of heat cost allocators.

In Russia (St. Petersburg City), the Group plans to launch supply of heat and water meters and has already started to sign agreements with its partners St. Petersburg City. In Russia, to date the Company has already concluded agreements for more than 20% of the total planed turnover of the heat and water meters.

## Cost of sales and operating expenses

For the planned acquisitions/ projects, the Company assumes the gross profit and operating profit margins by its best knowledge and experience in analogical projects/ accomplished acquisitions. The gross and operating margins for facility management activity in Latvia, Ukraine and Russia are forecasted to be lower than in Lithuania because of lower economies of scale. The gross and operating margins for management of heating facility renovation projects in Russia (supply of heat and water meters St. Petersburg) are forecasted to be significantly higher than in Lithuania.

For the accomplished acquisitions and existing projects, the Company and the Group forecasts the costs of sales and operating costs based on the historical costs and the expected inflation of the individual costs. In 2007, the largest share of the Company's and the Group's operating expenses will be comprised of salaries and social tax expenses effected by both – the increasing number of employees and increasing average gross wage in the Company and the Group. The forecasted depreciation and amortisation expenses will increase in result of the new investments made in 2006 (see the Section *Investment*, page 26).

## Other activities

The Company forecasts income and expenses from other activities based on the existing contracts for the rent of premises in 2007.

## Financial activities

The financial expenses of the Company are forecasted to be comprised of the interest expenses for the current financial debt and the planned additional financial debt for investment in vehicles (see the Section *Investment*, page 26). The financial income of the Company is forecasted to be comprised of the interest on Company's loan provided to PCS-1. The financial debt of the Subsidiaries is forecasted according to their expected capital expenditure in 2007.

The Company and the Group does not forecast any material gains or losses from the foreign currently exchange. Nor do the Company and the Group plan to use hedging instruments for interest rate and foreign currency exchange risks in 2007.

## Minority interest

Minority interest will consist of the minority share of the planned net result of PV.

## External factors

*As opposed to the internal factors, the external factors present expected outcomes that remain out of the Management's influence. The assumptions on the external factors should be evaluated in the light of risks presented in the Section Risk Factors, page 14.*

## Consolidated structure of the Group

*Privatisation of RFMCs in Lithuania.* One of the major factors for the Company's acquisitions activity remains the course of the privatisation process in Lithuania as the Company plans to participate in tenders for privatisation of RFMCs in 2007. The Company makes an assumption that its certain target acquisitions are available for privatisation, however, the launch and pursuing of the privatisation process lies within the jurisdiction of municipalities and lie outside the influence of the Group (see the Section *Risk Factors, page 14* ).

## Sales

### *Facility management*

*Sales per 1 m2 of public facilities served*. According to agreements, the sales per 1 m2 of public facilities served are by formula related to the heat prices set by public utility providers. The heat prices have been increased in July 2006 and are forecasted to remain stable throughout 2007.

*Residential facility space served*. The Company has long-term partnerships with the leading real estate developers and has concluded agreements for the management of residential facilities currently constructed in different towns in Lithuania. The Company assumes that the construction of facilities will be on schedule.

### *Management of heating facility renovation projects*

The turnover from the management of heating facility renovation projects has been forecasted in accordance with the investment plans of UAB Vilniaus Energija, UAB Litesko and the Group's partners in St. Petersburg City. However, there can be no assurance that those investment plans will be realised by aforementioned entities.

### Cost of goods sold and operating expenses

Certain costs of the Company and the Group (such as energy expenses) are largely dependent on the respective commodities' market prices that lie outside the Management's control.

The Company's and the Group's personnel expenses can also be influenced by the general situation in the labour market in Lithuania, Russia, Latvia and Ukraine.

### Financial activities

Cost of debt of the Company is related to LIBOR which is outside the Management's control. In preparing the forecast for 2007, the Management assumed total cost of debt to be 6%.

The Company assumed that foreign currency exchange rates of RUB, UAH and LVL in respect to LTL will not significantly deviate from the exchange rates as of 31 December 2006.

### Profit tax

Profit tax was forecasted based on standard income tax rates applicable for 2007: 18% for Lithuanian entities, 24% for entities operating in St. Petersburg (Russia), 15% for entities operating in Latvia and 25% for entities operating in Ukraine.

## Forecasted Financial Results in 2007

The forecasted financial results based on the assumptions provided in the Section *Main Assumptions*, page 68, are provided in *Table 42*.

**Table 42. Financial highlights of the forecast for 2007**

| | The Group | | The Company | |
|---|---|---|---|---|
| | LTL in thousands | Change, % | LTL in thousands | Change, % |
| | | | | |
| **EBITDA*** | **17,819** | **105%** | **11,302** | **22%** |
| **Net profit (loss)** | **13,059** | **75%** | **8,550** | **13%** |
| | | | | |
| **Attributable to:** | | | | |
| The shareholders of the Company | 13,036 | 74% | 8,550 | 13% |
| Minority interests | 23 | 92% | - | - |

* Earnings before interest expenses, profit taxes, depreciation and amortisation.

# Factors not included in the Profit Forecast

*Hereby, please find the factors that could potentially have effects on the financial result of the Company and the Group in 2007, however, were not accounted for in the forecasts because the uncertainty associated with their occurrence and timing is too high for the Company to judge on the likelihood of their occurrence in 2007.*

**State funding for renovation of residential facilities**

Management of building repair and renovation projects is rising source of the Group's income, therefore Group's sales may be significantly influenced by the mainstream renovation of residential facilities in Lithuania (for more details refer to the Section *Principal Activities*, *Facilities management services provided*, page 29). The Company forecast that, due to expected amendment of Lithuanian legislation according to the Modernisation Program for Multi-apartment Buildings, State subsidies for multi-apartment house renovation will be provided for facilities managed by administrators as well as house communities in order to stimulate a major surge of renovation projects. The net profit forecast for 2007 does not reflect any effect of this expected change in the legislation on the Company's and the Group's results of operations as the timing of the amendment of the legislation is still uncertain and, if passed, it is expected to have a tangible effect on the volume of the renovation projects performed in subsequent years only.

**Concession of education institutions in Kaunas**

The Company is currently involved as a claimant in an administrative case against the Council of Kaunas city municipality to resume the negotiations regarding the 25-year concession for 192 secondary schools and kindergartens in Kaunas (550 thousand $m^2$) that has been won by the Company in a public tender (see the Section *Legal and Arbitration Proceedings*, page 91). The concession agreement is currently not accounted for in the budget for 2007, because considering the complexity of the issue a positive decision of the court and the likelihood of concluding the contract in Kaunas in 2007 is remote.

**Launch of privatisation of RFMCs in St. Petersburg, Russia**

As the second stage in the facility management sector liberalisation reform in St. Petersburg, Russia, a large scale privatisation of State-owned RFMCs is expected to be launched by the end of 2007 and to involve at least 10 RFMCs according to the public information. The Company has aggressive expansion plans in St. Petersburg and intends to participate and bid for several RFMCs by the end of 2007. The Company has budgeted respective financial investments in RFMCs in St. Petersburg in 2007 based on the actual acquisitions that took place in the beginning of 2007. However, the Company cannot accurately forecast the timing of the possible other acquisitions and therefore does not include any potential financial results in the budget for 2007 related to them, as the likelihood of these other acquisitions' occurrence in 2007 is currently remote.

**On-going legal proceedings regarding the ownership in RFMCs in Lithuania**

The Company is currently involved as a claimant in several cases regarding its ownership in RFMCs in Lithuania (for more details see the Section *Legal and Arbitration Proceedings*, page 91). Potential rulings not accounted for in the financial forecast of 2007 are as follows:

- *Recovering the costs related to privatisation of UAB Ąžuolyno Valda*. Should the court satisfy the lawsuit of the Company, the Company may receive additional income of LTL 842,395, which however is not accounted for in the budget for 2007 as the Company does not expect a final ruling of the court in 2007.

- *Potential privatisation of UAB Naujamiesčio Būstas.* Should the court satisfy the lawsuit of the Company, Vilnius City Municipality will announce a repeated public tender for UAB Naujamiesčio Būstas. The Company however does not include potential acquisitions of UAB Naujamiesčio Būstas in the budget of 2007 because even if a new tender is launched it is not expected to be finalised in 2007.

# Independent Auditor's Report to AB City Service on Profit Forecast

In accordance with the EU Regulation No 809/2004, we report on the compilation of the profit forecast comprising the forecast of the unaudited EBITDA and net profit (*the Profit Forecast*) of AB City Service (*the Company*) for the year ended 31 December 2007. The Profit Forecast, and the material assumptions upon which it is based, are set out in the Section *Profit Forecast* of the Company's Prospectus dated 14 May 2007.

**Management's responsibility**

It is Company's management's responsibility to develop material assumptions and compile the Profit Forecast in accordance with the requirements of the EU Regulation No 809/2004.

**Auditors' responsibility**

Our responsibility is to provide the opinion required by Annex I item 13.3 of the EU Regulation No 809/2004. We are not responsible for updating any reports or opinions previously issued by us for any events that occurred subsequent to the date of our report on the historical financial information used in the compilation of the Profit Forecast, nor does the aforementioned opinion require an audit of historical financial information or the assumptions summarized in the Profit Forecast section of the Company's prospectus.

**Basis of preparation of the Profit Forecast**

The Profit Forecast has been prepared on the basis stated on pages 68 – 74 of the Prospectus. The Profit Forecast is required to be presented on a basis consistent with the accounting policies of the Company.

**Basis of opinion**

We performed our work in accordance with International Standard on Assurance Engagements 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. We planned and performed our work to obtain reasonable assurance that the Profit Forecast has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company. Our work included an evaluation of the procedures undertaken by the management of the Company in compiling the Profit Forecast and the consistency of the Profit Forecast with the accounting policies adopted by the Company. Our work did not include evaluating the support for the assumptions underlying the Profit Forecast. There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

**Opinion**

In our opinion:

a) The Profit Forecast has been properly compiled on the basis stated on pages 68 – 74 of the Prospectus of the Company; and
b) The basis of accounting used is consistent with the accounting policies of the Company.

This report is issued for the sole purpose of the public offering in Lithuania, Latvia and Estonia and the admission of the Company's equity shares to the Vilnius Stock Exchange. Therefore, this report is not appropriate in other jurisdictions and should not be used or relied upon for any other purpose other than the public offering described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this report in connection with any type of transaction, including sale of securities other than the offer to the public of the equity shares of the Company on the Vilnius Stock Exchange.

**UAB ERNST & YOUNG BALTIC**

**Audit company's licence No. 000514**

| | |
|---|---|
| Jonas Akelis<br>Auditor's licence<br>No. 000003 | Inga Gudinaitė<br>Auditor's licence<br>No. 000366 |

The work was completed on 14 May 2007.

# Administrative Management, and Supervisory Bodies and Senior Management

# Management Structure

## General information

The Company complies with the corporate governance regime of the Republic of Lithuania, except for the Corporate Governance Code of the Companies Listed on Vilnius Stock Exchange. The Company will be gradually harmonising its corporate governance with recommendations of the Corporate Governance Code following its listing on the Vilnius Stock Exchange.

In accordance with the Laws of Lithuania, the operational management is structured as a two-tier system – the Board and Key Executive Officers (all together referred to as *the Management*). The Board devotes a significant amount of time to planning and carrying out operations on the Group level, while Key executive officers of the Company are responsible for the day-to-day management of the Company's operations and are eligible to represent the Company on the basis of the law, the Articles of Association and individual Powers of Attorney. The Company does not have a Supervisory Council.

## The Board

The Board of the Company consists of 4 members, whose authorities are valid for four years since the date of appointment. The members of the Board are presented in *Table 43*. More detailed information on the members of the Board is provided in the Sections *CVs of the Management, Participation in Management Bodies outside the Group, Declarations in Respect of the Senior Management, Remuneration and Benefits.*

**Table 43. Members of the Board**

| Name | Position in the Company | Business address |
|---|---|---|
| Gintautas Jaugielavičius | Chairman of the Board | Konstitucijos 7, LT-09308 Vilnius, Lithuania |
| Arūnas Mačiuitis | Member of the Board | Konstitucijos 7, LT-09308 Vilnius, Lithuania |
| Žilvinas Lapinskas | Member of the Board | Konstitucijos 7, LT-09308 Vilnius, Lithuania |
| Valdas Jankauskas | Member of the Board | Konstitucijos 7, LT-09308 Vilnius, Lithuania |

## Key Executive Officers

The Company's Key Executive Officers are General Director (Žilvinas Lapinskas), Executive Director (Edvinas Paulauskas), Deputy General Director (Marijus Jarockis) and Chief Financial Officer and Head of Administration (Jonas Janukėnas).

Organisational scheme of the Company is provided in *Figure 5*. The Company is managed by the General Director, Žilvinas Lapinskas, who heads the Company's facility management activity since its early beginning (as the Director of Commerce since 1999, Head of Facility Management Department since 2002 and the General Director since 2004). The General Director's main tasks currently include the management of the Group's expansion in Lithuania and foreign markets. He is also in charge of Group's activity of heating facility renovation project management.

The Executive Director is entrusted with the entire facility management activity in Lithuania and is in charge of Commerce Department, Facility Management Department and Quality Manager, directly responsible for the supervision of the Company's conformity with ISO standards. Deputy General Director manages rapidly expanding operations of the Group's subsidiaries in Russia. Chief Financial Officer and Head of Administration is responsible for the management of the Group's financial resources and administration of personnel. Departments of Kaunas and Klaipėda are responsible for both the Company's activity in respective towns and for the operations of the subsidiaries (RFMCs). Head of Market Development Department is responsible for the new acquisitions of RFMCs in Lithuania. Project managers, subordinate directly to General Director, are responsible for coordinating the management of heating facility renovation projects activity in the Company.

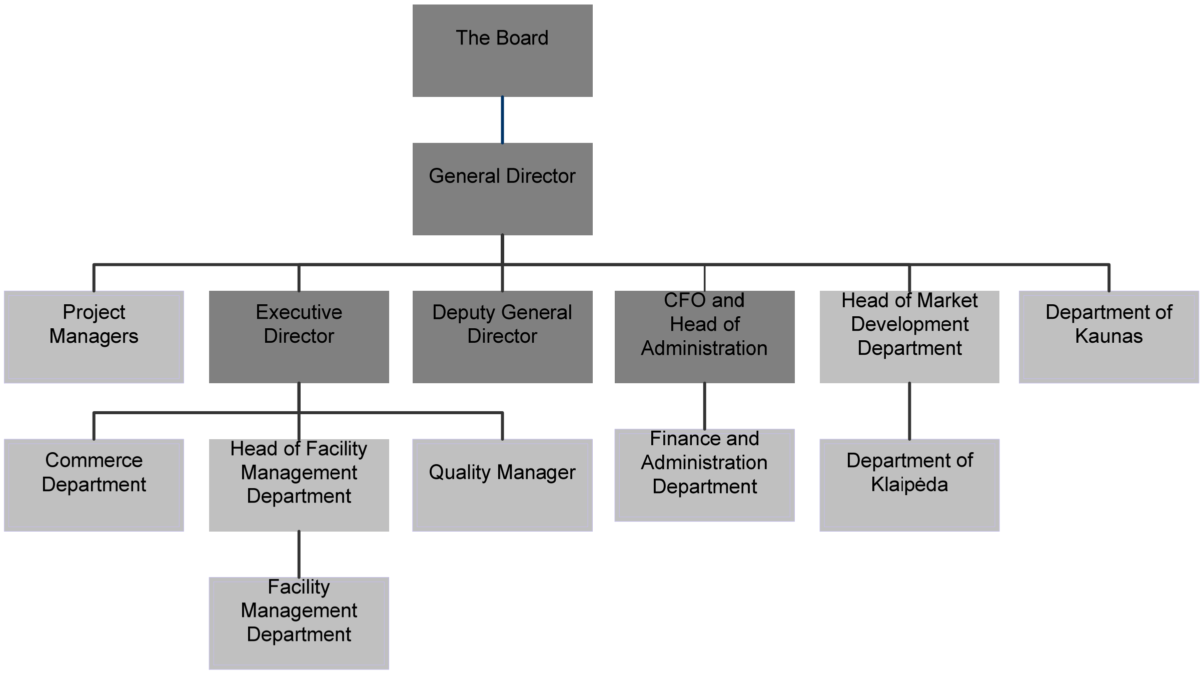


**Figure 5. Organisational Structure of the Company**

Summary on the Key Executive Officers of the Company is provided in *Table 44.*

**Table 44. Key Executive Officers of the Company**

| Name | Position in the Company | Business address |
|---|---|---|
| Žilvinas Lapinskas | General Director | Konstitucijos 7, LT-09308 Vilnius, Lithuania |
| Marijus Jarockis | Deputy General Director | Финляндский 4, St. Petersburg, Russia |
| Edvinas Paulauskas | Executive Director | Smolensko 12, LT-03201 Vilnius, Lithuania |
| Jonas Janukėnas | Chief Financial Officer and Head of Administration | Konstitucijos 7, LT-09308 Vilnius, Lithuania |

# CVs of the Management

## The Board

**Gintautas Jaugielavičius**

Gintautas Jaugielavičius (born in 1971) is the Chairman of the Board of the Company (since August 2005). He has graduated from Kaunas Technology University, Faculty of Economics and holds a university degree in Economics (1995). Prior to joining the Company, he has served as Director of Commerce (July 1995 – July 1997) and Director (July 1997 – June 1999) in UAB Bora. He joined the Company in 1999 and has served as Director of Technology (June 1999 – April 2001) and Advisor (June 2001 – November 2005). Concurrently, he serves as a Director in UAB Verslo Plėtros ir Administravimo Agentūra (April 1999 – May 2001) and Advisor (since March 2004) and Chairman of the Board (since December 2005) in UAB Axis Industries. He also serves as Advisor (since May 2004) and member of the Board (since April 2004) in UAB Rubicon Group.

**Arūnas Mačiuitis**

Arūnas Mačiuitis (born in 1967) is a member of the Board of the Company (since August 2005) and concurrently is a Consultant and a member of the Board in UAB Rubicon Group (since May 2004). He has graduated from Vilnius University, specialised in accounting and economic analysis and holds a university degree in Economics (1991). He is a member of Lithuanian Chamber of Auditors and Certified Auditor of Lithuania (since 1997). He has joined Rubicon Group in 1993 and since then has served as Director of Finance in UAB Rubicon Prodimpeksas (1993 – 1998), Director in UAB Rubikon (2003 – 2004). He joined the Company (former UAB Rubikon Apskaitos Sistemos and UAB Rubicon City

Service) in 2001, and since then has served as Consultant in the Company (May 2001 – November 2005). Currently, he is a member of the Board in UAB Baloša (since April 2004), UAB Rubicon Aqua (since July 2005), UAB Rubicon Eventus (since January 2004), UAB Bionovus (since August 2006) and UAB Axis Industries (since December 2005).

**Valdas Jankauskas**

Valdas Jankauskas (born in 1968) is a member of the Board of the Company (since May 2007) and concurrently is the General Director of UAB Rubicon Group (since May 2004) and Head of Construction Management Department in UAB Axis Industries (since February 2006). He has graduated from Kaunas Technology University, Management Faculty and holds a university degree in Management (1993). Before joining the Company, he has served as Head of Vilnius department of UAB Bora (1995 – 1997), and Deputy Director at UAB Vilniaus Vatas (1997 – 1999). He joined the Company in 1999, and since then has uprisen from Head of Exploitation Unit to General Director of the Company (April 2001 – February 2004) and Consultant (February 2004 – November 2005). He is currently a member of the Boards in the following companies – UAB Katra (since July 2003), UAB Axis Industries (since September 2004), UAB Limatika (since July 2004), UAB Livesta service centras (since February 2004) and UAB Relinė Apsauga (since January 2005).

## Key Executive Officers

**Žilvinas Lapinskas**

Žilvinas Lapinskas (born in 1976) is the General Director of the Company (since February 2004) and a member of the Board of the Company (since May 2007). He has graduated from Kaunas Business College and holds a degree in Business Administration (1997). Prior to joining the Company, he served as a manager (1996 – 1997) and regional manager (1997 – 1999) in UAB Rubikon Prodimpeksas. He joined the Company in 1999, and since then has served as Director of Commerce (1999 -2002), Head of Facility Management Department (2002 – 2004).

Žilvinas Lapinskas is a brother of Remigijus Lapinskas, a shareholder of the Company.

**Marijus Jarockis**

Marijus Jarockis (born in 1980) is the Deputy General Director in the Company (since March 2006) and a representative of the Company in subsidiaries in St. Petersburg, Russia. He has graduated from Vilnius University, Faculty of Law and holds Master degree in Law (2003). Prior to joining the Company, he has served as a lawyer in UAB Gelvoros Saugos Konsultacijos (April 2000 – April 2003), expert in UAB Business Development and Administration Agency (May 2003 – April 2004) and Advisor of Chairman of the Board in UAB Rubicon Group (May 2004 – May 2006). He also is a member of the Board of UAB Ecoservice (since November 2004).

**Edvinas Paulauskas**

Edvinas Paulauskas (born 1976) is Executive Director of the Company (since October 2006). He has graduated from Vilnius Gediminas Technology University, environment engineering faculty, and holds a university degree in environment engineering (1998) and currently studies in Rubicon Academy, Executive Training Program (since October 2006). Prior to joining the Company, he served as Deputy General Director of Supply in AB Dvarčionių Keramika (January 2002 – October 2003) and Energy Project Manager in UAB Litesko (October 2003 – January 2005). He joined the Company in 2005, and prior to the current position, has served as Project Manager (January 2005 – April 2006) and Director of Commerce (April 2006 – October 2006).

**Jonas Janukėnas**

Jonas Janukėnas (born 1976) is Chief Financial Officer and Head of Administration in the Company (since May 2007). He has graduated from Vytautas Magnus University in Lithuania and holds MBA degree (2000). Prior to joining the Company, he has worked as a senior auditor and risk management consultant in Andersen Vilnius office (from 1998 to 2000), in UAB Litesko as a Financial Controller (May 2000 – May 2001) and in UAB Litesko as a Finance Director (May 2001 – May 2007).

# Participation in Management Bodies outside the Group

Information on the Management's participation in management bodies outside the Group during the last 5 years (since May 2002) is provided in *Table 45.* The positions listed exclude the Management's participation in the management bodies in the Company and the Subsidiaries.

**Table 45. The Management's participation on management bodies outside the Group since 2002**

| Entity | Position | Date of the start | Date of the end |
|---|---|---|---|
| **The Board** | | | |
| **Gintautas Jaugielavičius** | | | |
| UAB Axis Industries | Chairman of the Board | December 2005 | - |
| UAB Rubicon Group | Member of the Board | April 2004 | - |
| **Arūnas Mačiuitis** | | | |
| UAB Rubikon | Director | February 2003 | May 2004 |
| UAB Rubicon Group | Member of the Board | May 2004 | - |
| UAB Axis Industries | Member of the Board | December 2005 | - |
| UAB Bionovus | Member of the Board | August 2006 | - |
| UAB Rubicon Eventus | Member of the Board | January 2004 | - |
| UAB Rubicon Aqua | Member of the Board | July 2005 | - |
| UAB Baloša | Member of the Board | April 2004 | - |
| **Valdas Jankauskas** | | | |
| UAB Katra | Chairman of the Board | July 2003 | June 2004 |
| UAB Katra | Member of the Board | June 2004 | January 2006 |
| UAB Axis Industries | Member of the Board | September 2004 | January 2006 |
| UAB Limatika | Chairman of the Board | July 2004 | October 2004 |
| UAB Limatika | Member of the Board | October 2004 | January 2006 |
| UAB Livesta Serviso Centras | Member of the Board | December 2004 | April 2004 |
| UAB Livesta Serviso Centras | Chairman of the Board | May 2004 | October 2004 |
| UAB Livesta Serviso Centras | Member of the Board | October 2004 | January 2006 |
| UAB Relinė Apsauga | Member of the Board | January 2005 | February 2005 |
| UAB Relinė Apsauga | Chairman of the Board | February 2005 | - |
| UAB Rubicon Group | General Director | May 2004 | - |
| UAB Axis Industries | Member of the Board | January 2006 | - |
| UAB Axis Industries | Head of Construction Management Department | February 2006 | - |
| | | | |
| **Key Executive Officers** | | | |
| **Žilvinas Lapinskas** | - | - | - |
| **Marijus Jarockis** | | | |
| UAB Ecoservice | Member of the Board | November 2004 | - |
| **Edvinas Paulauskas** | - | - | - |
| **Jonas Janukėnas** | - | - | - |

# Declarations in Respect of the Senior Management

To the best of the Company's knowledge, none of the persons listed under Sections *Administrative Management, and Supervisory Bodies and Senior Management*, page 76, has received any convictions in relation to fraudulent offences for the previous five years, nor were any of such persons in the same period associated with any bankruptcies, receiverships or liquidations in their capacity as members of the administrative, management or supervisory bodies, partners with unlimited liability, founders or senior managers. To the best of the Company's knowledge, no such persons were subject to any official public incriminations and/or sanctions by statutory or regulatory authorities (including designated professional bodies), nor have they been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any company or from acting in the management or conduct of the affairs of any company for the previous five years.

Likewise, with respect to the persons listed under Sections *Administrative Management, and Supervisory Bodies and Senior Management*, page 76, the Company is not aware of any conflict of interest between any of their duties to the Group and their private interests.

# Remuneration and Benefits

## Remuneration

The information of total remuneration of the Management in 2006 is provided in *Table 46*. Jonas Mačiuitis served as a Chief Financial Officer and Head of Administration of the Company in 2006. The total sums provided include: (i) gross salaries (including pay for overtime), (ii) reimbursements for annual vacations and business trips and (iii) social security taxes. In 2006, no remuneration, bonuses or other amounts were paid to the Board, except for the dividends to which the Shareholders of the Company were entitled (see the Section *Dividends*, page 91).

Žilvinas Lapinskas received a loan of LTL 210,000 (for an interest of 4%) from the Company in 2006 (see the Section *Related Party Transactions*, page 82). The loan is accounted among accounts receivable in the balance of the financial year 2006.

In 2006 up to date no other payments of loans or other amounts, provisions of guarantees or transfer of assets have been made other than mentioned above.

**Table 46. Remuneration of the Management in 2006**

| Name | Responsibilities | Period | Total |
|---|---|---|---:|
| Žilvinas Lapinskas | General Director | January – December 2006 | LTL 130,041 |
| Marius Jarockis | Deputy General Director | March – December 2006 | LTL 49,785 |
| Edvinas Paulauskas | Executive Director | January – December 2006 | LTL 81,997 |
| Jonas Mačiuitis | Chief Financial Officer and Head of Administration | January – December 2006 | LTL 80,905 |

## Benefits

The Company does not have any obligations related to the pension, retirement or similar benefits.

# Board Practices

## The tenures

The details of the tenures of the Management of the Company are provided in *Table 47*.

**Table 47. The tenures of the Management**

| Name | Position in the Company | Start of tenure | End of tenure |
|---|---|---|---|
| **The Board** | | | |
| Gintautas Jaugielavičius | Chairman of the Board | 6 October 2005 | 6 October 2009 |
| Arūnas Mačiuitis | Member of the Board | 6 October 2005 | 6 October 2009 |
| Žilvinas Lapinskas | Member of the Board | 11 May 2007 | 6 October 2009 |
| Valdas Jankauskas | Member of the Board | 11 May 2007 | 6 October 2009 |
| | | | |
| **Key executive officers** | | | |

| | | | |
|---|---|---|---|
| Žilvinas Lapinskas | General Director | February 2004 | Indefinite |
| Marijus Jarockis | Deputy General Director | May 2006 | Indefinite |
| Edvinas Paulauskas | Executive Director | October 2006 | Indefinite |
| Jonas Janukėnas | Chief Financial Officer and Head of Administration | May 2007 | Indefinite |

## Redundancies

Jonas Janukėnas is entitled to a redundancy compensation of 8 monthly salaries. Except for Jonas Janukėnas, no other employees are entitled to any redundancy compensations other than those prescribed by the applicable national legislation.

## Legal Issues

The Company complies with the corporate governance regime of the Republic of Lithuania where it is incorporated.

# Employees

## Employee number

The Group currently employs 1,335 people including 732 employees in Russia (St. Petersburg) and 596 employees in Lithuania. As of the end of 2005, the decrease in the number of employees in the Group was determined by the sale of UAB Katra, UAB Kazlų Rūdos Metalas and other subsidiaries (see the Section *Developments of Different Financial Items*, page 57*)*. Since then, the number of employees has been constantly growing at an increasing pace. The breakdown of the number of employees at the end of financial years 2004 – 2006 is provided in *Table 48*.

**Table 48. Number of employees in the Group (at the end of the year)**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | Current | 2004 | 2005 | 2006 | Current |
| Lithuania | 909 | 373 | 465 | 596 | 275 | 301 | 376 | 375 |
| Russia | - | - | 460 | 732 | - | - | - | - |
| Latvia | - | - | 2 | 5 | - | - | - | - |
| Ukraine | - | - | - | 2 | - | - | - | - |
| **Total** | **909** | **373** | **927** | **1,335** | **275** | **301** | **376** | **375** |

## Share ownership and acquisition of shares

All members of the Board are shareholders of the Company and each owns 2.24% of its shares (see the Section *Major Shareholders*, page 82), acquired in June 2006 from UAB Arkoveta, a member of Rubicon Group. Prior to the end of 2003, the members of the Board owned 12% of the Company's shares each (i.e. 8,430 shares), which were sold to UAB Rubicon Group on 28 December 2004.

None of the Key Executive Officers of the Company or any other its employees hold any shares in the Company. Neither any employees of the Company nor the members of its management hold any options or other similar rights to acquire Shares of the Company.

## Collective bargaining

No collective agreements are in effect in the Company and the Subsidiaries and the Group does not anticipate any collective bargaining initiatives in any of the companies in the observable future.

# Major Shareholders

The capital of the Company at the date of this prospectus is LTL 17 million, which is divided into 17 million ordinary shares with a nominal value of LTL 1 each. The shareholders of the Company consist of UAB Rubicon Group, the parent company of Rubicon Group, and 7 natural persons. The list of the Company's shareholders is provided in *Table 49*.

**Table 49. The Shareholders and share capital of the Company**

| No. | Shareholder | Role in the Company's management | Number of shares | Percentage owned |
|---|---|---|---|---|
| 1. | UAB Rubicon Group | - | 14,328,572 | 84.29% |
| 2. | Andrius Janukonis | - | 381,634 | 2.24% |
| 3. | Darius Leščinskas | - | 381,634 | 2.24% |
| 4. | Arūnas Mačiuitis | Member of the Board | 381,632 | 2.24% |
| 5. | Rimantas Bukauskas | - | 381,632 | 2.24% |
| 6. | Gintautas Jaugielavičius | Chairman of the Board | 381,632 | 2.24% |
| 7. | Linas Samuolis | - | 381,632 | 2.24% |
| 8. | Remigijus Lapinskas | - | 381,632 | 2.24% |
| | **Total** | | **17,000,000** | **100%** |

The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change in control of the Company. No person has, directly of indirectly, an interest in the Company's capital or voting rights which is notifiable under the laws of Lithuania.

As of the date of the Prospectus the Company is not aware of any existing agreements between the shareholders of the Company on the use of voting rights in effect following the completion of the Offering.

# Related Party Transactions

## General overview

Transactions within Related Parties fall under 5 categories:

- Loan agreements;
- Sale/ purchase of non-current assets;
- Sale of goods and services;
- Sublease of premises;
- Purchase of goods and services (including (sub)contracting, legal, HR, internal audit, IT, etc.).

The Management of the Company believes that all arrangements between the Related Parties are entered at the arm's length principle. The Management of the Company believes that there are no arrangements between Related Parties influencing main business of the Company either directly or indirectly.

## Loan agreements

The loans granted to the Related Parties during financial years 2004 – 2006 are provided in *Table 50*.

As of the end of 2006, the Company had the loans to the following Related Parties outstanding: UAB Domestas (LTL 1,530 thousand), UAB Rubicon Group (LTL 1,500 thousand), UAB Urban Housing (LTL 1,280 thousand), PCS-1 (LTL 1,251 thousand), UAB Sostinės Naujienos (LTL 160 thousand allowed for impairment), UAB Realco (LTL 20 thousand) and Žilvinas Lapinskas (LTL 280 thousand).

**Table 50. Loans to the Related Parties outstanding at the end of the year (LTL in thousands)**

| Company | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| UAB Rubicon Eventus | 10,000 | 11,500 | - | 10,000 | 11,500 | - |
| UAB Domestas | - | - | 1,530 | - | - | 1,530 |
| UAB Rubicon Group | - | - | 1,500 | - | - | 1,500 |
| UAB Penktas Kanalas | 1,375 | - | - | 1,375 | - | - |
| UAB Urban Housing | - | - | 1,280 | - | - | 1,280 |
| PCS-1 | - | - | - | - | - | 1,251 |
| UAB Realco (former UAB City Invest) | - | - | 20 | - | - | 20 |
| UAB Arkoveta | - | 250 | - | - | 250 | - |
| UAB Movestas | 250 | - | - | 250 | - | - |
| UAB Aviridis | 80 | - | - | 80 | - | - |
| UAB Baloša | 801 | - | - | 801 | - | - |
| Žilvinas Lapinskas | - | 70 | 280 | - | 70 | 280 |
| **Total** | **12,506** | **11,820** | **4,610** | **12,506** | **11,820** | **5,861** |
| *% from total sales* | 7% | 10% | 4% | 11% | 12% | 6% |

## Sale and purchase of shares and other non-current assets

The breakdown of the Company's and the Group's sale and purchase of non-current assets to the Related Parties is provided in *Table 51*.

During 2004 – 2006, the Company's and the Group's sales of financial and other non-current assets were to the largest extent comprised of the Company's transfer of former subsidiaries to UAB Rubicon Group (in total amount of LTL 11,245 thousand in 2004, LTL 18,979 thousand in 2005 and LTL 11,610 thousand in 2006). Complete lists of subsidiaries sold are provided in the Audited Financial Statements in Appendices 1-2.

In 2006, the Company purchased UAB Urban Housing and UAB Domestas from UAB Vilniaus Pramogų Parkas for the total amount of LTL 11,610 thousand. UAB Urban Housing and UAB Domestas were later formed into UAB Realco and sold to UAB Rubicon Group.

**Table 51. Sale and purchase of financial and other non-current assets from the Related Parties (LTL in thousands)**

| Company | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| **Sale of assets** | **17,083** | **19,593** | **11,613** | **14,321** | **19,595** | **11,616** |
| UAB Rubicon Group | 11,245 | 19,593 | 11,610 | 11,245 | 19,593 | 11,610 |
| UAB Aviridis | - | - | - | 3,017 | - | - |
| UAB Livestos Serviso Centras | 2,933 | - | - | - | - | - |
| UAB Katransta | 1,055 | - | - | - | - | - |
| UAB Katranga | 516 | - | - | - | - | - |
| UAB Baltec CNC Technologie | 1,334 | - | - | - | - | - |
| Other | - | - | 3 | 59 | 2 | 6 |
| *% from total sales* | 9% | 17% | 10% | 13% | 20% | 11% |
| | | | | | | |
| **Purchase of assets** | **(8,434)** | **(524)** | **(11,627)** | **(2,179)** | **(524)** | **(11,627)** |
| UAB Vilniaus Pramogų Parkas | - | - | (11,610) | (1,100) | - | (11,610) |
| UAB Rubicon Group | - | (500) | - | - | (500) | - |
| UAB Aviridis | - | - | - | (700) | - | - |
| UAB Katranga | (1,637) | - | - | - | - | - |
| UAB Katransta | (1,708) | - | - | - | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| UAB Livestos Serviso Centras | (3,429) | - | - | - | - | - |
| UAB Baltec CNC Technologie | (1,660) | - | - | - | - | - |
| UAB Tiketa | - | - | - | (250) | - | - |
| Other | - | (24) | (17) | (129) | (24) | (17) |
| *% from total sales* | *4%* | *0.4%* | *10%* | *2%* | *1%* | *11%* |

## Sales for goods and services

The breakdown of the Company's and the Group's sales to the Related Parties is provided in *Table 52*. The Company's sales of goods and services to the Related Parties are comprised of the sales in the ordinary course of the Company's business as well as allocation of costs for certain services (e.g., IT and telecommunication costs) that are shared by the Related Parties. For example, the Company itself retains the IT personnel and charges its costs as paid IT services for Group companies. The respective cost allocation is formalised through service agreements.

**Table 52. Sales to the Related Parties (LTL in thousands)**

| Company | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** |
| UAB Axis Industries | - | 817 | 2,571 | 3,836 | 1,389 | 2,571 |
| ZA | - | - | - | - | 2 | 1,003 |
| UAB Rubicon Eventus | - | 1,234 | 886 | 316 | 1,234 | 886 |
| AV | - | - | - | - | - | 401 |
| BBR | - | 348 | - | 406 | 348 | 379 |
| UAB Penktas Kanalas | 140 | 194 | 356 | 67 | 194 | 356 |
| PV | - | - | - | - | - | 305 |
| VV | - | - | - | 167 | 140 | 180 |
| MV | - | - | - | - | - | 103 |
| UAB Tiketa | 29 | 162 | 99 | 116 | 162 | 99 |
| UAB Rubicon Group | 344 | 1,037 | 74 | 344 | 1,037 | - |
| Other | 1,767 | 929 | 573 | 409 | 929 | 542 |
| **Total** | **2,280** | **4,721** | **4,559** | **5,661** | **5,435** | **6,825** |
| *% from total sales* | *1%* | *4%* | *4%* | *5%* | *6%* | *7%* |

*UAB Axis Industries.* Note: sales to UAB Axis Industries include the sales to UAB Kazlų Rūdos Metalas, UAB Katra and UAB Limatika during 2004 – 2006 as the companies merged in 2006. In 2005 and 2006, the Company was subcontracted by UAB Axis Industries to manage facilities of retail chain Maxima that belonged to Maxima LT, UAB (former VP Market). The agreement with UAB Axis Industries has been made since the contracts for serving Maxima has been originally held by UAB Katra, one of predecessors of UAB Axis Industries. In 2007, the Company signed facility management contracts with Maxima directly.

*ZA, AV, BBR, PV, VV and MV.* The Company is also subcontracted by its subsidiaries for maintenance of civil engineering systems and their facility space served.

*UAB Rubicon Eventus.* The Company manages Siemens arena that belongs to the UAB Rubicon Eventus.

*UAB Penktas Kanalas.* The Company provides UAB Penktas Kanalas with premise rent and IT services.

*UAB Tiketa.* The Company allocates UAB Tiketa a part of IT and telecommunication costs.

## Purchase of goods and services

The breakdown of the Company's and the Group's purchases of goods and services from the Related Parties is provided in *Table 53*. A number of related parties are retained by the Company as subcontractors (including UAB Axis Industries, UAB Katra and UAB Limatika). The Company is also outsourcing a part of HR, legal advisory, internal audit and other services to the Related Parties.

**Table 53. Purchases from and subcontracting of related parties (LTL in thousands)**

| Company | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| UAB Axis Industries | - | 17,639 | 20,626 | 38,091 | 26,930 | 20,602 |
| ZA | - | - | - | - | 3 | 1,132 |
| UAB Rubicon Group | 1,054 | 852 | 1,128 | 300 | 852 | 1,044 |
| UAB Arkoveta | 130 | 407 | 650 | 182 | 407 | 650 |
| UAB Bioautomatika | - | 810 | 456 | - | 810 | 456 |
| UAB Rubicon Eventus | - | 153 | 156 | 53 | 153 | 156 |
| UAB Ecoservice | 30 | 11 | 691 | - | 11 | 137 |
| UAB Relinė Apsauga | - | - | 100 | - | - | 100 |
| UAB Tiketa | 23 | - | 21 | - | - | 21 |
| VV | - | - | - | 17 | 20 | 21 |
| Other | 579 | 124 | 51 | 123 | 141 | 110 |
| **Total** | **1,816** | **19,996** | **23,879** | **38,766** | **29,327** | **24,429** |
| *% from total sales* | *1%* | *17%* | *21%* | *36%* | *31%* | *24%* |

*UAB Axis Industries*. Note: purchases from UAB Axis Industries include the purchases from UAB Kazlų Rūdos Metalas, UAB Katra and UAB Limatika during 2004 – 2006 as the companies merged in 2006. UAB Axis Industries is the major subcontractor for the management of heating facility renovation projects business segment of the Company. The Company has two general contracts dating back to 2003 – 2004 for the construction, renovation and reconstruction of heat pipelines, heat supply substations and boiler-houses. Agreement regarding heat pipelines and boiler-houses was concluded with UAB Livestos Serviso Centras and UAB Limatika, predecessor of UAB Axis Industries, and provides for its obligations to assume part of the Company's functions under the general agreements with UAB Vilniaus Energija and UAB Litesko (see the Section *The clients*, page 38). Similarly to the Company's contracts with the client companies, the Company has undertaken to refrain from carrying out or hiring for works covered by the agreement, unless the subcontractor agrees to it in writing. With respect to the heat supply substations a similar contract was made with UAB Katra, another predecessor of the UAB Axis Industries.

*ZA*. The Company is purchasing maintenance of heat and hot water supply systems from ZA in Kaunas.

*UAB Rubicon Group*. The Company purchases HR, legal advisory and internal audit services from UAB Rubicon Group, the holding company.

*UAB Arkoveta.* The Company leases premises from UAB Arkoveta and subleases out a part of them to particular related and third parties.

*UAB Bioautomatika.* UAB Bioautomatika is a subcontractor in the management of heating facility renovation projects and also supplies equipment to the boiler-houses.

*UAB Rubicon Eventus*. The Company rents loge and advertising stands from UAB Rubicon Eventus for promotion and representation purposes.

*UAB Ecoservice (former – UAB Vienituras).* The Company hires UAB Ecoservice for the garbage removal from the facility management objects served by the Company.

*UAB Relinė Apsauga*. UAB Relinė Apsauga is a subcontractor who provides design services in the management of heating facility renovation projects of the Company under the agreement with UAB Litesko.

*ZA, AV, BBR, PV, VV and MV*. The Company's subsidiaries subcontract the Company for maintenance of civil engineering systems in residential facilities in respective towns and manage the collection of fees for the service from residents. In return, the Company reimburses the subsidiaries by paying commissions for management of the aforementioned fees.

# Financial Information Concerning the Company's Assets and Liabilities, Financial Position and Profits and Losses

# Audited Financial Statements

## General information

Complete audited financial statements with Notes on separate items are provided in Appendices 1-2.

## Balance Sheet

The Balance Sheet the Company and consolidated Balance Sheet of the Group based on the audited financial statements are provided in *Table 54.*

**Table 54. Balance Sheet of the Company and the Group as of the year ended 31 December (LTL in thousands)**

| Balance Sheet | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2004 | 2005 | 2006 |
| **Intangible assets** | **632** | **21** | **3,554** | **45** | **7** | **26** |
| Goodwill | - | - | 3,516 | - | - | - |
| Other intangible assets | 632 | 21 | 38 | 45 | 7 | 26 |
| **Tangible assets** | **20,333** | **1,994** | **8,732** | **3,652** | **1,584** | **2,141** |
| Land and buildings | 8,607 | 358 | 5,628 | 1,566 | - | - |
| Transport vehicles | 4,460 | 829 | 1,742 | 1,071 | 794 | 1,418 |
| Other tangible assets | 7,056 | 807 | 989 | 1,015 | 790 | 723 |
| Construction in progress | 210 | - | 373 | - | - | - |
| **Financial assets** | **14,317** | **734** | **856** | **18,982** | **1,622** | **11,186** |
| Investments in subsidiaries | - | - | - | 5,759 | 911 | 10,468 |
| Investment in associates | 134 | 220 | 220 | - | 220 | 220 |
| Non-current receivables | 13,967 | 314 | 138 | 13,043 | 291 | - |
| Other non-current financial assets | 216 | 200 | 498 | 180 | 200 | 498 |
| **Deferred tax asset** | **294** | **51** | **207** | **-** | **51** | **157** |
| **Total non-current assets** | **35,576** | **2,800** | **13,349** | **22,679** | **3,264** | **13,510** |
| **Inventories, prepayments and contracts in progress** | **21,989** | **3,269** | **5,445** | **4,445** | **3,168** | **3,973** |
| Inventories | 17,690 | 1,028 | 2,419 | 2,063 | 941 | 1,785 |
| Prepayments | 4,299 | 2,176 | 972 | 2,382 | 2,162 | 141 |
| Prepayment to related parties | - | 65 | 2,054 | - | 65 | 2,047 |
| **Accounts receivable** | **47,694** | **45,122** | **53,991** | **31,096** | **43,922** | **52,949** |
| Trade receivables | 27,630 | 18,509 | 27,673 | 15,506 | 18,158 | 24,857 |
| Receivables from related parties (including loans granted) | 18,434 | 25,238 | 25,580 | 15,445 | 25,322 | 27,743 |
| Other receivables | 1,630 | 1,375 | 738 | 145 | 442 | 349 |
| **Investments in subsidiaries for sale** | **8,024** | **-** | **-** | **7,977** | **-** | **-** |
| **Prepaid income tax** | **17** | **556** | **801** | **-** | **556** | **785** |
| **Other current assets** | **134** | **759** | **299** | **134** | **750** | **240** |
| **Cash and cash equivalents** | **3,922** | **1,747** | **4,972** | **939** | **1,512** | **2,570** |
| **Total current assets** | **81,780** | **51,453** | **65,508** | **44,591** | **49,908** | **60,517** |
| **TOTAL ASSETS** | **117,356** | **54,253** | **78,857** | **67,270** | **53,172** | **74,027** |
| **Share capital** | **10,500** | **10,500** | **10,500** | **10,500** | **10,500** | **10,500** |
| **Reserves** | **10,700** | **1,050** | **1,061** | **10,700** | **1,050** | **1,050** |
| **Foreign currency translation** | **-** | **-** | **(15)** | **-** | **-** | **-** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Retained earnings** | **23,005** | **13,304** | **19,309** | **14,744** | **13,032** | **19,082** |
| **Minority share** | **14,993** | **3** | **615** | **-** | **-** | **-** |
| **Total equity** | **59,198** | **24,857** | **31,470** | **35,944** | **24,582** | **30,632** |
| **Non-current liabilities** | **5,872** | **311** | **5,011** | **581** | **287** | **4,651** |
| Non-current borrowings | 3,063 | - | 4,125 | - | - | 4,125 |
| Financial leasing liabilities | 2,447 | 311 | 642 | 394 | 287 | 526 |
| Deferred tax liability | 187 | - | - | 187 | - | - |
| Non-current payables | 175 | - | 244 | - | - | - |
| **Current liabilities** | **52,286** | **29,085** | **42,376** | **30,745** | **28,303** | **38,744** |
| Current portion of non-current borrowings | 3,438 | - | 1,180 | - | - | 1,180 |
| Current portion of non-current financial leasing liabilities | 1,257 | 165 | 489 | 155 | 165 | 418 |
| Current borrowings | 3,322 | | | - | - | - |
| Trade payables | 21,682 | 9,452 | 18,286 | 8,802 | 8,864 | 15,993 |
| Payables to related parties | 2,007 | 10,546 | 10,766 | 7,860 | 11,351 | 11,471 |
| Advances received from related parties | | 805 | - | | | - |
| Other advances received | 12,423 | 4,749 | 8,154 | 11,436 | 4,689 | 6,865 |
| Income tax payable | 1,791 | - | 44 | 673 | - | - |
| Other accounts payable | 6,366 | 3,368 | 3,457 | 1,819 | 3,234 | 2,817 |
| **Total liabilities** | **58,158** | **29,396** | **47,387** | **31,326** | **28,590** | **43,395** |
| **Total equity and liabilities** | **117,356** | **54,253** | **78,857** | **67,270** | **53,172** | **74,027** |

## Income Statement

The income statement of the Company and consolidated income statement of the Group based on the audited financial statements are provided in *Table 55.*

**Table 55. Income Statements of the Company and the Group as of the year ended 31 December (LTL in thousands)**

| Income statement | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** |
| **Sales** | **190,851** | **117,232** | **113,607** | **108,818** | **95,986** | **103,447** |
| Cost of sales | (139,170) | (96,127) | (94,795) | (89,291) | (82,002) | (86,756) |
| Gross profit (loss) | 51,681 | 21,105 | 18,812 | 19,527 | 13,984 | 16,691 |
| Operating expenses | (31,913) | (15,123) | (11,527) | (7,307) | (7,069) | (8,397) |
| Other activities (net) | 295 | 2,389 | 259 | 531 | 2,330 | 141 |
| **Operating profit (loss)** | **20,063** | **8,371** | **7,544** | **12,751** | **9,245** | **8,435** |
| Financial and investment activities (net) | 1,492 | (2,179) | 2,106 | (1,005) | 5,525 | 760 |
| *Income* | *4,303* | *1,687* | *2,254* | *479* | *5,609* | *897* |
| *Expenses* | *(2,811)* | *(3,866)* | *(148)* | *(1,484)* | *(84)* | *(137)* |
| Result of associated companies (net) | 29 | - | - | - | - | - |
| **Profit (loss) before income tax** | **21,584** | **6,192** | **9,650** | **11,746** | **14,770** | **9,195** |
| Income tax expenses | (4,030) | (1,661) | (2,122) | (2,079) | (1,732) | (1,645) |
| **Net profit (loss)** | **17,554** | **4,531** | **7,528** | **9,667** | **13,038** | **7,550** |
| | | | | | | |
| **Attributable to:** | | | | | | |
| The shareholders of the Company | 15,490 | 5,049 | 7,516 | 9,667 | 13,038 | 7,550 |
| Minority interests | 2,064 | (518) | 12 | - | - | - |
| **Total** | **17,554** | **4,531** | **7,528** | **9,667** | **13,038** | **7,550** |

## Statement of Changes in Equity

Statements of Changes in Equity of the Group and the Company based on the audited financial statements are provided in *Table 56* and *Table 57*.

**Table 56. Statement of Changes in Equity of the Group (LTL in thousands)**

| Statement of Changes in Equity of the Group | Share capital | Reserves | | Foreign currency translation | Retained earnings | Total equity (ex. Minority share) | Minority share | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Legal | Other | | | | | |
| **Balance as of 1 January 2004** | **7,000** | **700** | **-** | **-** | **23,010** | **30,710** | **12,929** | **43,639** |
| Increase in share capital from undistributed profit | 3,500 | - | - | - | (3,500) | - | - | - |
| Transfer to reserves | - | - | 10,000 | - | (10,000) | - | - | - |
| Dividends declared | - | - | - | - | (1,995) | (1,995) | - | (1,995) |
| Net profit for the year | - | - | - | - | 15,490 | 15,490 | 2,064 | 17,554 |
| **Balance as of 31 December 2004** | **10,500** | **700** | **10,000** | **-** | **23,005** | **44,205** | **14,993** | **59,198** |
| Transfer from reserves | - | - | (10,000) | - | 10,000 | - | - | - |
| Transfer to reserves | - | 350 | - | - | (350) | - | - | - |
| Dividends declared | - | - | - | - | (24,400) | (24,400) | - | (24,400) |
| Net profit for the year | - | - | - | - | 5,049 | 5,049 | (518) | 4,531 |
| Subsidiaries sold | - | - | - | - | - | - | (14,472) | (14,472) |
| **Balance as of 31 December 2005** | **10,500** | **1,050** | **-** | **-** | **13,304** | **24,854** | **3** | **24,857** |
| Transfer to reserves | - | 11 | - | - | (11) | - | - | - |
| Dividends declared | - | - | - | - | (1,500) | (1,500) | - | (1,500) |
| Net profit for the year | - | - | - | - | 7,516 | 7,516 | 12 | 7,528 |
| Foreign currency translation | - | - | - | (15) | - | (15) | - | (15) |
| Acquisition of subsidiaries | - | - | - | - | - | - | 600 | 600 |
| **Balance as of 31 December 2006** | **10,500** | **1,061** | **-** | **(15)** | **19,309** | **30,855** | **615** | **31,470** |

**Table 57. Statement of Changes in Equity of the Company (LTL in thousands)**

| Statement of Changes in Equity of the Company | Share capital | Reserves | | Retained earnings | Total equity |
|---|---|---|---|---|---|
| | | Legal | Other | | |
| **Balance as of 1 January 2004** | **7,000** | **700** | **-** | **20,532** | **28,232** |
| Increase in share capital from undistributed profit | 3,500 | - | - | (3,500) | - |
| Dividends declared | - | - | - | (1,955) | (1,955) |
| Transfer to reserves | - | - | 10,000 | (10,000) | - |
| Net profit for the year | - | - | - | 9,667 | 9,667 |
| **Balance as of 31 December 2004** | **10,500** | **700** | **10,000** | **14,744** | **35,944** |
| Dividends declared | - | - | - | (24,400) | (24,400) |
| Transfer from reserves | - | - | (10,000) | 10,000 | - |
| Transfer to reserves | - | 350 | - | (350) | - |
| Net profit for the year | - | - | - | 13,038 | 13,038 |

| | | | | | |
|---|---|---|---|---|---|
| **Balance as of 31 December 2005** | **10,500** | **1,050** | **-** | **13,032** | **24,582** |
| Dividends declared | - | - | - | (1,500) | (1,500) |
| Net profit for the year | - | - | - | 7,550 | 7,550 |
| **Balance as of 31 December 2006** | **10,500** | **1,050** | **-** | **19,082** | **30,632** |

## Cash Flow Statement

Cash Flow Statement of the Group and the Company based on the audited financial statements are provided in *Table 58*.

**Table 58. Cash Flow Statement the Company as of the year ended 31 December (LTL in thousands)**

| Cash Flow Statement | The Group | | | The Company | | |
|---|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2004** | **2005** | **2006** |
| **Cash flows from (to) operating activities** | | | | | | |
| Net profit | 17,554 | 4,531 | 7,528 | 9,667 | 13,038 | 7,550 |
| **Adjustments for non-cash items:** | | | | | | |
| Income tax expenses | 4,030 | 1,661 | 2,122 | 2,079 | 1,732 | 1,645 |
| Depreciation and amortisation | 3,619 | 1,917 | 775 | 803 | 707 | 581 |
| Goodwill impairment | - | - | 290 | - | - | - |
| (Reversal of) impairment of accounts receivable and write-off of accounts receivable | 611 | (1,011) | 1,053 | 314 | 1 | 415 |
| (Reversal of) allowance for inventories | 351 | 393 | - | - | - | - |
| (Gain) on disposal of property, plant and equipment | (170) | (2,215) | (57) | (36) | (2,187) | 1 |
| Loss (gain) from disposal, write-off and impairment of investments | (2,505) | 3,441 | - | 798 | (944) | - |
| Discounting of receivables from related parties | 637 | (208) | (430) | 637 | (208) | (430) |
| Negative goodwill write-off | - | - | (1,486) | - | - | - |
| Dividend income | - | (466) | (60) | (59) | (3,641) | (210) |
| Interest income | (509) | (827) | (231) | (412) | (779) | (235) |
| Interest expenses | 1,022 | 158 | 136 | 28 | - | 137 |
| | | | | | | |
| **Changes in working capital:** | | | | | | |
| (Increase) decrease in inventories | (1,594) | (1,472) | (996) | 1,302 | 1,122 | (844) |
| (Increase) in receivables and other current assets | (15,090) | (6,374) | (5,226) | (10,262) | (8,877) | (8,115) |
| (Increase) decrease in prepayments | (3,956) | 3,420 | (661) | (3,376) | 5,232 | 39 |
| Increase (decrease) in trade payables and payables to related parties | 3,622 | 1,950 | 5,881 | 4,902 | 2,598 | 7,427 |
| Income tax (paid) | (5,204) | (3,608) | (2,456) | (4,094) | (3,199) | (1,980) |
| Increase (decrease) in advances received and other current liabilities | 6,037 | (680) | 733 | 5,527 | (5,379) | 954 |
| **Net cash flows from (to) operating activities** | **8,455** | **610** | **6,915** | **7,818** | **(784)** | **6,935** |
| | | | | | | |
| **Cash flows (to) from investing activities** | | | | | | |
| (Acquisition) of non-current assets (except investments) | (6,148) | (2,555) | (929) | (1,177) | (800) | (340) |
| Proceeds from sale of non-current assets (except investments) | 2,297 | 4,038 | 257 | 388 | 3,838 | 33 |
| (Acquisition) of investments in subsidiaries (net of cash acquired in the Group) and associates | (16,163) | (4,617) | (6,567) | (16,992) | (4,730) | (9,228) |
| Proceeds from sales of investments | (1,766) | 468 | - | 3,243 | 1,550 | - |
| Dividends received | 20 | 466 | 60 | 59 | 2,598 | 114 |
| Interest received | 509 | 827 | 231 | 413 | 209 | 235 |
| **Net cash flows (to) from investing activities** | **(21,251)** | **(1,373)** | **(6,948)** | **(14,066)** | **2,665** | **(9,186)** |
| | | | | | | |
| **Cash flows (to) from financing activities** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Dividends (paid) | (1,955) | (1,000) | (1,500) | (1,955) | (1,000) | (1,500) |
| Proceeds from loans | 24,537 | 5,051 | 9,100 | - | - | 9,100 |
| Loans repaid | (12,567) | (4,462) | (3,795) | - | - | (3,795) |
| Interest (paid) | (1,022) | (158) | (136) | (28) | - | (137) |
| Financial lease (payments) | (3,659) | (843) | (411) | (114) | (308) | (359) |
| **Net cash flows (to) from financial activities** | **5,334** | **(1,412)** | **3,258** | **(2,097)** | **(1,308)** | **3,309** |
| | | | | | | |
| Net (decrease) increase in cash and cash equivalents | (7,462) | (2,175) | 3,225 | (8,345) | 573 | 1,058 |
| | | | | | | |
| Cash and cash equivalents at the beginning of the year | 11,384 | 3,922 | 1,747 | 9,284 | 939 | 1,512 |
| Cash and cash equivalents at the end of the year | 3,922 | 1,747 | 4,972 | 939 | 1,512 | 2,570 |
| | | | | | | |
| **Supplemental information of cash flows:** | | | | | | |
| **Non-cash investing activity:** | | | | | | |
| Non-cash acquisition of subsidiaries and associates (set-off against intercompany receivables) | - | 720 | - | - | 720 | - |
| Non-cash sales of investments (set-off against intercompany payables) | 11,245 | 17,429 | - | 11,245 | 17,429 | - |
| Property, plant and equipment acquisitions financed by financial lease | 1,527 | 211 | 1,066 | 441 | 211 | 851 |
| Non-cash dividends received (set-off against intercompany payables) | - | 1,043 | - | - | 1,043 | - |
| Non-cash interest received (set-off against intercompany payables) | - | 570 | - | - | 570 | - |
| Non-cash financing activity: | | **-** | **-** | | **-** | **-** |
| Non-cash dividends to shareholders (set-off against intercompany receivables) | - | 23,400 | - | - | 23,400 | - |
| Non-cash repayments of loans (set-off against accounts receivable for non-current assets sold) | 2,750 | - | - | 2,750 | - | - |
| | | | | | | |

## Important accounting policies

The audited consolidated financial statements of the Company and the Group included in this Prospectus are prepared on the historical cost basis except where described otherwise. Group entities apply, in all material respects, uniform accounting policies. The accounting policies set out below have been applied consistently during all periods reflected in the consolidated financial statements included in this Prospectus.

The functional currency of the Company is Litas (LTL) and the consolidated financial statements of the Company are stated in thousand Litas. The financial statements of the Company and the Group are prepared in accordance with IFRS as adopted by the EU, which require Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Description of accounting policies is included into the financial statements provided in Appendices 1-2.

## Summary of Independent Auditors' Reports

The auditors of the Company have audited the consolidated financial statements of the Company prepared in accordance with IFRS as adopted by the EU for the financial years ended 31 December 2005 and 31 December 2006. Having done so, the auditors have issued unqualified reports stating that these financial statements present fairly, in all material respects, the financial condition of the Company and the Group as of the end of each relevant period, as well as the results of their financial performance and their cash flows for years then ended in accordance with the IFRS as adopted by the EU. Complete statements of Auditors' Opinions are provided in Appendices 1-2.

# Dividends

## Dividends declared

Information on the dividends declared and paid for the financial years 2004 and 2005 and declared dividends for the financial year 2006 are provided in *Table 59.*

On 28 March 2007, the General Shareholders Meeting decided to distribute LTL 12,075 thousand in dividends from the retained earnings for the year 2006 (LTL 19,082 thousand as of 31 December 2006).

**Table 59. Dividends declared and paid by the Company for the financial years 2004, 2005 and 2006**

| | 2004 | 2005 | 2006 |
|---|---|---|---|
| Dividends declared (LTL in thousands) | 24,400 | 1,500 | 12,075 |
| Dividends paid in cash (LTL in thousands) | 1,000* | 1,500 | 1,897.5*** |
| Nominal value of the share (LTL) | 1** | 1 | 1 |
| Number of shares (in thousands) | 10,500** | 10,500 | 10,500 |
| Dividends declared per share (LTL)**** | 2.32 | 0.14 | 1.15 |
| Dividends paid in cash per share (LTL)**** | 0.10 | 0.14 | 0.18 |

* Of the total sum of dividends, LTL 23,400 thousand was non-cash dividends offset against amounts receivable from UAB Rubicon Group (see *Table 37*, page 66).

** On 26 October 2005, the Company issued additional 10,395 thousand of shares and decreased the nominal value of the share from LTL 100 to LTL 1.

*** The total sum of LTL 10,177.5 thousand will be paid in non-cash dividends offset against amounts receivable from UAB Rubicon Group and other related parties.

**** Calculated per number of shares outstanding as of the end of the year.

## Dividend policy

Shareholders of the Company in the extraordinary shareholders meeting have decided to adopt a policy to distribute as dividends at least 25% of the net profit of the reporting financial year reduced by (i) retained loss of the previous financial years (if any) and (ii) mandatory allocation to reserves. Notably, such dividend policy should be treated as intention of the current shareholders and may be overruled by a resolution of the annual General Shareholders Meeting.

# Legal and Arbitration Proceedings

## Litigation

The Company is involved as a claimant in the following court cases:

*Concession agreement regarding the education institutions in Kaunas.* The Company is currently involved as a claimant in the administrative case against the Council of Kaunas municipality regarding discontinued negotiations for a 25-year concession of secondary schools and kindergartens in Kaunas. The contract includes the full-scale facility management services as well as the investment into the renovation of facilities. According to the draft of the agreement, for a fixed annual concession fee of LTL 57 million and investment return fee of LTL 10.5 million (including VAT), the Company should invest no less than LTL 146.1 million into the education institutions in Kaunas in a three-year period and no less than LTL 179.1 million in total. Should the court satisfy the lawsuit of the Company, the negotiations will be resumed and the Company may be granted the contract for the maintenance and renovation of 192 education institutions in Kaunas (see the Section *Factors not included in the Profit Forecast,* page 74).

*Privatisation of UAB Ąžuolyno Valda.* The Company is currently involved as a claimant in the administrative case against Klaipėda City Municipality. By this claim the Company seeks to recover from the privatisation fund damages incurred in relation to UAB Ąžuolyno Valda shares purchase agreement. Claimant states that Klaipėda City Municipality, as the seller of the privatisation object, provided the participants of the auction with the information which did not reflect real financial situation of privatisation object (UAB Ąžuolyno Valda) therefore claimant who won the auction incurred losses equal to LTL 842,395.

*Privatisation of UAB Naujamiesčio Būstas.* The Company is currently involved as a claimant in the case against Administration of Vilnius City Municipality regarding annulment of the public auction of privatisation of a 100% block of shares of UAB Naujamiesčio Būstas. According to the Company, the municipality provided fallacious information about the real estate owned by UAB Naujamiesčio Būstas and herewith in principle misguided participants who therefore could not offer the competitive price in the auction. The claim is to adjudge the sales-purchase agreement of privatisation object signed by Administration of Vilnius City Municipality and UAB Būsto Investicijų Valdymas null and void.

*Exchange of shares in UAB Vingio Valdos to those in UAB Būsto Administravimo Agentūra.* On 4 October 2006 the Kaunas district court awarded a judgement in the civil case by which the claim of Virgilijus Strioga against, amongst others, the Company was satisfied. The court decided, inter alia, to invalidate the agreement of the exchange of shares signed on 7 November 2005 between the defendants A. Bačiliūnas, his wife Danutė Bačiliūnienė and the Company, and to apply restitution – to return 3,403 shares of UAB Vingio Valdos, from the defendants A. Bačiliūnas and D. Bačiliūnienė to the Company, and to return 4,230 shares of UAB Būsto Administravimo Agentūra from the Company to the defendants A. Bačiliūnas and D. Bačiliūnienė. The Company has appealed this judgement to the Lithuanian Court of Appeals which has decided to suspend the case until the connected civil case is resolved by Kaunas local court. If the appeal of the Company is rejected, the Company does not foresee any negative financial consequences, since as a result of restitution awarded by Kaunas District Court they would receive the shares of an equivalent value.

### Other proceedings

*Completed tax inspection.* On June 2004 Large Taxpayer Department of State Tax Authority under the Ministry of Finance of the Republic of Lithuania started the integrated inspection of the Company. The audited period was from 1 January 2002 till 31 December 2005. Inspected taxes: value added tax, personal income tax, state social insurance contribution, contribution for the guarantee fund, real estate tax, corporate income tax, etc. During the inspection it was decided that the Company had not paid LTL 353 of value added tax within the audited period. Additionally, it was assessed that the Company had not paid LTL 294 of profit tax. Hence after the inspection the Company totally had to pay LTL 855 (including the lack of tax contributions, fines and default interests).

## Latest Financial and Operational Developments

Since the end of the last period for which audited financial information exists (31 December 2006), the main financial and operational development of the Company has been the acquisition and restructuring of the subsidiaries in Lithuania and Russia (see the Section *History and Development*, page 22). In all other respects, the business of the Group was carried out in the ordinary course except for the changes described in the Sections *Operating and Financial Review,* page 56, and *Trend Information,* page 67.

## Additional Information

## Share Capital

#### General overview

The current registered share capital of the Company is LTL 17 million. It is divided into 17,000,000 ordinary Shares with the nominal value of LTL 1 each. The Company does not have any other classes of shares than ordinary Shares and does not contemplate the issue of any shares of such other classes.

The Extraordinary Shareholders Meeting of the Company on 14 May 2007 decided on increasing the share capital of the Company up to LTL 19,110,000 and issuing 2,110,000 Shares (*New Shares)* at a subscription price equal to final price of the Offer Shares, as well as on waiving all shareholders' pre-emption rights and granting UAB Rubicon Group the right to subscribe for the whole issue. The New Shares will be paid from the sales proceeds of the Offer Shares by UAB Rubicon Group, provided that the sale of Offer Shares will be effected under the terms and conditions of this Prospectus.

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, except as stated in the preceding paragraph. No put or call options are outstanding with respect to or for the benefit of any Group company.

**Historical information**

Based on the Shareholders' decision as of 22 June 2004, the share capital of the Company was increased from LTL 7 million to LTL 10.5 million by issuing 35,000 Shares with a nominal value of LTL 100 from the Company's own funds and allocated for the Company's existing shareholders on the pro rata basis. The increase of the share capital was registered on 14 July 2004.

On 26 October 2005, the Company decreased the nominal value of shares from LTL 100 to LTL 1 in connection with which the Company issued additional 10,395,000 shares. The share capital of the Company remained unchanged and the new shares have been allocated for the Company's shareholders on the pro rata basis.

Based on the Shareholders' decision as of 28 March 2007, the share capital of the Company has been increased from LTL 10.5 million to LTL 17 million by issuing 6.5 million shares with a nominal value of LTL 1 from the Company's own funds and allocated for the Company's shareholders on the pro rata basis. The increase of the share capital was registered on 2 April 2007.

# The Company's Articles of Association

The Articles of Association of the Company in general conform to the requirements of Lithuanian law. In case of any deviation of the Articles of Association of the Company from mandatory provisions of the Law on Companies, the provisions set forth in the Law on Companies shall prevail. The latest version of the Articles of Association was registered with the Register of Legal Entities of the Republic of Lithuania on 2 April 2007. The main object of the Company is to gain profit from its business activities (facility management services provision in Lithuanian market).

Articles of Association of the Company consist of such parts:

- General provisions;
- Objects and activities of the Company;
- Share capital and shares of the Company;
- Rights of Shareholders;
- Governing bodies of the Company;
- The procedure for publishing the notices of the Company;
- The decision-making procedure as regards the establishment of branches and representative offices of the Company, and for appointing and removing from office the heads of the Company branches and representative offices;
- The procedure for presenting the Company documents and other information to the shareholders;
- The procedure for amending the Articles of Association of the Company.

According to the Articles of Association, the share capital of the Company is divided into 17,000,000 ordinary shares with the nominal value of LTL 1 each.

Shareholders have such **Property Rights**:

- to receive a part of the Company's profit (dividend);
- to receive a part of assets of the Company in liquidation;
- to receive shares without payment if the share capital is increased out of the Company funds, except in cases specified in the Law on Companies;
- to have the pre-emption right in acquiring shares or convertible debentures issued by the Company, except in cases when the General Shareholders Meeting decides to withdraw the pre-emption right in acquiring the Company's newly issued shares or convertible debentures for all the shareholders;
- to lend to the Company in the manner prescribed by law; however, when borrowing from its shareholders, the Company may not pledge its assets to the shareholders. When the Company borrows from a shareholder, the interest may not be higher than the average interest rate offered by commercial banks of the locality where the lender has his place of residence or business, which was in effect on the day of conclusion of the loan agreement. In such a case the Company and shareholders shall be prohibited from negotiating a higher interest rate;
- other property rights established by the Law on Companies and other laws.

Shareholders have such **Non-property Rights**:

- to attend the General Shareholders Meetings;
- to vote at General Shareholders Meetings according to voting rights carried by their shares;
- to receive information on the Company specified in the Law on Companies;
- to claim damages resulting from nonfeasance or malfeasance by the Company manager and Board members of their obligations prescribed by the Law on Companies and other laws and the Articles of Association of the Company as well as in other cases laid down by laws;
- other non-property rights established by the Articles of Association and other laws.

Each share shall give its holder one vote at the General Shareholders Meeting.

At the shareholder's written request the Company shall within 7 days from the receipt of the request grant him access to information and/or submit to him copies of the following documents: Articles of Association of the Company, annual accounts, reports on the activities of the Company, auditor's opinion and audit reports, minutes of the General Shareholders Meetings and other documents whereby the decisions of the General Shareholders Meeting, the Board's recommendations and responses to the General Shareholders Meeting have been executed, the register of shareholders, the lists Board members, also other Company's documents that must be publicly accessible under law as well as minutes of the Board meetings or other documents whereby the decisions of the above-mentioned company organs have been executed, unless the said documents contain a commercial/industrial secret.

A shareholder or a group of shareholders who hold or control more than 1/2 of shares shall have the right of access to all Company documents upon giving the Company a written pledge in the form prescribed by the Company not to disclose the commercial/industrial secret.

According to the Articles of Association, managing bodies of the Company are:

- the General Shareholders Meeting;
- the Board;
- the Manager of the Company (General Director).

The Supervisory Council is not formed in the Company and it is in line with the requirements of the Lithuanian law.

**General Shareholders Meeting**

The **General Shareholders Meeting** shall have an exclusive right to:

- amend and supplement the Articles of Association of the Company;
- select and remove the firm of auditors, set the conditions for auditor remuneration;
- elect the members of the Board and to remove them;
- determine the class, number and set the nominal value and the minimum issue price of the shares issued by the company;
- take a decision regarding conversion of shares of one class into shares of another class, approve share conversion procedure;

- approve the annual financial statements and the annual report of the Company;
- take a decision on profit/loss distribution;
- take a decision on the formation, use, reduction and liquidation of reserves;
- take a decision to issue convertible debentures;
- take a decision to withdraw for all the shareholders the right of pre-emption in acquiring the shares or convertible debentures of a specific issue of the Company;
- take a decision to increase the share capital;
- take a decision to reduce the share capital, except where otherwise provided for by the Law on Companies;
- take a decision for the Company to purchase own shares;
- take a decision on the reorganisation or division of the Company and approve the terms of reorganisation or division;
- take a decision to transform the Company;
- take a decision to restructure the Company;
- take a decision to liquidate the Company, cancel the liquidation of the Company, except where otherwise provided by the Law on Companies;
- elect and remove the liquidator of the company, except where otherwise provided by the Law on Companies
- take other decisions prescribed by the laws.

**Convening the General Shareholders Meeting**

The right of initiative to convene the General Shareholders Meeting shall be vested in the Board and the shareholders who have at least 1/10 of all votes.

An Annual General Shareholders Meeting must be held every calendar year at least within four months from the end of the financial year.

**The Extraordinary Shareholders Meeting must be convened** if:

- the Company's equity capital falls below 1/2 of the share capital specified in the Articles of Association;
- the number of the Board members has declined to less than 2/3 of their number prescribed by the Articles of Association;
- the audit firm terminates the contract with the company or is for any other reasons unable to audit the Company's annual financial statements;
- the convening of the Meeting is requested by the shareholders having the right of initiative to convene a General Shareholders Meeting or by the General Director of the Company;
- in other cases prescribed by the laws.

**The General Shareholders Meeting may be convened by order of the court** if:

- the Annual General Shareholders Meeting has not been convened within 4 months of the end of the financial year and at least one shareholder has brought the matter to the court;
- the persons or Company governing bodies having the right of initiative to convene the General Shareholders Meeting applied to the court with a complaint about the failure by the Board or the manager of the Company to convene the General Shareholders Meeting as required under the Law on Companies;
- the persons who initiated of the convening of the General Shareholders Meeting applied to the court complaining that the Board or the manager have not convened the General Shareholders Meeting;
- at least one of the Company's creditors applied to the court with a complaint about the failure to convene the General Shareholders Meeting when it was discovered that the Company's equity fell below 1/2 of the share capital specified in the Articles of Association.

A notice of the General Shareholders Meeting must be published in the daily Lietuvos Rytas or delivered against acknowledgement of receipt sent by registered post to each shareholder not later than 30 days before the General Shareholders Meeting. If the General Shareholders Meeting is not held, the shareholders must be notified of the repeat General Shareholders Meeting in the manner specified above at least 5 days before the day of this General Shareholders Meeting. The repeat General Shareholders Meeting shall be convened at least 5 days and within 30 days after the day of the General Shareholders Meeting which was not held. The General Shareholders Meeting may be convened in derogation of the time limits set above upon written consent of all the shareholders who hold shares conferring voting rights. The documents confirming that the shareholders have been given notice of the General Shareholders Meeting shall be announced when opening the Meeting.

**Quorum of the General Shareholders Meeting and Decision-making**

A General Shareholders Meeting may take decisions and shall be held valid if attended by shareholders who hold shares carrying not less than 1/2 of all votes. After the presence of a quorum has been established, the quorum shall remain continuously throughout the Meeting. While counting the quorum, shares, under which voting rights are prohibited by the law or by the decision of the court, or the Company's acquired own shares are regarded as non-voting shares. If a quorum is not present, the General Shareholders Meeting shall be considered invalid and a repeat General Shareholders Meeting must be convened, which shall be authorised to take decisions only on the issues on the agenda of the meeting that has not been held and to which the quorum requirements shall not apply.

If the shareholder exercises his right to take a written vote, upon being presented for scrutiny the agenda of the General Shareholders Meeting and draft decisions, he shall fill in and submit to the Company a general ballot paper notifying the General Shareholders Meeting whether he is for or against each decision. The shareholders who took a written vote in advance shall be considered as being present at the General Shareholders Meeting and their votes shall be included in the quorum of the meeting and the results of voting. The general ballots papers of the meetings which have not taken place shall be valid at repeat meetings. A shareholder shall not be entitled to vote at the General Shareholders Meeting for the decision in respect of which he has expressed his will in advance in writing.

If in the cases specified by the Law on Companies a shareholder is not entitled to vote when taking decisions on separate issues, the results of the voting on these separate issues shall be determined according to the number of votes of shareholders present at the Meeting who are entitled to vote on deciding the issue.

The General Shareholders Meeting shall not be entitled to take decisions on the issues that are not on the agenda except when the meeting is attended by all shareholders who own shares conferring voting rights and no shareholder voted in writing.

**Decisions taken by a Qualified Majority Vote**

The General Shareholders Meeting shall take the following decisions by a qualified majority vote that shall be not less than 2/3 of all the votes carried by the shares held by the shareholders attending the Meeting:

- to amend the Articles of Association of the Company, unless otherwise provided for by the Law on Companies;
- to determine the class, number, nominal value and the minimum issue price of the shares issued by the Company;
- to convert the Company's shares of one class into shares of another class, approve the share conversion procedure;
- on the distribution of profit/loss;
- on building up, drawing on, reduction or liquidation of the reserves;
- to issue convertible debentures;
- to increase the share capital;
- to reduce the share capital except where the Law on Companies provides otherwise;
- on approving the conditions of reorganisation or division and reorganisation, or division of the Company;
- on the transformation of the Company;
- on the restructuring of the Company;
- on the liquidation of the Company and cancellation of Company's liquidation except where otherwise provided by the Law on Companies.

The decision to withdraw for all shareholders the pre-emption right in acquiring the Company's newly issued shares or convertible debentures of a specific issue shall require a qualified majority vote that shall be not less than 3/4 of all votes conferred by the shares of the shareholders present at the General Shareholders Meeting and entitled to decide on the issue.

**The Board**

The Board is a collegial governing body of the Company. The Board consists of 4 (four) members, elected by the General Shareholders Meeting for a term of 4 (four) years according to the procedure laid down in the Law on Companies. Exclusively natural persons can be the member of the Board. There is no limitation on the number of terms of offices a member of the Board may serve.

The General Shareholders Meeting may remove from office the entire Board or its individual members before the expiry of their term of office. A member of the Board may resign from office prior to the expiry of his term of office by giving a written notice thereof to the Company at least 14 days in advance.

Bonuses may be paid to members of the Board for their work on the Board according to the procedure laid down in the Law on Companies.

The Board shall approve:

- the operating strategy of the Company;
- annual report of the Company;
- the management structure of the Company and the positions of the employees;
- the positions to which employees are hired by tender;
- regulations of branches and representative offices of the Company.

The Board shall determine which information shall be considered to be the company's commercial (industrial) secret.

The Board shall take the following decisions:

- decisions for the Company to become an incorporator or a member of other legal entities;
- decisions to open branches and representative offices of the Company;
- decisions to invest, dispose of or lease the tangible long-term assets the book value whereof exceeds 1/20 of the share capital of the Company (calculated individually for every tape of transaction);
- decisions to pledge or mortgage the tangible long-term assets the book value whereof exceeds 1/20 of the share capital of the Company (calculated for the total amount of transactions);
- decisions to offer surety or guarantee for the discharge of obligations of third persons the amount whereof exceeds 1/20 of the share capital of the Company;
- decisions to acquire the tangible long-term assets the price whereof exceeds 1/20 of the share capital of the Company;
- decisions to restructure the Company in the cases laid down in the Law on Restructuring of Enterprises;
- other decisions within the powers of the Board as prescribed by the Articles of Association or the decisions of the General Shareholders Meeting.

The Board shall analyse and evaluate the documents submitted by the Manager of the Company on:

- the implementation of the operating strategy of the Company;
- the organisation of the activities of the Company;
- the financial status of the Company;
- the results of business activities, income and expenditure estimates, the stocktaking data and other accounting data of changes in the assets.

The Board shall analyse and assess the Company's draft annual financial statements and draft of profit/loss distribution and shall submit them to the General Shareholders Meeting. The Board shall determine the methods used by the Company to calculate the depreciation of tangible assets and the amortisation of intangible assets.

The procedure of work of the Board shall be laid down in the rules of procedure of the Board. Each member of the Board has the right of initiative to summon the Board meeting. The Board may adopt decisions and its meeting shall be deemed to have taken place when the meeting is attended by more than 2/3 of the members of the Board. The members of the Board who voted in advance shall also be deemed to be present at the meeting. The decision of the Board shall be adopted if more votes for it are received than the votes against it. A member of the Board shall not be entitled to vote when the meeting of the Board discusses the issue related to his work on the Board or the issue of his responsibility.

**Manager of the Company (General Director)**

The manager of the Company is a single-person governing body of the Company. The name of the position of the manager of the Company is General Director. The manager of the Company must be a natural person. In his activities, the manager of the Company shall comply with laws and other legal acts, the Articles of Association of the Company, decisions of the General Shareholders Meeting and his job description.

The manager of the Company shall be elected and removed from office by the Board which shall also fix his salary, approve his job description, provide incentives and impose penalties. Information about election or removal of the manager of the Company shall be submitted to the Register of Legal Entities within 5 days after election or removal of the manager.

The manager of the Company shall be responsible for:

- the organisation of activities and the implementation of objects of the Company;
- the drawing up of the annual financial statements;
- the conclusion of the contract with the firm of auditors;
- the submission of information and documents to the General Shareholders Meeting and the Board in cases laid down in the Law on Companies;
- the submission of documents and data to the Register of Legal Entities;
- the submission of the documents of a Company to the Securities Commission and the Central Securities Depository of Lithuania;
- the publication of information referred to in the Law on Companies in the daily Lietuvos Rytas;
- the submission of information to shareholders;
- the fulfilment of other duties laid down in the Law on Companies and other laws and legal acts as well as in the Articles of Association and the staff regulations of the manager of the Company.

# Material Contracts

For description of the contracts entered into outside the ordinary course of business please see the Section *Related Party Transactions* on page 82.

In the ordinary course of business the Company regularly enters into a number of legal contracts and other agreements. In general, the Company has a standard form contract for the facility management services and a standard form contract for the Management of heating facility renovation projects. However, individual contracts have some customer specific clauses as well.

# Third Party Information

For this information please refer to Section *Introduction*, *Presentation of Information*, page 3.

# Documents on Display

For this information please refer to Section *Introduction*, *Presentation of Information*, page 3.

# Information on Holdings

In addition to the entities described in the Section *Structure of the Company*, page 52, the Company also owns *UAB Sostinės Naujienos*. 100% owned by the Company, the entity is planned to be liquidated and does not constitute any material effect on the Company's operations.

# THE OFFERING

## Key Information

## Working Capital, Capitalisation and Indebtedness

In the opinion of the Company, the working capital of the Company is sufficient for its present requirements and no external financing ir presently required to satisfy the working capital needs. For details on capitalisation and indebtedness please see the Section *Capital Resources*, page 66.

## Interests of the parties related to the Offering

There are no interests (including conflicting ones) of the parties related to the Offering.

## Use of proceeds

The net proceeds of sale of the Offer Shares by all the Selling Shareholders after deduction of the expenses of the Offering are LTL 52.9 – 59.6 million based on the Offer Price range.

The Extraordinary Shareholders Meeting of the Company on 14 May 2007 decided on increasing the share capital of the Company up to LTL 19,110,000 and issuing 2,110,000 Shares (*New Shares)* at a subscription price equal to final price of the Offer Shares as well as waiving all shareholders' pre-emption rights and granting UAB Rubicon Group the right to subscribe to the whole issue. The New Shares will be paid from the sales proceeds of the Offer Shares by UAB Rubicon Group provided that the sale of Offer Shares will be effected under the terms and conditions of this Prospectus.

The total expenses of the Offering are provided in the Section *Expenses of the Offering*, page 112. The net proceeds to Company from the issuance of the New Shares are estimated to be LTL 22.8 – 25.8 million based on the Offer Price range.

The aggregate net proceeds to be received by the Company from the issue of New Shares are expected to be used for the investments planned for 2007 (see the Section *Investment*, page 26), as well as for the possible further corporate acquisitions in the existing and new markets in Central-Eastern Europe.

The proceeds from the issue of the New Shares will provide the opportunity to continue the policy of aggressive growth and geographical expansion which the Group has so far pursued. This taken into account, the Offering and issuance of the New Shares is an important step towards the overall strategic objective of the Group (please see the Section *Trend Information,* page 67).

## Information concerning the Shares

## General Information

### Description of the Shares

Description of the Shares being offered:

| | |
|---|---|
| **Type of the Share:** | ordinary registered shares |
| **ISIN number:** | LT0000127375 |
| **Currency of the share issue:** | LTL |
| **Form of shares:** | Registered shares in book-entry form. Entity in charge of keeping the records is **AB bankas Hansabankas**, Custody division, Savanorių 19, LT03502 Vilnius, Lithuania. |

## Legislation under which the Shares have been created

Legislation, under which the Shares have been created, includes Civil Code of the Republic of Lithuania, Law on Companies of the Republic of Lithuania and Law on Securities of the Republic of Lithuania and other related legal acts.

## Transfer restrictions

Offer Shares and the shares that may be subject to Over-Allotment Option are subject to transfer restrictions as revealed in greater detail in the Section *Offering and Transfer Restrictions* on page 109.

8,820,000 of Company's shares owned by UAB Rubicon Group and constituting approximately 51% of the Company's share capital, are pledged and thus their transfer is encumbered. Such shares are not part of the Offering.

Furthermore, the Selling Shareholders are subject to lock-up as described in the Section *Lock-up*, page 112.

## Squeeze-out rules under Lithuanian Law on Securities

Where a shareholder of an issuer company acquires (solely or acting in concert with others) not less than 95 per cent of capital carrying votes and not less than 95 per cent of votes in the company, he is entitled to require the remaining minority shareholders to tender their shares to him at a fair price. However where the shareholder is subject to a mandatory tender offer obligation, he may not squeeze-out minority's shares as long as a mandatory tender offer is not implemented.

The fair price to be paid by the majority shareholder for the acquired shares is presumed to be the following:

1) where a shareholder in a mandatory tender offer acquired not less than 95 per cent of votes in a general shareholders' meeting of the issuer company, the price paid in the mandatory tender offer is presumed to be fair; or

2) where a shareholder in a voluntary tender offer to acquire all the remaining voting shares, acquired not less than 95 per cent of votes in a general shareholders' meeting of the issuer company, the price paid in such voluntary tender offer is presumed to be fair if not less than 90 per cent of the shares comprising the voluntary tender offer were acquired by the offer.

The abovementioned two presumptions apply only where not more than 3 months passed after the closure of a respective tender offer. In any other case a method for calculating the fair price is established by the majority shareholder implementing squeeze-out and is approved by the Securities Commission of the Republic of Lithuania prior to the implementation. The price to be paid for the shares in a squeeze-out procedure may be disputed in a court. Majority shareholder implementing squeeze-out may only offer cash as consideration. Where the majority shareholder fails to acquire all the shares in squeeze-out, he is not entitled to implement the procedure anew.

# Shareholder Rights

## General information

Shareholders' rights other than described below (including voting rights and pre-emption rights) are provided in the Section *The Company's Articles of Association*, page 93.

## Dividend rights

The dividend is a share of profit allocated to the shareholder in proportion to the nominal value of shares owned by such shareholder. If a share is not fully paid-up and the time limit for the payment has not yet expired, the dividend of the shareholder shall be reduced in proportion to the unpaid amount of the share price. If the share is not fully paid-up and the time limit for the payment has expired, no dividend shall be paid.

Dividends allocated by the decision of the General Shareholders Meeting shall be the liability of the Company to its shareholders. The shareholder shall have the right to claim the payment of dividend as the creditor of the Company. The

Company shall have the right to recover the dividend paid out to the shareholder if the shareholder knew or should have known that the dividend was allocated and/or paid unlawfully.

The General Shareholders Meeting may not adopt the decision to declare and pay dividends if at least one of the following conditions is met:

1) the Company is insolvent or would become insolvent after the payment of dividends;
2) the result of the financial year available for appropriation is negative (losses were incurred);
3) the equity capital of the Company is lower or after the payment of dividends would become lower than the aggregate amount of the share capital of the Company, the legal reserve, the revaluation reserve and the reserve for own shares of a public limited liability company.

The Company must pay the allocated dividends within 1 month after the day of adoption of the decision on profit appropriation. Payment of dividends in advance shall be prohibited.

The Company shall pay the dividends in cash.

Persons who were shareholders of the Company at the end of the day when the General Shareholders Meeting declared the dividends or were entitled to receive dividends on other legal grounds shall be entitled to the dividend.

Non-resident holders have the same dividend rights as the shareholders of the Company.

### Redemption provisions

The Company shall have the right to purchase own shares. In order to purchase own shares, the Company must submit a voluntary tender offer according to the procedure laid down in the legal acts regulating the securities market. Own shares may be acquired by the Company by the decision of the General Shareholders Meeting.

The total nominal value of own shares being acquired by the Company together with the nominal value of other own shares already held by the Company may not exceed 1/10 of the share capital.

The Company may purchase own shares if the reserve for own shares is formed in the Company and the amount thereof is not less than the sum total of the acquisition values of own shares.

### Conversion provisions

The Company has not issued convertible securities.

# Taxation

*The following is a summary of certain Lithuanian, Latvian and Estonian tax consequences of ownership and disposition of the Shares. The Summary does not purport to be a comprehensive description of all the tax consequences that may be relevant for making decision to purchase, own or dispose of the Shares. The Summary is based on the tax laws of Lithuania, Latvia and Estonia as in effect on the date of the Prospectus.*

## Lithuania

### Taxation on dividends

Dividends paid by Lithuanian entity to individuals (either residents or non-residents of Lithuania) are subject to the personal income tax at a rate of 15%.

Dividends paid by Lithuanian entity to a legal entity (either Lithuanian of foreign entity) are subject to the corporate profit tax or the withholding tax at a rate of 15%, unless the participation exemption can be applied. That is, the dividends paid to a legal entity are tax exempt if a legal entity holds continuously, at least for 12 months, including the date of distribution of dividends, shares carrying more than 10% of the total number of votes in Lithuanian legal entity (the payer of dividends). The exemption is not applied in case the recipient of dividends is established or otherwise organised in a tax heaven country or the payer of dividends is not subject to taxation at the 15% or 13% tax rate in Lithuania (except for the cases when dividends are paid to a foreign entity and the payer of dividends is established in free economic zone (dividends, paid by companies, established in free economic zone, are exempt from corporate profit tax).

If the rate set in the double taxation treaties exceeds the rate applicable pursuant to the national law, the rate set forth in the national law shall apply.

The obligation to calculate, withhold and pay the withholding tax on dividends arises for Lithuanian legal entity (the payer of dividends).

## Taxation on capital gains

Capital gains received by a Lithuanian entity or by a foreign entity through its permanent establishment in Lithuania from the sale of securities are included in the taxable income for corporate income tax, i.e. no certain capital gains tax is established under Lithuanian tax legislation. The standard rate of the corporate income tax is 15%. Besides, in 2006 a temporary social tax of 4% is imposed on the taxable profits of legal entities. Due to the social tax the effective corporate income tax rate was 19% in 2006 and will be 18% in 2007.

Income from capital gains is equal to the sale price less the acquisition cost, commission fees and taxes paid in relation to acquisition/sale of securities.

Capital gains received by a foreign entity not through its permanent establishment in Lithuania from the sale of securities are not subject to taxation in Lithuania.

Starting from 1 January 2007, a new provision is introduced in Lithuanian Law on Profit Tax which provides for the tax exemption on the capital gains received from the sale of the shares of the entity which is (i) registered or otherwise established in the state of European Economic Area or in the state with which Lithuania has an effective double taxation treaty, and (ii) is a payer of a corporate income tax or identical tax, and the entity selling the shares was the owner of more than 25% of the total number of shares in that legal entity for not less than 2 years.

Lithuanian entities and permanent establishments of foreign entities have the right to carry forward losses due to the disposal of securities and/or derivative financial instruments for three consecutive years for the purpose of Lithuanian corporate income tax. The said losses can be covered only with operational income generated from disposals of securities and/or derivative financial instruments.

Capital gains received by a tax resident of Lithuania will not be subject to taxation upon the sale or other transfer of securities if securities are acquired before 1 January 1999, or the holder of securities has held them for more than 366 days before selling them and the holder did not own more than 10% of the outstanding securities of the legal entity (issuer of the securities) during a three-year period prior to the sale of securities. The tax relief will not apply if the securities are sold or otherwise transferred to the issuer of securities. If the tax relief is not applicable, capital gains are subject to the personal income tax at a rate of 15%.

Capital gains received by an individual from the sale of securities through his individual business activities are taxed by the personal income tax at a rate of 27% (24% from 1 January 2008), or the total income from the sale of securities is taxed at a rate of 15%.

Personal income tax on capital gains received by individuals should be calculated, paid and declared by individuals by the 1st of May of the calendar year following the taxable year.

Capital gains received by a non-tax resident of Lithuania from the sale of securities are not subject to taxation in Lithuania.

## Latvia

### Taxation on dividends

Dividends received by a Latvian resident entity from a non-resident are subject to corporate income tax at a rate of 15% unless,

1) the dividends are received by a resident that owns at least 25% capital and voting shares of the entity paying the dividends; and
2) the entity paying the dividends is resident in a state or territory which in accordance with Cabinet of Ministers regulations is not considered a low tax or no tax state or territory.

Dividends received by a Latvian resident entity from a company, which is subject to taxation in its country of residence and which is tax resident in a European Union state or a state of the European Economic Area and which is not treated as resident of another country pursuant to a double tax treaty entered into by a third country, are not subject to corporate income tax.

As a general rule, dividends received by a Latvian resident natural person from a company resident in another European Union state or a state of the European Economic Area are not subject to personal taxation in Latvia, provided the entity paying the dividends is subject to corporate taxation or a similar tax in its country of residence.

### Taxation on capital gains

Income received by a Latvian entity from the sale of shares which are publicly traded in the European Union or European Economic Area are not subject to corporate income tax.

Income obtained by resident individuals from the sale of shares is not subject to personal income tax if the shares sold were the individual's personal assets. However, the income obtained by a resident individual from the sale of shares will be subject to personal income tax at the rate of 25% if the acquisition and subsequent sale of the Shares is considered part of the resident individual's personal business.

## Estonia

### Taxation on dividends

Dividends received by an Estonian resident individual from a Lithuanian entity are subject to income tax at the rate of 22%. As the law currently stands, the income tax rate will decrease gradually within the following years (21% as from 1 January 2008 and 20% as from 1 January 2009). However, income tax will not be charged on dividends in Estonia, if income tax has been paid on the share of profit on the basis of which the dividends are paid or if income tax on the dividends has been withheld in a foreign state. Therefore, if the Lithuanian entity distributing the profits has paid income tax on the share of profit on the basis of which the dividends are paid, or has withheld income tax from dividends, such dividends will not be subject to taxation in Estonia.

Since earnings of resident companies are taxed only upon distribution, receipt of dividends by an Estonian resident company from a non-resident company by itself does not trigger any immediate tax obligation in Estonia: dividend income is subject to income tax upon distribution of profits by the Estonian company. The Estonian resident company may deduct the income tax withheld from received dividends abroad from the corporate income tax payable by the Estonian resident company upon distribution of its profits. In case the Estonian resident company holds at least 15% of shares in the Lithuanian company upon payment of dividends by the latter, such dividends will not be taxable in Estonia upon their re-distribution by the Estonian company.

### Taxation of capital gains

Income tax at the rate of 22% (subject to reduction to 21% from 1 January 2008 and 20% from1 January 2009) will be charged on gains realized by Estonian resident individuals upon sale or exchange of shares. Since earnings of resident legal persons, including capital gains, are taxed only upon distribution, capital gains realized by resident legal persons are not subject to immediate taxation.

For the purposes of capital gains taxation, the gain derived from the sale of shares is the difference between the acquisition cost and the selling price of the sold shares. The gain derived from the exchange of shares is the difference between the acquisition cost of shares subject to exchange and the market price of the property received as a result of the exchange. A shareholder has the right to deduct certified expenses directly related to the sale or exchange of shares from the shareholder's gain.

Certain categories of capital gains are exempt from income tax, such categories include, in particular, capital gains derived from the exchange of shares in the course of a merger, division or transformation of companies.

# Terms and Conditions of the Offering

# General Information

## Retail Offering and Institutional Offering

In the course of the Offering, ordinary shares of the Company (*Shares*) are being offered to Lithuanian, Latvian, Estonian and other foreign Institutional Investors (*Institutional Offering*) and to the general public in Lithuania, Latvia and Estonia (*Retail Offering* and, together with the Institutional Offering, *Offering*). The Offering comprises up to **4,781,428** Shares of the Company (*Offer Shares*) owned by the *Selling Shareholders* (as defined in the Section *Selling Shareholders*, page 111) provided that the Over-Allotment Option is exercised in full.

The division of Offer Shares between the Institutional Offering and the Retail Offering has not been predetermined. The number of Offer Shares included in the Institutional Offering and in the Retail Offering will be decided by the Selling Shareholders in consultation with the Lead Manager. This decision will be taken in conjunction with the allocation process, which will take place immediately after the expiry of the Offer Period. When deciding the division of Offer Shares between the Institutional Offering and the Retail Offering, the Selling Shareholders will consider mainly (i) the overall demand for the Offer Shares, (ii) the demand for the Offer Shares in the Retail Offering and (iii) the variance in the size of orders in the Retail Offering and the distribution of orders of different sizes in the Retail Offering. When deciding such division, the Selling Shareholders will be aiming to determine a proportion between the Institutional Offering and the Retail Offering which (i) gives the Company a wide shareholder base and (ii) can be expected to contribute to a stable and favourable development of the price of its Shares in the aftermarket.

The division of the Offer Shares between the Institutional Offering and the Retail Offering will be announced together with the allocation results (see the Section *Announcement of the allocation results*, page 107).

## Right to participate in the Retail Offering

The Retail Offering is directed to all natural and legal persons in Lithuania, Latvia and Estonia. For the purposes of these terms, a natural person will be deemed to be in Lithuania if such person has a securities account with one of the registered securities account operators in Lithuania and such person's address recorded in the records of one of the above-mentioned institutions in connection with such person's securities account is located in Lithuania. A legal person will be deemed to be in Lithuania if it has a securities account with one of the registered securities account operators in Lithuania or with Lithuanian Central Securities Depositary and its registered address recorded in the records of one of the above-mentioned institutions in connection with its securities account is located in Lithuania and/or its registration code recorded in such records is the registration code of Lithuanian Register of Legal Persons.

For the purposes of these terms, a natural person will be deemed to be in Latvia if such person has a securities account with one of the registered securities account operators in Latvia and such person's address recorded in the records of one of the above mentioned institutions in connection with such person's securities account is located in Latvia. A legal person will be deemed to be in Latvia if it has a securities account with one of the registered securities account operators in Latvia or with the Latvian Central Depositary and its registered address recorded in the records of one of the above-mentioned institutions in connection with its securities account is located in Latvia and/or its registration code recorded in such records is the registration code of the Latvian Commercial Register.

For the purposes of these terms, a natural person will be deemed to be in Estonia if such person has a securities account with the ECRS and such person's address recorded in ECRS records in connection with such person's securities account is located in Estonia. A legal person will be deemed to be in Estonia if it has a securities account with ECRS and its registered address recorded in ECRS records in connection with its securities account is located in Estonia and/or its registration code recorded in ECRS records is the registration code of the Estonian Commercial Register.

Purchase undertakings of Retail Investors as described under the Section *Submission of Purchase Undertakings*, page 105, can be submitted in Lithuania, Latvia and Estonia only through securities accounts opened respectively with AB bankas Hansabankas, AS Hansabanka or AS Hansapank.

## Offer Period

Investors may submit, amend or cancel the Purchase Undertakings for the Offer Shares (*Purchase Undertaking*) during the Offer Period, which commences on 21 May 2007 at 9.00 hours and terminates on 1 June 2007 at 14.00 hours (*the Offer Period*).

## Submission of Purchase Undertakings

The Selling Shareholders invite investors to submit Purchase Undertakings in accordance with these terms and conditions and the following procedure.

In order to purchase the Offer Shares a Retail Investor must have a securities account with AB bankas Hansabankas in Lithuania, AS Hansabanka in Latvia or AS Hansapank in Estonia (collectively referred to as *the Broker*). Such securities account may be opened at any branch office of the Broker. A Retail Investor may not submit a Purchase Undertaking through nominee accounts of other intermediaries. Institutional Investors may submit a Purchase Undertaking through a nominee accounts of other intermediaries.

An investor wishing to purchase the Offer Shares should contact the Broker and submit a Purchase Undertaking for the purchase of securities in the form set out below. The Purchase Undertaking must be submitted to the Broker by the end of the Offer Period (as defined in the Section *Offer Period*, page 105). The investor may use any method the Broker offers to submit the Purchase Undertaking (e.g., physically through a bank's branch, over the Internet or by other means).

The Purchase Undertaking of a Retail Investor must include the following information:

| | |
|---|---|
| **Owner of the securities account:** | name of the investor |
| **Securities account:** | number of the investor's securities account |
| **Broker:**<br>Lithuania<br>Latvia<br>Estonia | <br>AB bankas Hansabankas<br>AS Hansabanka<br>AS Hansapank |
| **Security:** | Ordinary registered shares of AB City Service |
| **ISIN code:** | LT0000127375 |
| **Amount of securities:** | the number of Offer Shares which the investor wishes to purchase |
| **Price (per share):** | maximum price from the Offer Price Range |
| **Transaction amount:** | the number of Offer Shares for which the investor wishes to purchase multiplied by the Offer Price |
| **Counterparty:**<br>Lithuania<br>Latvia<br>Estonia | <br>AB bankas Hansabankas<br>AS Hansabanka<br>AS Hansapank |
| **Securities account of counterparty:**<br>Lithuania<br>Latvia<br>Estonia | <br>22-V83494<br>000850<br>99000011822 |
| **Broker of the counterparty:**<br>Lithuania<br>Latvia<br>Estonia | <br>AB bankas Hansabankas<br>AS Hansabanka<br>AS Hansapank |
| **Value date of the transaction:** | The settlement day |
| **Type of transaction:** | purchase |
| **Type of settlement:** | delivery against payment |

Institutional Investors may specify any price within the Offer Price Range in their Purchase Undertakings and otherwise deviate from the above form as may be specifically agreed between the Broker and an Institutional Investor.

An investor may submit a Purchase Undertaking either personally or through a representative whom the investor has authorized (in the form required by law) to submit the Purchase Undertaking.

Multiple Purchase Undertakings by one investor, if submitted, shall be merged for the purposes of allocation.

Purchase Undertaking is deemed submitted from the moment the Broker receives a duly completed transaction instruction from the investor. The Purchase Undertaking can be cancelled or amended as described in the Section *Amendment or cancellation of Purchase Undertakings*, page 106. An investor shall be liable for the payment of all fees charged by the Broker in connection with the submission, cancellation or amendment of the Purchase Undertaking.

An investor must ensure that all information contained in the Purchase Undertaking is correct, complete and legible. The Company reserves the right to reject any Purchase Undertakings which are incomplete, incorrect unclear or illegible, or which have not been completed and submitted during the Offer Period in accordance with all requirements set out in these terms and conditions.

By submitting a Purchase Undertaking every investor:

- accepts the terms and conditions of the Offering set out under this Section and elsewhere in this Prospectus and agrees with the Selling Shareholders that such terms will be applicable to the investor's acquisition of any Offer Shares;

- acknowledges that the Offering does not constitute an offer of the Offer Shares by the Selling Shareholders in legal terms or otherwise and that the submission of a Purchase Undertaking does not itself entitle the investor to acquire the Offer Shares nor result in a contract for the sale of Offer Shares;

- accepts that the number of Offer Shares indicated by the investor in the Purchase Undertaking will be regarded as the maximum number of Offer Shares which the investor wishes to acquire (the Maximum Amount) and that the investor may receive less (but not more) Offer Shares than the Maximum Amount;

- undertakes to acquire and pay for any number of Offer Shares allocated to it/him/her in accordance with these terms and conditions;

- authorises the Broker with which the Purchase Undertaking was placed to amend the information contained in the investor's transaction instruction, including (a) to specify the value date of the transaction and (b) to specify (i) the number of Shares to be purchased by the investor, (ii) the Offer Price (as determined after the Offer Period) as the price per share and (iii) the total amount of the transaction found by multiplying the Offer Price by the number of Offer Shares allocated to the relevant investor.

## Cancellation of the Offering

The Selling Shareholders have reserved the right to cancel the Offering at any time until they have received full payment for all Offer Shares, if the Underwriting Agreement among the Company, the Selling Shareholders and the Lead Manager is terminated prior to settlement.

The Offering is conducted on *all or nothing* basis, i.e. the Offer Shares will be sold only on condition that all the Offer Shares are allocated.

Cancellation of the Offering will be announced through Vilnius Stock Exchange. All rights and obligations of the parties in relation to the cancelled Offering will be considered terminated at the moment when such announcement is made public.

## Amendment or cancellation of Purchase Undertakings

An investor may amend or cancel a Purchase Undertaking at any time before the expiry of the Offer Period. To do so, the investor must contact the Broker through whom the Purchase Undertaking in question has been made, and carry out the procedures required by the Broker for amending or cancelling a Purchase Undertaking (such procedures may differ between different brokers). All fees payable in connection with an amendment and/or cancellation of a Purchase Undertaking will be borne by the investor.

A cancellation or amendment of a Purchase Undertaking becomes effective at the moment when the transaction instruction of the investor in question has been cancelled by the relevant Broker.

## Payment and Delivery of Offer Shares

By submitting a Purchase Undertaking, a Retail Investor authorises and instructs the Broker operating the investor's cash account connected to its/his/her securities account to immediately block the whole transaction amount on the investor's cash account until the settlement is completed or funds are released in accordance with these terms and conditions. The transaction amount to be blocked will be equal to the maximum Offer Price multiplied by the maximum number of Offer Shares which the Retail Investor wishes to acquire. A Retail Investor may submit a Purchase Undertaking only when there are sufficient funds on its/his/her on the cash account connected to securities account with the relevant Broker to cover the whole transaction amount. Procedures set-out in this paragraph are not applicable to Institutional Investors.

Offer Shares allocated to investors will be transferred to their securities accounts on or about 7 June 2007 through the delivery versus payment method simultaneously with the transfer of payment for such Offer Shares. In no event will the date of settlement be later than 8 June 2007.

If an investor has submitted several Purchase Undertakings through several securities accounts belonging to him/her/it, the Offer Shares allocated to such investor are transferred to such investor's securities accounts proportionally with the respective securities amounts set out in such investor's Purchase Undertakings. The number of Offer Shares to be transferred to each securities account may be rounded up or down, as necessary, in order to ensure that a whole number of Offer Shares is transferred to each securities account. If the transfer cannot be completed due to the lack of sufficient funds on the investor's cash account, the Purchase Undertaking of the respective investor will be rejected and the investor will lose all rights to the Offer Shares allocated to such investor.

## Return of funds

If the Offering is revoked (see the Section *Cancellation of the Offering*, page 106), if the investor's Purchase Undertaking is rejected or if the allocation deviates from the amount of Offer Shares applied for, the funds blocked on the investor's cash account, or a part thereof (the amount in excess of payment for the allocated Offer Shares) will be released by the Broker not later than on 7 June 2007. The Selling Shareholders shall not be liable for the release of the respective amount and for the payment of interest on the released amount for the time it was blocked.

## Announcement of the allocation results

The Selling Shareholders expect to announce the Offer Price and the results of the allocation process, including the division of Offer Shares between the Institutional Offering and the Retail Offering, through Vilnius Stock Exchange and a daily newspaper circulated respectively throughout the territory of Lithuania, Latvia and Estonia no later than on 5 June 2007.

# Distribution and Allocation Plan

## General information

The Selling Shareholders together with the Lead Manager will decide on the allocation after determining the Offer Price after the expiry of Offer Period, and no later than on 5 June 2007. The Offer Shares will be allocated to investors participating in the Offering by the following steps:

(i) *Division of tranche size for the Retail Offering and the Institutional Offering.* The Selling Shareholders, together with the Lead Manager will decide on tranche sizes of the Retail Offering and Institutional Offering (percentage wise).

(ii) *Allocation of shares to Institutional Investors.* The Selling Shareholders, together with the Lead Manager, will decide on allocation to Institutional Investors on discretionary basis after the expiry of the Offer Period.

(iii) *Allocation of shares to Retail Investors.* The Selling Shareholders, together with the Lead Manager, will determine allocation percentages applied to the Retail Offering in the following sub steps:

a. *Allocation of the minimum amount.* The total minimum amount of shares for the Retail Investors will be calculated by accumulating the minimum allocations (equal to Purchase Undertaking, but not exceeding the minimum size of allocation being 1,000 Offer Shares) for individual investors and will be deducted from the total tranche dedicated to the Retail Investors.

In case the minimum amount of shares for the Retail Investors exceeds the total tranche dedicated for the Retail Investors, the Selling Shareholders together with the Lead Manager will on discretionary basis determine a new number of Offer Shares fully allocated for each investors' securities account, which will be lower than previously stated.

b. *Allocation of the remaining amount.* After the deduction of the minimum amount of shares for the Retail Investors, the remainder of the total tranche dedicated to the Retail Investors will be allocated to the Retail Investors pro rata (proportionally). Each investor will be allocated an integral number of Offer Shares without fractions. If necessary, the number of allocated Offer Shares will be rounded down to the closest integral number of Offer Shares. Any remaining Offer Shares which cannot be allocated using the allocation process described above will be allocated to the largest investors.

An investor may obtain information about the number of Offer Shares allocated to it/him/her after the settlement has been completed by submitting an inquiry to the broker operating its/his/her respective securities account in accordance with the terms and conditions applied by that broker.

## Over-Allotment Option

Selling Shareholders have granted the Lead Manager an option to purchase up to 623,628 Shares at the price of the Offering solely to cover over-allotments, if any. This option is exercisable starting from the date of public disclosure of the final price for the Offer Shares and end within 30 calendar days after the date of allotment.

## Offer Price

### Determination of the Offer Price Range

Prior to this Offering, there has been no public market for the Shares. Consequently, the Offer Price Range for the Offer Shares has been determined through discussions among the Company, its shareholders and the Lead Manager. Factors relevant to the determination of the Offer Price include the results of operations of the Company, its current financial conditions, future prospects, markets, the economic conditions in and future prospects for the industry in which the Company competes, its management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly-traded companies considered comparable to the Company.

### Procedure for changing the Offer Price Range

If the Offer Price Range is changed, the Company will prepare a supplement to this Prospectus which will be subject to approval by the competent authority. The supplement will be published in the same manner as the original Prospectus. The Company will make an announcement concerning the supplement immediately through Vilnius Stock Exchange and on its website. Investors who have submitted Purchase Undertakings before the announcement will be given the opportunity to cancel their Purchase Undertakings within five working days after the announcement in accordance with the procedure described under the Section *Amendment or cancellation of Purchase Undertakings*, page 106. Should the Offer Price Range be changed, also the dates and other terms and conditions set forth herein may be changed. All such changes will be announced together with the announcement of the new Offer Price Range. Investors who have not cancelled their Purchase Undertakings within the above-mentioned time period will be deemed to have accepted all changes announced in accordance with the above. Should the upper limit of the price range change, all investors who have not cancelled their Purchase Undertakings within five working days after such announcement, will be deemed to have submitted a Purchase Undertaking at the new upper limit of the price range.

## Determination of the Offer Price

The Selling Shareholders will decide upon the exact Offer Price in consultation with the Lead Manager after the completion of the book-building process directed to the Institutional Investors in the course of the Institutional Offering. The Offer Price will be based on the tenders for the Offer Shares obtained from Institutional Investors, also taking into account the total demand in the Institutional Offering, the price sensitivity of such demand and the quality of the demand. The Offer Price will be in the Offer Price Range which may be amended until the end of the Offer Period on the basis of information obtained in the book-building process in accordance with local legislation and notification requirements. The Offer Price will be the same in the Institutional Offering and in the Retail Offering.

The Offer Price will be announced together with the allocation results (see the Section *Announcement of the allocation results*, page 107).

## Placing and underwriting

## Lead Manager of the Offering

AB bankas Hansabankas (address Savanoriu 19, LT-03502 Vilnius, Lithuania) is acting as the Lead Manager of the Offering. Furthermore, AB bankas Hansabankas is acting as the underwriter of the Offering.

The Underwriting Agreement entered between the Selling Shareholders and the Lead Manager on […] May 2007 provides for the obligations of the Lead Manager to offer the Shares on *best efforts* basis.

The Lead Manager has from time to time performed investment banking and advisory services for the Company for which they have received customary fees. The Lead Manager may, from time to time, engage in transactions with the Company and perform services for the Company in the ordinary course of their business.

## Paying agents and depository agents in Latvia and Estonia

In connection with the Retail Offering AS Hansapank (business address Liivalaia 8, EE-15040, Tallinn, Estonia) and AS Hansabanka (business address Balasta dambis 1a, Riga, LV-1048, Latvia) will act as paying agents and depository agents in Latvia and Estonia respectively.

## Offering and Transfer Restrictions

#### General Offering and Transfer Restrictions

This Offering is not directed to persons whose involvement in the Offering requires any extra registration, prospectus or other measures in addition to those necessary under Lithuanian law. No action has been or will be taken in any jurisdiction other than Lithuania, Latvia and Estonia where action for that purpose is required, which would permit a public offering of the Shares or the possession, circulation or distribution of this Prospectus or any material relating to the Shares offered hereby. Accordingly the Shares may not be offered, sold, resold, allotted or subscribed to, directly or indirectly, and neither this Prospectus nor any other offering material or advertisements in connection with the Shares may be distributed or published, in or from any other country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Subject to certain exceptions:

- the Shares may not be offered, sold, resold, granted, delivered, subscribed to, allotted, taken up, transferred or renounced, directly or indirectly, in or into any jurisdiction in which it would not be permissible to offer such Shares (referred to as the *Ineligible Jurisdictions*);

- this Prospectus may not be sent to any person in the Ineligible Jurisdictions;

Subject to certain exemptions, brokers are not permitted to send this Prospectus or any other information about the Offering into any Ineligible Jurisdiction.

Subject to certain exemptions, Purchase Undertakings or instructions sent from or postmarked in any Ineligible Jurisdiction may be deemed to be invalid. The Selling Shareholders reserves the right to reject any Purchase Undertaking (or renunciation thereof) in the name of any person who provides an address in an Ineligible Jurisdiction for acceptance, renunciation, purchase to or delivery of Shares, who is unable to represent or warrant that such person is not in an Ineligible Jurisdiction, or who appears to the Selling Shareholders or its agents to have submitted its Purchase Undertaking, or dispatched it from, an Ineligible Jurisdiction.

**For Shareholders in the United States**

The Shares have not been and will not be registered under the Securities Act of 1933 (*the Securities Act*) or under the securities laws of any state of the United States and, accordingly, may only be offered, sold or allotted in the United States only pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Any person in the United States who obtains a copy of this Prospectus is requested to disregard the contents of this Prospectus. In addition, until the expiration of 40 days after the later of commencement of the Offering or the closing date, any offer or sale of the Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act, unless such offer or sale is made pursuant to an exemption from, in a transaction not subject to, such requirements.

Each purchaser of the Shares purchasing such Shares in accordance with Rule 144A will be deemed to have represented, agreed and acknowledged that the purchaser is a qualified institutional buyer and is aware that the sale of the Shares to it is being made in reliance on Rule 144A and such acquisition will be for its own account or for the account of a qualified institutional buyer.

In making its decision to purchase the Shares, the purchaser understands and acknowledges that:

- it has made its own investment decision regarding the Shares based on its own knowledge;

- it has had access to such information as it deems necessary or appropriate in connection with its purchase of the Shares;

- it has sufficient knowledge and experience in financial and business matters and expertise in assessing credit, market and all other relevant risk and is capable of evaluating, and has evaluated independently, the merits, risks and suitability of purchasing the Shares; and

- the Shares have not been, nor will they be, registered under the Securities Act and may not be re-offered, resold, pledged or otherwise transferred except (1) (A) to a person who the purchaser reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (B) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S or (C) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) and (2) in accordance with all applicable securities laws of the states of the United States.

**For Shareholders outside the United States**

Each purchaser of the Shares offered, sold or allotted in reliance on Regulation S will be deemed to have acknowledged, represented and agreed as follows (terms used in this paragraph that are defined in Regulation S are used herein as defined therein):

- the purchaser or the subscriber (i) is, and the person, if any, for whose account it is acquiring such Shares is, outside the United States, and (ii) is acquiring the Shares in an offshore transaction meeting the requirements of Regulation S;

- the purchaser or the subscriber is aware that the Shares have not been and will not be registered under the Securities Act and are being distributed and offered outside the United States in reliance on Regulation S;

- the Company shall not recognize any offer, subscription to, sale, pledge, or other transfer of the Shares made other than in compliance with the above-stated restrictions;

- the Shares have not been offered to it by means of any *directed selling efforts* as defined in Regulation S under the Securities Act;

- the purchaser or the subscriber acknowledges that Company and its affiliates and others will rely upon the truth and accuracy of the foregoing representations and agreements

# Admission to Trading and Stabilisation

## Listing on the Vilnius Stock Exchange

At the date hereof, no securities issued by the Company are admitted to trading on any regulated market. The purpose of the Offering, among other things, is the subsequent listing of all the Shares on Vilnius Stock Exchange. The Company has applied for the conditional listing of all its Shares in the Main List of Vilnius Stock Exchange. The Company will take all necessary measures in order to comply with Vilnius Stock Exchange rules so that its application will be approved.

## Stabilisation and trading by the Lead Manager

The Lead Manager may effect transactions to stabilise or maintain the market price of Shares, in accordance with applicable laws, starting from the date of public disclosure of the final price for the Offer Shares and end within 30 calendar days after the date of allotment. Any such stabilisation activity will be decided by the Lead Manager at its sole discretion and the Lead Manager is under no obligation to do so. Such stabilisation transactions may result in a situation where Shares are traded at a price that is higher than the price that would have been formed by simple operation of supply and demand, without the effect of stabilisation. Stabilisation activities will be conducted in accordance with the European Commission Regulation (EC) No 2273/2003 implementing Directive 2003/6/EC of the European Parliament and the Council as regards exemptions for buyback programs and stabilisation of financial instruments and will be notified to Lithuanian Securities Commission in accordance with Article 9 (4) of the aforementioned Regulation.

In connection with this Offering, the Lead Manager may purchase and sell Shares. These transactions may include over-allotment, and stabilising transactions. Over-allotment involves sales of shares in excess of the principal amount of Offer Shares to be purchased by the Lead Manager in this Offering, which creates a short position for the Lead Manager. Covering transactions for such short position may involve purchases of the Shares after the distribution has been completed. Stabilising transactions consist of certain bids or purchases of Shares made for the purpose of preventing or retarding a decline in the trading price of the Shares. Any of these activities may have the effect of preventing or retarding a decline in the trading price of the Shares. They may also cause the trading price of the Shares to be higher than the price that otherwise would exist in the absence of such transactions by virtue of the natural operation of supply and demand. The Lead Manager may conduct these transactions in the over-the-counter market or otherwise. If the Lead Manager commences any of these transactions, it may discontinue them at any time. Other than as stated above or as required by law, the Lead Manager does not intend to disclose publicly the extent of any over-allotment made or stabilisation transactions entered into in connection with the Offering, although individual investors may be required to disclose interests in Shares acquired in the Offering or arrangements related to it in accordance with the disclosure requirements of the applicable Lithuanian law.

# Selling Shareholders

## General information

The breakdown of Offer Shares (together with the Over-Allotment Option) by the selling shareholders (*Selling Shareholders*) is provided in *Table 60.* The registration address of UAB Rubicon Group and the business address of the rest of the shareholders of the Company is Konstitucijos 7, LT-09308 Vilnius, Lithuania.

**Table 60. The selling shareholders of the Company**

| No. | Shareholder | Offer Shares | Offer Shares being subject to Over-Allotment Option |
|---|---|---|---|
| 1. | UAB Rubicon Group | 2,511,400 | 623,628 |
| 2. | Andrius Janukonis | 235,200 | - |
| 3. | Darius Leščinskas | 235,200 | - |
| 4. | Arūnas Mačiuitis | 235,200 | - |
| 5. | Rimantas Bukauskas | 235,200 | - |
| 6. | Gintautas Jaugielavičius | 235,200 | - |
| 7. | Linas Samuolis | 235,200 | - |
| 8. | Remigijus Lapinskas | 235,200 | - |
| | **Total** | **4,157,800** | **623,628** |

For information on Rubicon Group please see the Section *Structure of Rubicon Group* on page 50.

The individual Selling Shareholders have employment and/ or board membership relationships with the Company or its affiliates. Apart from that, they also own shares in other Rubicon Group companies.

## Lock-up

Except for the Offer Shares (including any additional Shares sold pursuant to the Over-Allotment Option), the Company and Selling Shareholders have agreed that, without the prior written consent of the Lead Manager, none of such persons will issue, offer, sell, contract to sell, or otherwise dispose of any Shares owned by them at any time or any securities convertible into or exercisable or exchangeable for Shares, or enter into any swap or other agreement or any transaction to transfer the economic consequence of ownership of the Shares, or publicly announce an intention to effect any such transaction, during the period commencing on the date of this Prospectus and ending 360 days after the commencement of trading in the Shares on Vilnius Stock Exchange.

# Expenses of the Offering

The total expenses of the Offering including but not limited to financial audit, legal advice, financial advice and marketing are estimated to be LTL 2 – 2.2 million based in the Offer Price Range. The Company has also agreed to reimburse the Lead Manager for certain expenses and indemnify them against certain losses and liabilities arising out of or in connection with the Offering.

# Dilution

The Offer Shares (4,157,800) represent approximately 24.46% of the share capital of the Company immediately prior to the Offering, and Offer Shares including those subject to Over-Allotment Option (4,781,428) represent approximately 28.13% of the share capital of the Company immediately prior to the Offering.

Immediately after Offering and UAB Rubicon Group acquiring the New Shares (2,110,000), the Shares being sold as part of the offering will amount to 25% of the share capital of the Company provided that the Over-Allotment Option is exercised in full.

Following the completion of the Offering (and assuming that the Over-Allotment Option has been exercised in full) and UAB Rubicon Group acquiring New Shares, the latter will hold 69.7% of Shares and existing individual shareholders of the Company will hold 5.3% of the Shares.

# Additional Information

## Legal Advisors

The principal legal advisor to the Company in respect to Lithuanian law is **Lideika, Petrauskas, Valiūnas ir Partneriai LAWIN**, address: Jogailos 9/1, LT-01116 Vilnius, Lithuania.

The principal legal advisor to the Company in respect to Russian law is **Mannheimer Swartling Ryssland Advokataktiebolag**, address: Sweden House, Malaya Konyushennaya 1/3a, 191186 St. Petersburg, Russia.

The principal legal advisor to the Company in respect of Latvian law is **Klavins & Slaidins LAWIN Attorneys at Law**, address: Elizabetes Street 15, Riga, LV-1010, Latvia.

The principal legal advisor to the Company in respect of Latvian law is **AS Advokaadibüroo Lepik & Luhaäär LAWIN**, address: Dunkri 7, 10123 Tallinn, Estonia.

The principal legal advisor to the Lead Manager in respect to Lithuanian law is **Sutkienė, Pilkauskas ir Partneriai,** address: Didžioji 23, LT-01128 Vilnius, Lithuania.

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# INDEX TO FINANCIAL STATEMENTS

Historical financial information presented below has been duly audited. In particular, the statutory consolidated financial statements of the Company prepared in accordance to IFRS as adopted by the EU for year ended 31 December 2006 and for year ended 31 December 2005 (including corresponding financial information for the year ended 31 December 2004 restated to IFRS) have been audited by UAB Ernst & Young Baltic. To the extent possible, the information contained in this Prospectus is taken or derived from the aforementioned audited consolidated financial statements of the Company. In particular, such information may be found under Sections entitled *Summary*, *Capitalisation*, *Selected Financial Information*, *Results of Operations and Outlook* and *Operations*. All other information included in this Prospectus (including certain information presented under the aforementioned Sections) is based on unaudited sources. Other than described in this Prospectus, since the end of the last period for which audited financial information exists, no significant change in the financial or trading position of the Group has occurred and the business of the Group was carried out in the ordinary course.

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# AB RUBICON CITY SERVICE

CONSOLIDATED AND PARENT COMPANY‘S FINANCIAL STATEMENTS FOR THE YEAR ENDED 2005,
prepared in accordance with International Financial Reporting Standards,
presented together with Independent Auditors’ report

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AB RUBICON CITY SERVICE**

We have audited the accompanying balance sheet of AB Rubicon City Service (a public limited liability company registered in the Republic of Lithuania, hereinafter "the Company") and the consolidated balance sheet of AB Rubicon City Service and subsidiaries (hereinafter "the Group") as of 31 December 2005 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of AB Rubicon City Service management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2005 and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514

| | |
|---|---|
| Jonas Akelis | Inga Gudinaitė |
| Auditor's licence | Auditor's licence |
| No. 000003 | No. 000366 |

The audit was completed on 28 March 2006.

## Balance sheet

| | | Notes | Group | | Company | |
|---|---|---|---|---|---|---|
| | | | **As of 31 December 2005** | **As of 31 December 2004** | **As of 31 December 2005** | **As of 31 December 2004** |
| | **ASSETS** | | | | | |
| **A.** | **Non-current assets** | | | | | |
| I. | Intangible assets | 4 | 21 | 632 | 7 | 45 |
| II. | Property, plant and equipment | 5 | | | | |
| II.1. | Land and buildings | | 358 | 8,607 | - | 1,566 |
| II.2. | Vehicles | | 829 | 4,460 | 794 | 1,071 |
| II.3. | Other property, plant and equipment | | 807 | 7,056 | 790 | 1,015 |
| II.4. | Construction in progress | | - | 210 | - | - |
| | Total property, plant and equipment | | 1,994 | 20,333 | 1,584 | 3,652 |
| III. | Non-current financial assets | | | | | |
| III.1. | Investments into subsidiaries | 6 | - | - | 911 | 5,759 |
| III.2. | Investments into associates | 1 | 220 | 134 | 220 | - |
| III.3. | Non-current receivables | 7 | 314 | 13,967 | 291 | 13,043 |
| III.4. | Other financial assets | | 200 | 216 | 200 | 180 |
| | Total non-current financial assets | | 734 | 14,317 | 1,622 | 18,982 |
| IV. | Deferred income tax asset | 23 | 51 | 294 | 51 | - |
| | **Total non-current assets** | | **2,800** | **35,576** | **3,264** | **22,679** |
| **B.** | **Current assets** | | | | | |
| I. | Inventories and prepayments | | | | | |
| I.1. | Inventories | 8 | 1,028 | 17,690 | 941 | 2,063 |
| I.2. | Prepayments | | 2,176 | 4,299 | 2,162 | 2,382 |
| | Total inventories and prepayments | | 3,204 | 21,989 | 3,103 | 4,445 |
| II. | Accounts receivable | | | | | |
| II.1. | Trade receivables | 9 | 18,509 | 27,630 | 18,158 | 15,506 |
| II.2. | Receivables from and prepayments to related parties | 28 | 25,233 | 18,434 | 25,317 | 15,445 |
| II.3. | Other receivables | | 1,445 | 1,630 | 512 | 145 |
| | Total accounts receivable | | 45,187 | 47,694 | 43,987 | 31,096 |
| III. | Investments in subsidiaries acquired for sale | 10 | - | 8,024 | - | 7,977 |
| IV. | Prepaid income tax | | 556 | 17 | 556 | - |
| V. | Other current assets | | 759 | 134 | 750 | 134 |
| VI. | Cash and cash equivalents | 11 | 1,747 | 3,922 | 1,512 | 939 |
| | **Total current assets** | | **51,453** | **81,780** | **49,908** | **44,591** |
| | **Total assets** | | **54,253** | **117,356** | **53,172** | **67,270** |

## Balance sheet (cont'd)

| | | Notes | Group | | Company | |
|---|---|---|---|---|---|---|
| | | | **As of 31 December 2005** | **As of 31 December 2004** | **As of 31 December 2005** | **As of 31 December 2004** |
| | **EQUITY AND LIABILITIES** | | | | | |
| **C.** | **Equity attributable to equity holders of the Company** | | | | | |
| I. | Share capital | 1 | 10,500 | 10,500 | 10,500 | 10,500 |
| II. | Reserves | 12 | 1,050 | 10,700 | 1,050 | 10,700 |
| III. | Retained earnings (deficit) | | 13,304 | 23,005 | 13,032 | 14,744 |
| | | | **24,854** | **44,205** | **24,582** | **35,944** |
| | **Minority interests** | | **3** | **14,993** | **-** | **-** |
| | **Total equity** | | **24,857** | **59,198** | **24,582** | **35,944** |
| **D.** | **Liabilities** | | | | | |
| **I.** | **Non-current liabilities** | | | | | |
| I.1. | Non-current borrowings | 13 | - | 3,063 | - | - |
| I.2. | Financial lease obligations | 14 | 311 | 2,447 | 287 | 394 |
| I.3. | Deferred income tax liability | 23 | - | 187 | - | 187 |
| I.4. | Provisions | | - | 175 | - | - |
| | **Total non-current liabilities** | | **311** | **5,872** | **287** | **581** |
| **II.** | **Current liabilities** | | | | | |
| II.1. | Current portion of non-current borrowings | 13 | - | 3,438 | - | - |
| II.2. | Current portion of financial lease obligations | 14 | 165 | 1,257 | 165 | 155 |
| II.3. | Current borrowings | 13 | - | 3,322 | - | - |
| II.4. | Trade payables | | 9,452 | 21,682 | 8,864 | 8,802 |
| II.5. | Payables to and advances from related parties | 28 | 11,351 | 2,007 | 11,351 | 7,860 |
| II.6. | Advances received | 16 | 4,749 | 12,423 | 4,689 | 11,436 |
| II.7. | Income tax payable | | - | 1,791 | - | 673 |
| II.8. | Other current liabilities | 17 | 3,368 | 6,366 | 3,234 | 1,819 |
| | **Total current liabilities** | | **29,085** | **52,286** | **28,303** | **30,745** |
| | **Total equity and liabilities** | | **54,253** | **117,356** | **53,172** | **67,270** |

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

| | | | |
|---|---|---|---|
| General Manager | Žilvinas Lapinskas | | 28 March 2006 |
| Finance Director | Jonas Mačiuitis | | 28 March 2006 |

## Income statement

| | Notes | Group 2005 | Group 2004 | Company 2005 | Company 2004 |
|---|---|---|---|---|---|
| I. Sales | 18 | 117,232 | 190,851 | 95,986 | 108,818 |
| II. Cost of sales | 19 | (96,127) | (139,170) | (82,002) | (89,291) |
| **III. Gross profit (loss)** | | **21,105** | **51,681** | **13,984** | **19,527** |
| IV. Operating expenses | 20 | (15,123) | (31,913) | (7,069) | (7,307) |
| **V. Profit (loss) from operations** | | **5,982** | **19,768** | **6,915** | **12,220** |
| VI. Other operating income (expenses), net | 21 | 2,389 | 295 | 2,330 | 531 |
| VII. Income (expenses) from financial and investment activities, net | 22 | (2,179) | 1,492 | 5,525 | (1,005) |
| VIII. Result of associates | | - | 29 | - | - |
| **IX. Profit (loss) before tax** | | **6,192** | **21,584** | **14,770** | **11,746** |
| X. Income tax | 23 | (1,661) | (4,030) | (1,732) | (2,079) |
| **XI. Net profit (loss)** | | **4,531** | **17,554** | **13,038** | **9,667** |
| | | | | | |
| **Attributable to:** | | | | | |
| The shareholders of the Company | | 5,049 | 15,490 | 13,038 | 9,667 |
| Minority interests | | (518) | 2,064 | - | - |
| | | **4,531** | **17,554** | **13,038** | **9,667** |
| | | | | | |
| Earnings per share (LTL) | 24 | 0.48 | 1.48 | | |

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

| | | | |
|---|---|---|---|
| General Manager | Žilvinas Lapinskas | | 28 March 2006 |
| Finance Director | Jonas Mačiuitis | | 28 March 2006 |

## Statement of changes in equity

| | | Equity attributable to equity holders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | |
| **Group** | **Notes** | **Share capital** | **Legal reserve** | **Other** | **Retained earnings (deficit)** | **Total** | **Minority interest** | **Total** |
| **Balance as of 1 January 2004** | | **7,000** | **700** | **-** | **23,010** | **30,710** | **12,929** | **43,639** |
| Increase in share capital from retained earnings | 1 | 3,500 | - | - | (3,500) | - | - | - |
| Transfer to reserves | | - | - | 10,000 | (10,000) | - | - | - |
| Dividends declared | 25 | - | - | - | (1,995) | (1,995) | - | (1,995) |
| Net profit for the year | | - | - | - | 15,490 | 15,490 | 2,064 | 17,554 |
| **Balance as of 31 December 2004** | | **10,500** | **700** | **10,000** | **23,005** | **44,205** | **14,993** | **59,198** |
| Transfer from reserves | | - | - | (10,000) | 10,000 | - | - | - |
| Transfer to reserves | | - | 350 | - | (350) | - | - | - |
| Dividends declared | 25 | - | - | - | (24,400) | (24,400) | - | (24,400) |
| Net profit for the year | | - | - | - | 5,049 | 5,049 | (518) | 4,531 |
| Subsidiaries sold | 1 | - | - | - | - | - | (14,472) | (14,472) |
| **Balance as of 31 December 2005** | | **10,500** | **1,050** | **-** | **13,304** | **24,854** | **3** | **24,857** |

## Statement of changes in equity (cont'd)

| **Company** | **Notes** | **Share capital** | **Reserves** | | **Retained earnings (deficit)** | **Total** |
|---|---|---|---|---|---|---|
| | | | **Legal reserve** | **Other** | | |
| **Balance as of 1 January 2004** | | **7,000** | **700** | **-** | **20,532** | **28,232** |
| Increase in share capital from retained earnings | 1 | 3,500 | - | - | (3,500) | - |
| Dividends declared | 25 | - | - | - | (1,955) | (1,955) |
| Transfer to reserves | | - | - | 10,000 | (10,000) | - |
| Net profit for the year | | - | - | - | 9,667 | 9,667 |
| **Balance as of 31 December 2004** | | **10,500** | **700** | **10,000** | **14,744** | **35,944** |
| Dividends declared | 25 | - | - | - | (24,400) | (24,400) |
| Transfer from reserves | | - | - | (10,000) | 10,000 | - |
| Transfer to reserves | | - | 350 | - | (350) | - |
| Net profit for the year | | - | - | - | 13,038 | 13,038 |
| **Balance as of 31 December 2005** | | **10,500** | **1,050** | **-** | **13,032** | **24,582** |

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

| | | | |
|---|---|---|---|
| General Manager | Žilvinas Lapinskas | | 28 March 2006 |
| Finance Director | Jonas Mačiuitis | | 28 March 2006 |

## Cash flow statement

| | | Notes | Group | | Company | |
|---|---|---|---|---|---|---|
| | | | **2005** | **2004** | **2005** | **2004** |
| **I.** | **Cash flows from (to) operating activities** | | | | | |
| I.1. | Net profit | | 4,531 | 17,554 | 13,038 | 9,667 |
| | **Adjustments for non-cash items:** | | | | | |
| I.2. | Income tax expenses | | 1,661 | 4,030 | 1,732 | 2,079 |
| I.3. | Depreciation and amortisation | | 1,917 | 3,619 | 707 | 803 |
| I.4. | (Reversal of) impairment of accounts receivable, loans granted and prepayments | | (1,011) | 611 | 1 | 314 |
| I.5. | (Reversal of) allowance for inventories | | 393 | 351 | - | - |
| I.6. | (Gain) on disposal of property, plant and equipment | | (2,215) | (170) | (2,187) | (36) |
| I.7. | Loss (gain) from disposal, write-off and impairment of investments | | 3,441 | (2,505) | (944) | 798 |
| I.8. | Discounting of receivables from related parties | | (208) | 637 | (208) | 637 |
| I.9. | Dividend income | | (466) | - | (3,641) | (59) |
| I.10. | Interest income | | (827) | (509) | (779) | (412) |
| I.11. | Interest expenses | | 158 | 1,022 | - | 28 |
| | | | 7,374 | 24,640 | 7,719 | 13,819 |
| | **Changes in working capital:** | | | | | |
| I.12. | (Increase) decrease in inventories | | (1,472) | (1,594) | 1,122 | 1,302 |
| I.13. | (Increase) in receivables | | (4,828) | (15,090) | (5,519) | (10,262) |
| I.14. | Decrease (increase) in prepayments | | 1,874 | (3,956) | 1,874 | (3,376) |
| I.15. | Increase in trade payables and payables to and advances from related parties | | 2,755 | 3,622 | 3,053 | 4,902 |
| I.16. | Income tax (paid) | | (3,608) | (5,204) | (3,199) | (4,094) |
| I.17. | (Decrease) increase in other accounts payable and current liabilities | | (1,485) | 6,037 | (5,834) | 5,527 |
| | **Net cash flows from (to) operating activities** | | **610** | **8,455** | **(784)** | **7,818** |
| **II.** | **Cash flows (to) from investing activities** | | | | | |
| II.1. | (Acquisition) of non-current assets (except investments) | | (2,555) | (6,148) | (800) | (1,177) |
| II.2. | Proceeds from sale of non-current assets (except investments) | | 4,038 | 2,297 | 3,838 | 388 |
| II.3. | (Acquisition) of investments in subsidiaries (net of cash acquired in the Group) and associates | 6, 10 | (4,617) | (16,163) | (4,730) | (16,992) |
| II.4. | Proceeds from sales of investments | 6, 10 | 468 | (1,766) | 1,550 | 3,243 |
| II.5. | Dividends received | | 466 | 20 | 2,598 | 59 |
| II.6. | Interest received | | 827 | 509 | 209 | 413 |
| | **Net cash flows (to) from investing activities** | | **(1,373)** | **(21,251)** | **2,665** | **(14,066)** |

## Cash flow statement (cont'd)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| **III.** | **Cash flows (to) from financing activities** | | | | |
| III.1. | Dividends (paid) | (1,000) | (1,955) | (1,000) | (1,955) |
| III.2. | Proceeds from loans | 5,051 | 24,537 | - | - |
| III.3. | Loans repaid | (4,462) | (12,567) | - | - |
| III.4. | Interest (paid) | (158) | (1,022) | - | (28) |
| III.5. | Financial lease (payments) | (843) | (3,659) | (308) | (114) |
| | **Net cash flows (to) from financial activities** | **(1,412)** | **5,334** | **(1,308)** | **(2,097)** |
| **IV.** | **Net (decrease) increase in cash and cash equivalents** | **(2,175)** | **(7,462)** | **573** | **(8,345)** |
| **V.** | **Cash and cash equivalents at the beginning of the year** | **3,922** | **11,384** | **939** | **9,284** |
| **VI.** | **Cash and cash equivalents at the end of the year** | **1,747** | **3,922** | **1,512** | **939** |
| | **Supplemental information of cash flows:** | | | | |
| | **Non-cash investing activity:** | | | | |
| | Non-cash acquisition of subsidiaries and associates (set-off against intercompany receivables) | 720 | - | 720 | - |
| | Non-cash sales of investments (set-off against intercompany payables in 2005 and reported as intercompany receivable in 2004 Balance Sheet) | 17,429 | 11,245 | 17,429 | 11,245 |
| | Property, plant and equipment acquisitions financed by financial lease | 211 | 1,527 | 211 | 441 |
| | Non-cash dividends received (set-off against intercompany payables) | 1,043 | - | 1,043 | - |
| | Non-cash interest received (set-off against intercompany payables) | 570 | - | 570 | - |
| | **Non-cash financing activity:** | | | | |
| | Non-cash dividends to shareholders (set-off against intercompany receivables) | 23,400 | - | 23,400 | - |
| | Non-cash repayment of debt (set-off against accounts receivable for sold property, plant and equipment) | - | 2,750 | - | 2,750 |

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

| | | | |
|---|---|---|---|
| General Manager | Žilvinas Lapinskas | | 28 March 2006 |
| Finance Director | Jonas Mačiuitis | | 28 March 2006 |

# Notes to the financial statements

## 1 General information

AB Rubicon 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. Until 3 January 2005 the Company was named UAB Rubikon Apskaitos Sistemos.

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 renovation and maintenance of thermal systems, installation and maintenance of thermal installations, administration of commercial buildings and dwelling-houses.

As of 31 December 2005 and 2004 the shareholders of the Company were:

| | **2005** | | **2004** | |
|---|---|---|---|---|
| | **Number of shares held** | **Percentage** | **Number of shares held** | **Percentage** |
| UAB Rubicon Group | 8,850,000 | 84.00% | 88,500 | 84.00% |
| UAB Arkoveta | 1,650,000 | 16.00% | 16,500 | 16.00% |
| Total | 10,500,000 | 100.00% | 105,000 | 100.00% |

On 29 June 2004 the Company and the shareholders of the Company signed a share emission agreement. According to this agreement the Company's share capital was increased to LTL 10,500 thousand by issuing 35,000 ordinary shares with a nominal value of LTL 100 each. The share capital was increased from undistributed profit by proportioning the newly issued shares to the Company's shareholders. The increase of share capital was registered on 14 July 2004.

On 26 October 2005 the Company issued additional 10,395,000 shares and decreased the nominal value of its share from LTL 100 to LTL 1. The shares were distributed to the shareholders based of the percentage of the shares owned. As a result, only the number of shares and their nominal value has changed, with no change to the LTL value of share capital. All the shares are ordinary shares and were fully paid as of 31 December 2005 and 2004.

16% of the Company's shares are owned by UAB Arkoveta, the controlling interest of which is held by UAB Rubicon Group.

## 1 General information (cont'd)

The Group consists of AB Rubicon City Service and the following subsidiaries (hereinafter referred to as „the Group"):

| Company | Country | Share of the stock held by the Company as of 31 December 2005 | Share of the stock held by the Company as of 31 December 2004 | Main activities |
|---|---|---|---|---|
| *Consolidated:* | | | | |
| UAB Katra | Lithuania | - | 51% | Production, installation and maintenance of thermal installations and meters |
| UAB Skiedrynė subgroup | Lithuania | - | 51% | Production of bio-fuel |
| 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% | - | Administration of dwelling-houses |
| UAB Axis Industries (former name - UAB Kazlų Rūdos Metalas) subgroup | Lithuania | - | 46% | Production of heating boilers |
| UAB Sostinės Naujienos | Lithuania | 100% | 100% | Under liquidation |
| *Not consolidated:* | | | | |
| UAB Baloša | Lithuania | - | 100% | Peat processing |
| UAB Vienituras | Lithuania | - | 64% | Services of waste management |
| UAB Rėlinė Apsauga | Lithuania | - | 51% | Designing and installation of substations |
| UAB Tiketa | Lithuania | - | 100% | Distribution of tickets |
| UAB Livesta Serviso Centras | Lithuania | - | 51% | Automation of technologic processes |

UAB Axis Industries has been consolidated in the Company's financial statements as the Company exercises control over the operations of this entity irrespective the fact that it's share holding is less than 50%. The control is exercised as a result of the power of attorney issued by a few minority shareholders to the Company that entitles the Company to vote in the shareholders' meetings on behalf of these minority shareholders on all questions at a disposition of the Company.

As of 31 December 2004 the Company's subsidiaries that were acquired exclusively with a view to their subsequent disposal in the near future were not consolidated. These investments were accounted as current assets in the Company's and Group's financial statements as discussed in Notes 2.3 and 2.4. The investments in subsidiaries acquired for sale were sold in 2005 to UAB Rubicon Group (see Note 10 for details).

On 31 December 2004 the Company sold 100% of the shares of the subsidiaries UAB Aviridis, UAB Arkoveta (subgroup) and UAB Buitis Be Rūpesčių, 97% of the shares of subsidiary UAB Vilniaus Pramogų Parkas. Consolidated income statement for the year ended 31 December 2004 includes the results of operations of the disposed subsidiaries till the date of disposal.

As disclosed in Note 6 in more detail, in 2005 the Company re-acquired UAB Buitis Be Rūpesčių from UAB Rubicon Group (this subsidiary was sold to UAB Rubicon Group in 2004). UAB Buitis Be Rūpesčių was consolidated in the Group's financial statements from 31 December 2005.

In 2005 the Company sold its investments in UAB Katra, UAB Skiedrynė (subgroup) and UAB Axis Industries (subgroup). The result of UAB Skiedrynė (subgroup) were included in the consolidated financial statements of the Group till 1 January 2005. The results of UAB Katra and UAB Axis Industries were included in the consolidated financial statements of the Group till 30 June 2005.

All of the share purchase and sales transactions made in 2005 were made with a view to restructure the Group and to transfer all subsidiaries not related to the business of the Company, i.e. thermal systems maintenance and installations as well as administration of commercial buildings and dwelling-houses, to the ultimate shareholder UAB Rubicon Group, which was established on 28 April 2004. The net result of the Group for 2004 and 2005 was significantly affected by these disposals of subsidiaries as disclosed in Note 22.

The Company's and the Group's investment in an associate as 31 December 2005 included an investment in UAB Būsto Administravimo Agentūra (37% of share capital).

## 1 General information (cont'd)

The summarized financial information of UAB Būsto Administravimo Agentūra is presented below (unaudited):

| | **31 December 2005** |
|---|---|
| Assets | 485 |
| Liabilities | 107 |
| Net assets | 378 |
| Revenue | 1,100 |
| Net profit | 213 |

The Company acquired shares of UAB Būsto Administravimo Agentūra on 7 November 2005 and its result for the period from acquisition date till 31 December 2005 is not material to consolidated financial statements. Therefore, the share of the associate's result was not included in the consolidated income statement for 2005 (also see Note 27).

The Group's investment into associates in 2004 included:

| Company | Country | Share of the stock held by the Company as of 31 December 2004 | Main activities |
|---|---|---|---|
| OOO Biokotlomontaž | Russia | 25% | Construction services |
| VšĮ Kazlų Rūdos Verslo Inkubatorius | Lithuania | 28% | Project management, rent of premises and equipment |

The summarised financial information of OOO Biokotlomontaž and VŠĮ Kazlų Rūdos Verslo Inkubatorius as of 31 December 2004 is presented below (unaudited):

| | OOO Biokotlomontaž | VšĮ Kazlų Rūdos Verslo Inkubatorius |
|---|---|---|
| Assets | 436 | 1,693 |
| Liabilities | 404 | 1,244 |
| Net assets | 32 | 449 |
| Revenue | 2,605 | 76 |
| Net profit | 24 | 2 |

As of 31 December 2005, the number of employees of the Company was 301 (as of 31 December 2004 – 275). As of 31 December 2005, the number of employees of the Group was 373 (as of 31 December 2004 – 909).

The Company's management approved these financial statements on 28 March 2006. The shareholders of the Company have a statutory right to approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

## 2 Accounting policies

The principal accounting policies adopted in preparing the Company's and the Group's financial statements for 2005 are as follows:

### 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.

IASB has issued IFRS No. 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1"). IFRS 1 requires that an entity's first IFRS financial statements are the first annual financial statements in which the entity adopts all IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRS. IFRS 1 requires the Company to prepare its IFRS financial statements as if it is a first-time adopter as the Company presented its most recent previous financial statements under national requirements that are not consistent with IFRSs in all respects.

IFRS 1 requires that the Group and the Company recognise all assets and liabilities that meet the recognitions criteria of IFRS and measure these assets in accordance with each IFRS, with the prior period financial information recognised based on the same criteria. The Company's and the Group's transition date to IFRS is 1 January 2004. The effect of the transition to IFRS and application of IFRS1 is disclosed in Note 3 to these financial statements.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations was applied prospectively, therefore, subsidiaries acquired before 1 January 2005 with an exclusive view to sell them in the near future were not consolidated and have been accounted at cost less impairment following pre-2005 IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries as disclosed in Note 2.3.

*IFRSs and IFRIC Interpretations not yet effective*

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

IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);
IFRS 7 Financial Investments: Disclosures (effective 1 January 2007);
IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006);
IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective from 1 March 2006);
Amendments to IFRS 1 First-time Adoption of IFRS and the Basis for Conclusions of IFRS 7 - Financial instruments: Disclosures (effective from 27 January 2006);
Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 27 January 2006);
Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts (effective from 27 January 2006);
Amendment to IAS 39: Fair value option (effective 1January 2006); amendment to IAS 39: Cash Flow Hedge Accounting (effective 1 January 2006); and amendment to IAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective 1 January 2006);
IFRIC Interpretation 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective from 27 January 2006);
IFRIC Interpretation 8 Scope of IFRS 2 (effective from 1 May 2006);
IFRIC Interpretation 9 Reassessment of Embedded Derivatives (effective from 1 June 2006).

The Company believes that none of these amendments except the amendment to IAS 37 will have a material impact on the financial statements of the Company and the Group. The Company is still assessing the impact of the adoption of the amendment to IAS 37 relating to guarantee contracts on the Company's financial statements.

### 2.2. Measurement and presentation currency

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

Starting from 2 February 2002, Lithuanian Litas is pegged to EUR at the rate of 3.4528 Litas for 1 EUR, 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 Rubicon 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.

Purchases of Companies under common control are accounted using IFRS 3 Business Combinations principles.

Investments in associated companies where significant influence is exercised by AB Rubicon 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.

As discussed in Note 1, as of 31 December 2004 the Company had a number of subsidiaries acquired with an exclusive view to sell them in the near future. As these subsidiaries were acquired from third parties, their acquisition price is considered to be a fair value at the date of their acquisition and the best indicator of their fair values as of 31 December 2004, given the relatively short period between the date of acquisition and balance date. The subsequent sale of these investments was to related parties as disclosed in Note 28.

*Goodwill*

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

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

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

As discussed in Note 3, on the date of transition to IFRS, the Company applied an exemption on business combinations accounting as allowed by IFRS 1.

### 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

Intangible assets are measured initially at cost. 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. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis of their useful lives (3 years).

### 2.6. Property, plant and equipment

Property, plant and equipment 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 have been put into operation, 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 average estimated useful lives:

| | |
|---|---|
| Buildings | 10 years |
| Vehicles | 5-6 years |
| Other non-current assets | 2-4 years |

The useful lives are reviewed annually to ensure that the period of depreciation is 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 financial assets are classified as 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.

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.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when 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 using the effective interest method. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

## 2 Accounting principles (cont'd)

### 2.7. Financial assets (cont'd)

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 gains or losses 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. 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 is determined by the first-in, first-out (FIFO) method. Unrealisable inventory has been fully written-off.

### 2.9. Receivables

Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at cost less impairment, and non-current receivables and loans granted – at amortised cost, less impairment.

### 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, deposits held at call with banks, and other short-term highly liquid investments.

### 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

<u>Financial lease</u>

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

The depreciation is accounted for financial lease assets and it also gives rise to financial expenses in the Company's and the Group'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 Company or the Group, according by the lease contract, gets transferred their ownership after the lease term is over.

## 2 Accounting principles (cont'd)

### 2.12. Financial and operating leases (cont'd)

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 recognized as an expense in the income statement on a straight-line basis over the lease term.

### 2.13. 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. Income tax is calculated based on the Lithuanian tax legislation.

In 2005 and 2004 the standard income tax rate in Lithuania was 15%. On 1 January 2006 the Provisional Social Tax Law will come into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies will have to pay an additional 4% tax calculated based on the income tax principles, and for the following year starting from 1 January 2007 a 3% tax. After the year 2007 m. the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and / or derivative financial instruments can be only used to reduce the taxable income earned from the transactions of the same nature.

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 recognized in the financial statements.

### 2.14. 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 Company and the Group recognises revenue from projects on renovation of thermal systems and installation of thermal components 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.

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

Dividend income from subsidiaries is recognised in the Parent company financial statements when the dividends are declared by the subsidiary.

### 2.15. Expense recognition

Expenses are recognised as incurred.

The amount of expenses is usually accounted as the amount paid or due to be paid, excluding VAT. In those cases when long period of payment is established and the interest is not distinguished, the amount of expenses is estimated by discounting the amount of payment using the market interest rate.

## 2 Accounting principles (cont'd)

### 2.16. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognised in the income statement. Such balances are translated at period-end exchange rates.

### 2.17. Impairment of assets

<u>Financial assets</u>

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.

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

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the 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 in the same caption of the income statement as the impairment loss.

### 2.18. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation, percentage of completion evaluation for long-term contracts, and impairment evaluation. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

### 2.19. Contingencies

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

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

### 2.20. Subsequent events

Post-balance sheet events that provide additional information about 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 Accounting principles (cont'd)

### 2.21. Segment information

In these financial statements a business segment means a constituent part of the Company or the Group participating in production of an individual product or provision of a service or a group of related products or 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 Company or the Group participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

For the management purposes, the activities of the Group are organised as one major segment – installation, renovation and maintenance of thermal systems. Other services such as administration of commercial buildings and dwelling-houses are supporting the main business and are not treated as separate segments. Further, all the Group's operations are in Lithuania.

## 3 First-time adoption of International Financial Reporting Standards

As described in Note 2.1, these financial statements prepared in accordance with IFRS are the first financial statements in which all IFRS are adopted by the Company. The transition date to IFRS is 1 January 2004. The Company has not prepared consolidated financial statements before this transition to IFRS. The only change between the national accounting principles (Lithuanian Business Accounting Standards – BAS) applied in the preparation of the most recent previous financial statements of the Parent company (for the year ended 31 December 2004) and the IFRS principles applied from 1 January 2004 relates to the change from the equity method accounting for investments in subsidiaries and associates (except for subsidiaries acquired exclusively for sale in the near future) to the cost method in the Parent company's IFRS financial statements. Reconciliation of the Parent company equity and net result presented in the prior year BAS financial statements with the equity and net result presented in the comparative numbers of the financial statements prepared by adopting all requirements of IFRS is presented below:

| | **Equity** |
|---|---|
| As presented in the Parent company's BAS financial statements as of 1 January 2004 | 30,285 |
| Reversal of the equity method application under BAS | (2,053) |
| According to IFRS as of 1 January 2004 | 28,232 |

| | **Net result** |
|---|---|
| As presented in the Parent company's BAS financial statements for the year 2004 | 14,933 |
| Reversal of equity method application under BAS | (5,266) |
| According to IFRS for the year 2004 | 9,667 |

On adoption of IFRS, the Company applied an exemption on business combinations accounting as allowed by IFRS 1: as the Company recognised goodwill arising from business combinations before 1 January 2004 directly in retained earnings as of 1 January 2004 in its BAS financial statements, no goodwill was recognised in its opening IFRS balance sheet.

## 4 Intangible assets

Movement of intangible assets in 2005 and 2004 is presented below:

| | Group | Company |
|---|---|---|
| **Cost:** | | |
| Balance as of 31 December 2003 | 1.994 | 490 |
| Additions | 120 | 13 |
| Disposals | (11) | (4) |
| Disposed subsidiaries | (51) | - |
| Retirements | (353) | (1) |
| Balance as of 31 December 2004 | 1.699 | 498 |
| Acquisitions of subsidiaries | 1 | - |
| Additions | 13 | - |
| Disposals | - | - |
| Disposed subsidiaries (Note 1) | (1,154) | - |
| Retirements | (3) | - |
| Balance as of 31 December 2005 | 556 | 498 |
| | | |
| **Accumulated amortisation:** | | |
| Balance as of 31 December 2003 | 1,082 | 405 |
| Charge for the year | 354 | 50 |
| Disposals | (6) | (1) |
| Disposed subsidiaries | (10) | - |
| Retirements | (353) | (1) |
| Balance as of 31 December 2004 | 1,067 | 453 |
| Charge for the year | 204 | 38 |
| Disposals | - | - |
| Disposed subsidiaries (Note 1) | (733) | - |
| Retirements | (3) | - |
| Balance as of 31 December 2005 | 535 | 491 |
| | | |
| **Net book value as of 31 December 2005** | **21** | **7** |
| **Net book value as of 31 December 2004** | **632** | **45** |

The Company and the Group has no internally generated intangible assets. Amortisation expenses of intangible assets are included within operating expenses in the income statement.

Part of the non-current intangible assets of the Company and the Group with the acquisition value of LTL 465 thousand as of 31 December 2005 was fully amortised (LTL 342 thousand and LTL 399 thousand as of 31 December 2004, respectively) but was still in use.

## 5 Property, plant and equipment

Movement of property, plant and equipment in 2005 and 2004 is presented below:

| **Group** | **Land and buildings** | **Vehicles** | **Other property, plant and equipment** | **Construction in progress** | **Total** |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance as of 31 December 2003 | 16,169 | 4,746 | 15,316 | 7,045 | 43,276 |
| Acquisitions of subsidiaries | 90 | 121 | 71 | - | 282 |
| Additions | 642 | 3,459 | 11,669 | 41,572 | 57,342 |
| Disposals | (1,038) | (793) | (1,585) | - | (3,416) |
| Disposed subsidiaries | (52,084) | (1,803) | (8,747) | (2,453) | (65,087) |
| Retirements | - | (129) | (769) | - | (898) |
| Reclassifications | 47,765 | 963 | (2,774) | (45,954) | - |
| Balance as of 31 December 2004 | 11,544 | 6,564 | 13,181 | 210 | 31,499 |
| Acquisitions of subsidiaries | 171 | - | 1 | - | 172 |
| Additions | - | 1,129 | 831 | 1,123 | 3,083 |
| Disposals | (2,400) | (1,158) | (970) | - | (4,528) |
| Disposed subsidiaries (Note 1) | (9,150) | (5,202) | (11,122) | (1,113) | (26,587) |
| Retirements | - | (30) | (2) | - | (32) |
| Reclassifications | 220 | - | - | (220) | - |
| Balance as of 31 December 2005 | 385 | 1,303 | 1,919 | - | 3,607 |
| **Accumulated depreciation:** | | | | | |
| Balance as of 31 December 2003 | 2,817 | 1,850 | 6,044 | - | 10,711 |
| Charge for the year | 1,036 | 1,164 | 2,127 | - | 4,327 |
| Disposals | (203) | (519) | (591) | - | (1,313) |
| Disposed subsidiaries | (713) | (276) | (696) | - | (1,685) |
| Retirements | - | (115) | (759) | - | (874) |
| Balance as of 31 December 2004 | 2,937 | 2,104 | 6,125 | - | 11,166 |
| Charge for the year | 222 | 412 | 1,079 | - | 1,713 |
| Disposals | (870) | (372) | (406) | - | (1,648) |
| Disposed subsidiaries (Note 1) | (2,262) | (1,642) | (5,686) | - | (9,590) |
| Retirements | - | (28) | - | - | (28) |
| Balance as of 31 December 2005 | 27 | 474 | 1,112 | - | 1,613 |
| **Net book value as of 31 December 2005** | **358** | **829** | **807** | **-** | **1,994** |
| **Net book value as of 31 December 2004** | **8,607** | **4,460** | **7,056** | **210** | **20,333** |

## 5 Property, plant and equipment (cont'd)

| **Company** | **Land and buildings** | **Vehicles** | **Other property, plant and equipment** | **Total** |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance as of 31 December 2003 | 2,621 | 1,268 | 4,409 | 8,298 |
| Additions | - | 739 | 1,005 | 1,744 |
| Disposals | (221) | (381) | (3,285) | (3,887) |
| Retirements | - | - | (252) | (252) |
| Balance as of 31 December 2004 | 2,400 | 1,626 | 1,877 | 5,903 |
| Additions | - | 725 | 568 | 1,293 |
| Disposals | (2,400) | (1,091) | (620) | (4,111) |
| Balance as of 31 December 2005 | - | 1,260 | 1,825 | 3,085 |
| **Accumulated depreciation:** | | | | |
| Balance as of 31 December 2003 | 695 | 560 | 1,144 | 2,399 |
| Charge for the year | 158 | 200 | 395 | 753 |
| Disposals | (19) | (205) | (425) | (649) |
| Retirements | - | - | (252) | (252) |
| Balance as of 31 December 2004 | 834 | 555 | 862 | 2,251 |
| Charge for the year | 35 | 216 | 418 | 669 |
| Disposals | (869) | (305) | (245) | (1,419) |
| Balance as of 31 December 2005 | - | 466 | 1,035 | 1,501 |
| **Net book value as of 31 December 2005** | **-** | **794** | **790** | **1,584** |
| **Net book value as of 31 December 2004** | **1,566** | **1,071** | **1,015** | **3,652** |

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2005 amounts to LTL 1,713 thousand and LTL 669 thousand respectively (LTL 4,327 thousand and LTL 753 thousand in the year 2004 respectively). Amounts of LTL 910 thousand and LTL 442 thousand for the year 2005 (LTL 1,693 thousand and LTL 587 thousand for the year 2004) have been included into operating costs, LTL 229 thousand (LTL 166 thousand in 2004) have been included into other operating expenses in the Group's and the Company's income statement respectively. The remaining Group's depreciation expenses in 2005 and 2004 have been included in the cost of sales.

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 943 thousand and LTL 891 thousand respectively were fully depreciated as of 31 December 2005 (LTL 3,195 thousand and LTL 679 thousand as of 31 December 2004 respectively) but were still in active use.

## 6 Investments into subsidiaries

The Company's investments in subsidiaries as of 31 December 2005 and 2004 are as follows:

| | **2005** | **2004** |
|---|---|---|
| Cost of investments at the beginning of the year | 5,759 | 11,764 |
| Disposal of UAB Katra | (2,591) | - |
| Disposal of UAB Kazlų Rūdos Metalas | (2,510) | - |
| Disposal of UAB Skiedrynė | (247) | - |
| Acquisition of UAB Buitis Be Rūpesčių | 500 | - |
| Additional acquisition of UAB Arkoveta | - | 2,954 |
| Transfer of UAB Arkoveta from other investments | - | 1,131 |
| Additional contribution to UAB Axis Industries | - | 11 |
| Additional contribution to UAB Skiedrynė | - | 129 |
| Additional contribution to UAB Aviridis | - | 700 |
| Additional contribution to of UAB Vilniaus Pramogų Parkas | - | 1,000 |
| Write off of UAB Rcom | - | (700) |
| Disposal of UAB Buitis Be Rūpesčių | - | (593) |
| Disposal of UAB Aviridis | - | (710) |
| Disposal of UAB Arkoveta | - | (4,086) |
| Disposal of UAB Vilniaus Pramogų Parkas (97%) | - | (5,661) |
| Transfer of remaining shares (3%) UAB Vilniaus Pramogų parkas to other investments | - | (180) |
| | **911** | **5,759** |

As it is disclosed in Note 1, on 31 December 2005 the Company reacquired from UAB Rubicon Group UAB Buitis Be Rūpesčių. The carrying values of assets and liabilities of the subsidiary acquired as of 31 December 2005 were as follows:

| | **31 December 2005** |
|---|---|
| Non-current assets | 173 |
| Current assets | 634 |
| **Total assets** | **807** |
| Equity | 500 |
| Non-current liabilities | - |
| Current liabilities | 307 |
| **Total equity and liabilities** | **807** |

## 6 Investments into subsidiaries (cont'd)

The fair value of assets and liabilities on the date of acquisition approximated the carrying value.

| | **31 December 2005** |
|---|---|
| Fair value of acquired assets, liabilities and contingent liabilities | 500 |
| Goodwill | - |
| **Total purchase consideration** | **500** |
| Cash acquired | 113 |
| **Total purchase consideration, net of cash acquired** | **387** |

The revenue and net result of the Group for the year as though the acquisition date for this business combination had been 31 December 2005 is not presented due to the insignificance of the operations of the subsidiary acquired to the consolidated financial statements.

As it is disclosed in Note 1, in 2005 the Company sold to UAB Rubicon Group investments in UAB Skiedrynė (subgroup) on 1 January 2005, and UAB Katra and UAB Axis Industries (subgroup) on 30 June 2005. Carrying values of assets and liabilities of the subsidiaries disposed of were as follows:

| | **UAB Skiedrynė (31 December 2004)** | **UAB Katra (30 June 2006)** | **UAB Axis Industries (30 June 2006)** |
|---|---|---|---|
| Non-current assets | 4,129 | 7,512 | 8,002 |
| Current assets | 2,911 | 21,128 | 20,889 |
| **Total assets** | **7,040** | **28,640** | **28,891** |
| Equity | 1,378 | 10,891 | 8,921 |
| Non-current liabilities | 2,550 | 2,493 | 2,002 |
| Current liabilities | 3,112 | 15,256 | 17,968 |
| **Total equity and liabilities** | **7,040** | **28,640** | **28,891** |
| Sales consideration | 306 | 3,188 | 2,722 |
| Cash in disposed of subsidiaries | 122 | 691 | 269 |
| Total sales consideration, net of cash disposed | 184 | 2,497 | 2,453 |

## 7 Non-current receivables

Non-current receivables as of 31 December 2005 and 2004 were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | As of 31 December 2005 | As of 31 December 2004 | As of 31 December 2005 | As of 31 December 2004 |
| Accounts receivable from UAB Rubicon Group | - | 10,608 | - | 10,608 |
| Long term prepayment to UAB Rubicon Eventus | - | 1,446 | - | 1,446 |
| Other | 314 | 1,913 | 291 | 989 |
| | 314 | 13,967 | 291 | 13,043 |

On 31 December 2004 the Company signed the agreements for selling of controlling interest in UAB Aviridis, UAB Arkoveta, UAB Vilniaus Pramogų Parkas, UAB Buitis Be Rūpesčių, UAB Vilniaus Televizija and UAB AR Studija. According to these agreements UAB Rubicon Group had to settle the debt to the Company amounting to LTL 11,245 thousand (carried at discounted value as of 31 December 2004) by 1 July 2006. The amount receivable from UAB Rubicon Group was set-off against dividends payable to UAB Rubicon Group in 2005.

Long-term prepayment to UAB Rubicon Eventus as of 31 December 2004 included the non-current portion of prepayment for rent and advertising services.

According to the agreement signed on 20 November 2003 between the Company and UAB Rubikon Prodimpeksas (currently UAB Edkinta), UAB Rubikon Prodimpeksas is obligated to settle the debt to the Company amounting to LTL 1,745 thousand by May 2007 and to pay 4.5% annual interest. The share of non-current receivable amounts to LTL 291 thousand and LTL 989 thousand as of 31 December 2005 and 2004, respectively and is accounted in other non-current receivables of the Company and the Group. Current portion of the receivable amounting to LTL 698 thousand as of 31 December 2005 (LTL 698 thousand as of 31 December 2004) was included in trade receivables in the balance sheet.

## 8 Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | As of 31 December 2005 | As of 31 December 2004 | As of 31 December 2005 | As of 31 December 2004 |
| Raw and auxiliary materials | 983 | 11,761 | 895 | 1,986 |
| Finished goods | 2 | 5,317 | 2 | 77 |
| Goods for resale | 2 | 1,247 | 2 | - |
| Other | 42 | 365 | 42 | - |
| | 1,029 | 18,690 | 941 | 2,063 |
| Less: net realisable value allowance | (1) | (1,000) | - | - |
| | 1,028 | 17,690 | 941 | 2,063 |

The acquisition cost of the Group's inventory accounted for at net realisable value as of 31 December 2005 amounted to LTL 1 thousand (LTL 1,773 thousand as of 31 December 2004).

## 9 Trade receivables

| | Group | | Company | |
|---|---|---|---|---|
| | As of 31 December 2005 | As of 31 December 2004 | As of 31 December 2005 | As of 31 December 2004 |
| Trade receivables, gross | 18,850 | 29,863 | 18,499 | 15,848 |
| Less: allowance for doubtful trade receivables | (341) | (2,233) | (341) | (342) |
| | 18,509 | 27,630 | 18,158 | 15,506 |

Changes in allowance for doubtful trade receivables (except for LTL 1,892 thousand change in allowance due to subsidiaries sold in 2005) for the year 2005 and 2004 have been included into operating expenses.

## 10 Current investments

As of 31 December 2004 the Company's and the Group's current investments in subsidiaries acquired exclusively for sale in the near future were as follows:

| | Group As of 31 December 2004 | Company As of 31 December 2004 |
|---|---|---|
| UAB Baloša | 1,297 | 1,297 |
| UAB Vienituras | 4,730 | 4,730 |
| UAB Rėlinė Apsauga | 893 | 893 |
| UAB Tiketa | 350 | 350 |
| UAB Livesta Serviso Centras | 800 | 800 |
| Investments in subsidiaries acquired for sale by UAB Katra | 47 | - |
| | 8,117 | 8,070 |
| Less: impairment | (93) | (93) |
| | 8,024 | 7,977 |

The Company's total net gain from sale of the above listed investments in subsidiaries in 2005 included into the result of financial and investing activities in profit (loss) from disposal of investments for the year amount to LTL 111 thousand.

In addition to the above, in 2004 the Company also acquired and sold UAB Skaineta, UAB Strėmuva, UAB Vilniaus Televizija and UAB AR Studija. Investment in UAB Skaineta was acquired and sold on the same day, investment in UAB Strėmuva was held for about 4 months, UAB Vilniaus Televizija – 12 months, UAB AR Studija – 9 months, until their disposal. The Company and the Group reported a total net gain of LTL 1,728 thousand from the sale of these investments (included in profit (loss) from disposal of investments in income (expenses) from financial and investment activities for 2004).

All the investments, except for investments into UAB Skaineta and UAB Strėmuva, were sold to the Company's shareholder UAB Rubicon Group.

## 11 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Cash at bank | 1,664 | 3,714 | 1,488 | 902 |
| Cash on hand | 83 | 208 | 24 | 37 |
| | 1,747 | 3,922 | 1,512 | 939 |

## 12 Reserves

<u>Legal reserve</u>

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.

<u>Other reserves</u>

Other non-restricted (distributable) reserves are formed based on the decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting.

## 13 Borrowings

As of 31 December 2005 the Company and the Group had no non-current or current borrowings.

As of 31 December 2004 the Group's non-current borrowings and current portion of non-current borrowings consisted of loans obtained by subsidiary companies UAB Katra and UAB Skiedrynė. Current borrowings of the Group consisted of short term loans obtained by the subsidiary company UAB Axis Industries. The above borrowings have been derecognised upon sales of the subsidiaries in 2005.

## 13 Borrowings (cont'd)

Non-current borrowings of the Group as of 31 December 2004 include:

| Creditor | Currency of the loan | Amount of the loan (in currency of the loan) | Annual interest rate | Repayment date | Balance as of 31 December 2004 |
|---|---|---|---|---|---|
| AB Sampo bankas | EUR | 2,135 | 6-month EURIBOR plus 1.7% | 2011 05 17 | 3,979 |
| AB bankas Hansabankas | LTL | 1,200 | 6-month VILIBOR plus 2.3% | 2008 07 08 | 1,053 |
| AB bankas Hansabankas | LTL | 1,200 | 6-month VILIBOR plus 1.7% | 2009 08 19 | 1,200 |
| AB bankas Hansabankas | LTL | 225 | 6-month VILIBOR plus 2.3% | 2007 08 01 | 225 |
| AB Šiaulių Bankas | EUR | 44 | 6-month EURIBOR plus 2.2% | 2005 10 15 | 44 |
| | | | | | 6,501 |
| Less: Current portion of non-current borrowings | | | | | (3,438) |
| Non-current borrowings excluding current portion | | | | | 3,063 |

Current borrowings of the Group as of 31 December 2004 include:

| Creditor | Currency of the loan | Amount of the loan (in currency of the loan) | Annual interest rate | Balance as of 31 December 2004 |
|---|---|---|---|---|
| AB bankas Hansabankas | LTL | 900 | 6-month VILIBOR plus 1,75% | 400 |
| AB bankas Hansabankas | EUR | 740 | 6-month EURIBOR plus 1,75% | 2,234 |
| AB SEB Vilniaus bankas | LTL | 700 | 6-month LIBOR plus 2% | 556 |
| AB Šiaulių Bankas | LTL | 100 | 7,5% | 92 |
| AB bankas Hansabankas | LTL | 200 | 5,5% | 40 |
| | | | | 3,322 |

## 14 Financial lease

The assets leased by the Company under financial lease contracts consist of vehicles. Apart from the lease payments, other obligations under lease contracts are property maintenance and insurance. The net book value of the vehicles acquired under financial lease amounted to LTL 452 thousand as of 31 December 2005 in the Company and LTL 476 thousand in the Group (LTL 636 thousand as of 31 December 2004 in the Company and LTL 1,775 thousand in the Group). Additionally the Group had other property, plant and equipment with net book value of 2,152 thousand were acquired under financial lease as of 31 December 2004. The terms of financial lease are from 3 to 5 years. The currency of the financial lease agreements is euro.

As of 31 December 2005 the interest rate on the financial lease obligations is 6 – 12 -month EUR LIBOR plus 1.4 – 1.6%.

## 14 Financial lease (cont'd)

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2005 are as follows:

| | Group | Company |
|---|---|---|
| Within one year | 179 | 179 |
| From one to five years | 322 | 297 |
| Total financial lease obligations | 501 | 476 |
| Interest | (25) | (24) |
| Present value of financial lease obligations | 476 | 452 |
| Financial lease obligations are accounted as: | | |
| - current | 165 | 165 |
| - non-current | 311 | 287 |

Future minimal lease payments of the Company under the financial lease contracts as of 31 December 2004 are as follows:

| | Group | Company |
|---|---|---|
| Within one year | 1,398 | 179 |
| From one to five years | 2,600 | 426 |
| Total financial lease obligations | 3,998 | 605 |
| Interest | (294) | (56) |
| Present value of financial lease obligations | 3,704 | 549 |
| Financial lease obligations are accounted as: | | |
| - current | 1,257 | 155 |
| - non-current | 2,447 | 394 |

## 15 Operating lease

As of 31 December 2005 the Company and the Group had several contracts of operating lease for vehicles outstanding as disclosed in Note 20. The terms of lease do not include restrictions of the activities of the Company and the Group in connection with the dividends, additional borrowings or additional lease agreements.

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

| | Group | Company |
|---|---|---|
| Within one year | 197 | 197 |
| From one to five years | 40 | 40 |
| | 237 | 237 |

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.

## 16 Advances received

The major part of advances received as of 31 December 2005 and 2004 consists of advances received from UAB Litesko and UAB Vilniaus Energija for heating system renovation works.

## 17 Other current liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | As of 31 December 2005 | As of 31 December 2004 | As of 31 December 2005 | As of 31 December 2004 |
| Salaries and social security | 260 | 1,157 | 224 | 166 |
| Vacation pay accrual | 590 | 1,631 | 586 | 479 |
| Provisions | - | 91 | - | - |
| Other current liabilities | 2,518 | 3,487 | 2,424 | 1,174 |
| | 3,368 | 6,366 | 3,234 | 1,819 |

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

## 18 Sales

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Heating system renovation and heating components installation services | 65,876 | 115,569 | 56,747 | 72,017 |
| Sales and maintenance of record meters and other goods | 4,104 | 10,037 | 4,015 | 5,758 |
| Maintenance services of heating components and heat supply for households, residential domains, education institutions | 28,633 | 20,440 | 18,261 | 18,094 |
| Buildings' administration services | 16,719 | 15,221 | 16,354 | 12,755 |
| Other services | 1,900 | 29,584 | 609 | 194 |
| | 117,232 | 190,851 | 95,986 | 108,818 |

The Company has a significant concentration of trading counterparties. The main two customers of the Company – UAB Vilniaus Energija and UAB Litesko – in 2005 and 2004 accounted for 62% and 68%, respectively, of total Company's sales. However, the scope of the heating system renovation projects, performed by UAB Vilniaus Energija and UAB Litesko in 2005, was lower, therefore the Company's sales of heating system renovation and heating components installation decreased.

## 19 Cost of sales

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| Services of subcontractors and materials used | 79,363 | 97,082 | 73,597 | 80,780 |
| Cost of goods sold | 7,376 | 27,210 | 1,812 | 3,777 |
| Wages and salaries and social security | 8,823 | 10,198 | 6,593 | 4,734 |
| Depreciation | 468 | 2,215 | - | - |
| Other | 97 | 2,465 | - | - |
| | 96,127 | 139,170 | 82,002 | 89,291 |

## 20 Operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Wages and salaries and social security | 5,845 | 10,798 | 1,758 | 1,594 |
| Rent of premises and other assets | 1,280 | 1,493 | 902 | 335 |
| Fuel expenses | 1,169 | 1,162 | 827 | 496 |
| Depreciation and amortisation | 1,114 | 2,041 | 480 | 637 |
| Consulting and similar expenses | 1,088 | 3,667 | 700 | 1,139 |
| Advertising | 585 | 1,080 | 416 | 256 |
| Communication expenses | 533 | 1,015 | 344 | 393 |
| Repair and maintenance of premises and other assets | 455 | 1,206 | 284 | 322 |
| Charity and support | 413 | 1,083 | 192 | 282 |
| Taxes other than income tax | 355 | 1,264 | 139 | 439 |
| Utilities | 297 | 644 | 120 | 149 |
| Commissions | 139 | 128 | 100 | 128 |
| Business trips and training | 131 | 547 | 7 | 85 |
| Allowance for receivables | - | 952 | - | 314 |
| Other | 1,719 | 4,833 | 800 | 738 |
| | 15,123 | 31,913 | 7,069 | 7,307 |

Rent of premises and other assets in 2005 mainly represents office space (LTL 348 thousand) and vehicles operating lease expenses. The operating lease of the office is provided by UAB Arkoveta, a related party. Vehicles are leased from third parties. Only rent of vehicles is uncancellable, therefore related future minimum lease payments are disclosed in Note 15.

## 21 Other operating income (expenses), net

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Gain on disposal of property, plant and equipment | 2,215 | 170 | 2,187 | 36 |
| Income from rent | 177 | 106 | 177 | 344 |
| Depreciation | (229) | (166) | (229) | (166) |
| Other income (expenses) | 226 | 185 | 195 | 317 |
| | 2,389 | 295 | 2,330 | 531 |

## 22 Income (expenses) from financial and investment activities, net

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Interest income | 827 | 509 | 779 | 412 |
| Interest expenses | (158) | (1,022) | - | (28) |
| Foreign currency exchange profit (loss) | 27 | (161) | - | (16) |
| Profit (loss) from disposal of investments (Notes 6 and 28) | (3,441) | 3,296 | 944 | (7) |
| Dividend income * | 466 | - | 3,641 | 59 |
| Impairment of investments | - | (791) | - | (791) |
| Discounting of receivables from related parties | 208 | (637) | 208 | (637) |
| Other financial income (expenses) | (108) | 298 | (47) | 3 |
| | (2,179) | 1,492 | 5,525 | (1,005) |

* The Company's dividend income recorded in 2005 represents dividends from subsidiary companies UAB Katra, UAB Axis Industries, UAB Vienituras, and UAB Livesta Serviso Centras, which were sold in 2005 as described in Note 6 and Note 10. The Group's dividend income recorded in 2005 represents dividends from subsidiary companies UAB Vienituras, and UAB Livesta Serviso Centras.

## 23 Income tax

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **Components of the income tax expenses** | | | | |
| Current income tax | 1,899 | 4,108 | 1,970 | 2,037 |
| Deferred income tax (income) expenses | (238) | (78) | (238) | 42 |
| Income tax expenses recorded in the income statement | 1,661 | 4,030 | 1,732 | 2,079 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| **Deferred income tax asset** | | | | |
| Valuation allowance for accounts receivable | 51 | 244 | 51 | 51 |
| Valuation allowance for inventories | - | 112 | - | - |
| Accruals | - | 148 | - | - |
| Deferred income tax asset before valuation allowance | 51 | 504 | 51 | 51 |
| Less: valuation allowance | - | (145) | - | - |
| Deferred income tax asset, net | 51 | 359 | 51 | 51 |
| **Deferred income tax liability** | | | | |
| Investment incentive | - | (406) | - | (392) |
| Accumulated depreciation of property, plant and equipment, for which investment incentive was applied | - | 154 | - | 154 |
| Deferred income tax liability, net | - | (252) | - | (238) |
| Deferred income tax, net | 51 | 107 | 51 | (187) |

## 23 Income tax (cont'd)

Presented in the balance sheet:

| | Group | | Company | |
|---|---|---|---|---|
| | As of 31 December 2005 | As of 31 December 2004 | As of 31 December 2005 | As of 31 December 2004 |
| Deferred income tax asset | 51 | 294 | 51 | - |
| Deferred income tax liability | - | 187 | - | 187 |

The Group's deferred tax asset and liability were settled off in the amount that realizes in the same period in separate subsidiaries.

Deferred income tax asset and liability were accounted at 15% rate. The changes of temporary differences before the tax effect in the Group were as follows:

| | Balance as of 31 December 2004 | Recognised in income statement | Disposed subsidiaries | Balance as of 31 December 2005 |
|---|---|---|---|---|
| Valuation allowance for accounts receivable | 1,626 | - | (1,284) | 342 |
| Valuation allowance for inventories | 749 | - | (749) | - |
| Accruals | 990 | - | (990) | - |
| Property, plant and equipment - investment incentive taxation | (1,682) | 1,591 | 91 | - |
| Total temporary differences before valuation allowance | 1,683 | 1,591 | (2,932) | 342 |
| Valuation allowance | (969) | - | 969 | - |
| Total temporary differences | 714 | 1,591 | (1,963) | 342 |
| Deferred income tax, net | 107 | 238 | (294) | 51 |

Deferred income tax asset and liability in 2004 and 2005 were accounted at 15% rate. In 2005 15% rate was used for calculation of deferred tax asset and liability as the management considers that the impact of the change in income tax rate for 2006 and 2007 have no material effect on the deferred tax asset and liability. The changes of temporary differences before the tax effect in the Company were as follows:

| | Balance as of 31 December 2004 | Recognised in income statement | Balance as of 31 December 2005 |
|---|---|---|---|
| Valuation allowance for accounts receivable | 342 | - | 342 |
| Property, plant and equipment - investment incentive taxation | (1,591) | 1,591 | - |
| Total temporary differences | (1,249) | 1,591 | 342 |
| Deferred income tax, net | (187) | 238 | 51 |

## 23 Income tax (cont'd)

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 | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Income tax (expenses) computed at 15% in 2005 and 2004 | 929 | 3,238 | 2,216 | 1,762 |
| Reimbursed income tax on dividends | - | - | (390) | - |
| Non-tax-deductible expenses | 732 | 792 | (94) | 317 |
| Income tax (expenses) reported in the income statement | 1,661 | 4,030 | 1,732 | 2,079 |

## 24 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. Calculation of basic and diluted earnings per share is presented below:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| Net profit (loss) attributable to the shareholders | 5,049 | 15,490 |
| Number of shares (thousand), opening balance | 105 | 70 |
| New shares issued (thousand) as a capitalisation of the retained earnings | - | 35 |
| Number of shares (thousand), opening balance (restated) | 105 | 105 |
| Increase in the number of shares due to reduction of nominal value (thousand) (Note 1) | 10,395 | 10,395 |
| Number of shares (thousand), closing balance (restated) | 10,500 | 10,500 |
| Weighted average number of shares (thousand) | 10,500 | 10,500 |
| Basic and diluted earnings per share (LTL) | 0.48 | 1.48 |

## 25 Dividends per share

| | **2005*** | **2004*** |
|---|---|---|
| Approved dividends | 24,400 | 1,955 |
| Weighted average number of shares (in thousand items) | 10,500 | 105 |
| Approved dividends per share (LTL) | 2.32 | 18.62 |

* The year when the dividends are approved.

## 26 Financial assets and liabilities and risk management

Credit risk

The Company's and the Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. Furthermore, the credit risk of the main two customers of the Company, regarding which there is a trading and credit risk concentration (Note 18), is managed by trying to get partial advance payments from these customers. Receivables from UAB Vilniaus energija and UAB Litesko as of 31 December 2005 amounted to 26% and 29% of trade accounts receivable, respectively (41% and 14% as of 31 December 2004, 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 is financial lease obligations with variable rates, related to EUR LIBOR, which creates an interest rate risk (Note 14). There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2005 and 2004.

Liquidity risk

The Company's and the Group'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 Company's liquidity and quick ratios as of 31 December 2005 were 1.76 and 1.73 respectively (1.45 and 1.38 as of 31 December 2004 respectively). The Group's liquidity and quick ratios as of 31 December 2005 were 1.77 and 1.73 respectively (1.56 and 1.23 as of 31 December 2004 respectively).

Foreign exchange risk

The Company's and the Group's monetary assets and liabilities are denominated in LTL or EUR, to which LTL is pegged, consequently neither Company nor the Group is exposed to a foreign exchange risk.

Fair value of financial instruments

The Company's and the Group'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.

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.

## 27 Commitments and contingencies

Guarantees issued

As of 31 December 2005 the Company guaranteed for related party UAB Aviridis for the amount of LTL 2,700 thousand. The guarantee was insured for the total amount and was terminated on 4 February 2006. Additionally on 5 January 2005 the Company signed a guarantee agreement with UAB SEB VB Lizingas, according to which the Company guarantees for UAB Tiketa financial lease liabilities in the amount of LTL 65 thousand. There were no indications that the Company will have to settle the obligations underlying these guaranties as of 31 December 2005, therefore there were no provisions for liabilities, that might result from these guaranties, accounted in the Company's financial statements for the year ended 31 December 2005.

In March 2004 the Company sold the waste collection, processing and recycling site with buildings to UAB Arividis for the book value amounting to LTL 3,017 thousand. On 7 April 2004 the Company signed a loan transfer agreement and according to this agreement the Company's liabilities to AB bankas Hansabankas amounting to LTL 2,750 thousand were transferred to UAB Aviridis. On 7 April 2004 the Company signed a guarantee agreement with AB bankas Hansabankas, according to which the Company guarantees for UAB Aviridis loan liabilities. As of the date of the issue of the financial statements there were no indications that the Company will have to repay the debt, therefore no provisions related to this guarantee have been included in the Company's financial statements for the year ending 31 December 2005. This guarantee agreement was terminated on 28 March 2006.

Uncertainties related to the acquisition of associate

On 7 November 2005 the Company made a shares' swap agreement with Mr. and Mrs. Bačiliūnai. The Company transferred to Mr. and Mrs. Bačilūnai 33% of UAB Vingio Valdos share capital and acquired 37% of the shares of UAB Būsto Administravimo Agentūra. On the same day the Company granted to Mr. and Mrs. Bačiliūnai a loan amounting to LTL 220 thousand, which had to be repaid until 31 December 2005. In addition 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 for LTL 220 thousand. However, the ownership of UAB Vingio Valdos shares legally was not transferred to the Company by 31 December 2005, as the receivable from and payable to Mr. and Mrs. Bačiliūnai, amounting to LTL 220 thousand, were not netted off. This transaction has been accounted for in the Company's financial statements following the substance of the transaction: the "sale" and "repurchase" of UAB Vingio Valdos was not accounted as well as any losses or gains on this transaction. 100% of UAB Vingio Valdos ownership was consolidated in the financial statements as of 31 December 2005, though legally the set-off of payable for the shares and loan receivable was not completed due to litigation described below.

After the swap of shares, Mr. Virgilijus Strioga, one of the shareholders of UAB Būsto Administravimo Agentūra, appealed to the Court with a claim to cancel the swap of the shares. The outcome of this matter was uncertain as of the date of issuing of these financial statements. In case the Court's decision is unfavourable for the Company, restitution may be declared. In case restitution is declared, the Company will redeem the amount of loan granted to Mr. and Mrs. Bačiliūnai and will have to transfer back the shares of UAB Būsto Administravimo Agentūra.

## 28 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 Company and the Group and transactions with them in 2005 and 2004 were as follows:

UAB Rubicon Group (the shareholder of the Company);
UAB Arkoveta (the shareholder of the Company);
UAB Verslo Plėtros Ir Administravimo Agentūra (same ultimate controlling shareholders);
UAB Rubicon Eventus (same ultimate controlling shareholders);
UAB Ozantis (same ultimate controlling shareholders);
UAB Marela (same ultimate controlling shareholders);
UAB Aviridis (same ultimate controlling shareholders);
UAB Penktas Kanalas (same ultimate controlling shareholders);
UAB AR Studija (same ultimate controlling shareholders);
UAB Buitis Be Rūpesčių (same ultimate controlling shareholders);
UAB Movestas (same ultimate controlling shareholders);
UAB Profista (same ultimate controlling shareholders);
UAB Dalkia Lietuva (same ultimate controlling shareholders);
UAB Žaidas (subsidiary);
UAB Vingio Valdos (subsidiary);
UAB Rcom (subsidiary, liquidated in 2005);
UAB Sostinės Naujienos (subsidiary);
UAB Katra (subsidiary in 2004 and same ultimate controling shareholders in 2005);
UAB Axis Industries (subsidiary in 2004 and same ultimate controling shareholders in 2005);
UAB Vilniaus Pramogų Parkas (associate);
UAB Skiedrynė (subsidiary in 2004 and same ultimate controling shareholders in 2005);
UAB Medvija (subsidiary of UAB Skiedrynė)
UAB Baloša (subsidiary);
UAB Vienituras (subsidiary);
UAB Relinė Apsauga (subsidiary);
UAB Tiketa (subsidiary);
UAB Livesta Serviso Centras (subsidiary);
UAB Matika (subsidiary of UAB Livesta Serviso Centras, liquidated in 2005);
UAB Limatika (subsidiary of UAB Livesta Serviso Centras).

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

As discussed in Note 1, all of the share purchase and sales transactions made with UAB Rubicon Group were made with a view to restructure the Rubicon Group and Rubicon City Service Group and to transfer all subsidiaries not related to the business of the Company to the ultimate parent.

The sales price for the intercomopany subsidiary purchase and sale transactions are established by the management and shareholders of the UAB Rubicon Group and AB Rubicon 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.

## 28 Related party transactions (cont'd)

**2005**

| Group | Purchases | Sales | Receivables and prepayments | Loans granted | Payables and advances received |
|---|---|---|---|---|---|
| UAB Rubicon Group * | 1,352 | 20,630 | 10,314 | - | - |
| UAB Rubicon Eventus | 153 | 1,234 | 1,714 | 11,500 | - |
| UAB Katra | 7,067 | 602 | 1,041 | - | 3,633 |
| UAB Limatika | 8,411 | 200 | 6 | - | 4,249 |
| UAB Axis Industries (former – UAB Kazlų rūdos metalas) | 2,161 | 15 | 7 | - | 2,974 |
| UAB Bioautomatika | 810 | - | - | - | - |
| UAB Baloša | - | 265 | 2 | - | 455 |
| UAB Arkoveta | 407 | 185 | - | 250 | 26 |
| UAB Buitis Be Rūpesčių | 19 | 348 | - | - | - |
| UAB Tiketa | - | 162 | 321 | - | - |
| UAB Penktas Kanalas | 28 | 194 | 12 | - | 13 |
| UAB Rubikon | - | 137 | 18 | - | - |
| UAB Verslo Plėtros ir Administravimo Agentūra | 13 | 127 | 2 | - | - |
| UAB Aviridis | - | 73 | 7 | - | - |
| UAB Vilniaus Pramogų Parkas | - | 66 | 3 | - | - |
| UAB Bioprojektas | 50 | - | - | - | - |
| UAB Effectus | 30 | 8 | - | - | 1 |
| UAB Vienituras | 11 | 27 | 9 | - | - |
| UAB Medvija | - | 18 | 18 | - | - |
| UAB Skiedrynė | - | 9 | 7 | - | - |
| UAB Profista | 8 | - | - | - | - |
| UAB Movestas | - | 7 | - | - | - |
| UAB Ozantis | - | 5 | 1 | - | - |
| UAB Rubicon Aqua | - | 2 | 1 | - | - |
| | 20,520 | 24,314 | 13,483 | 11,750 | 11,351 |

* Sales to and purchases from UAB Rubicon Group include sales and purchases of investments amounting to LTL 18,979 thousand and LTL 500 thousand respectively as well as sales of property, plant and equipment amounting to LTL 614 thousand.

Loss reported from sales of investments and property, plant and equipment to related parties in 2005 amount to LTL 3,329 thousand. Property, plant and equipment was sold for the net book value.

Receivables from related parties include discounted receivable from UAB Rubicon Group amounting to LTL 10,314 thousand for the investments sold. The discounting effect amounting to LTL 430 thousand was included into financial and investment activity expenses in the income statement for the year ended 31 December 2005.

Loans granted to related parties include loan granted to UAB Rubicon Eventus amounting to LTL 11,500 thousand. The loan bears 5% annual interest rate and will be transferred to UAB Rubicon Group in 2006 as discussed in Note 29.

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

## 28 Related party transactions (cont'd)

| **2004**<br>**Group** | **Purchases** | **Sales** | **Receivables and prepayments** | **Loans granted** | **Payables and advances received** |
|---|---|---|---|---|---|
| UAB Rubicon Group * | 1,054 | 11,589 | 10,702 | - | 164 |
| UAB Arkoveta | 130 | 91 | - | - | 64 |
| UAB Rubicon eventus | - | - | 3,313 | 10,000 | - |
| UAB Aviridis | - | - | 3 | 80 | - |
| UAB Penktas kanalas | 16 | 140 | 73 | 1,375 | - |
| UAB Buitis be rūpesčių | - | - | 110 | - | - |
| UAB Movestas | - | 2 | 1 | 250 | - |
| UAB Dalkia Lietuva | 6 | 560 | - | - | - |
| UAB Vilniaus pramogų parkas | - | - | 43 | - | 180 |
| UAB Baloša | 1 | - | 652 | 801 | - |
| UAB Vienituras | 30 | 25 | - | - | 35 |
| UAB Tiketa | 23 | 29 | 133 | - | 70 |
| UAB Livesta Serviso Centras | 3,429 | 2,933 | 46 | - | 795 |
| UAB Termorenovacija | 130 | 34 | 1,223 | - | 22 |
| UAB Katransta | 1,708 | 1,055 | - | - | 87 |
| UAB Sebra | 115 | 21 | - | - | 2 |
| UAB Baltec CNC technologie | 1,660 | 1,334 | 1,094 | - | 114 |
| UAB Katranga | 1,637 | 516 | 380 | - | 474 |
| UAB Elastlita | 190 | 141 | 42 | - | - |
| Inžinierių centras Katra | 43 | - | - | - | - |
| OOO KatraCentr | - | 138 | 70 | - | - |
| JV Katrabel | 78 | 715 | 97 | - | - |
| VšĮ Kazlų Rūdos Verslo Inkubatorius | - | 40 | - | - | - |
| | 10,250 | 19,363 | 17,982 | 12,506 | 2,007 |

* Sales to UAB Rubicon Group include sales of investments amounting to LTL 11,245 thousand as well as sales of property, plant and equipment amounting to LTL 4 thousand.

Total gain reported from sales of investments to related parties in 2004 amount to LTL 458 thousand. Property, plant and equipment was sold for the net book value.

Receivables from related parties include discounted receivable from UAB Rubicon Group amounting to LTL 10,608 thousand for the investments sold. The discounting effect amounting to LTL 637 thousand was included into financial and investment activity expenses in the income statement for the year ended 31 December 2004.

Loans granted to related parties include loan granted to UAB Rubicon Eventus amounting to LTL 10,000 thousand. The loan bears 5% annual interest rate. The repayment date was not defined, therefore the loan was classified as current.

**28 Related party transactions (cont'd)**

**2005**

| Company | Purchases | Sales | Receivables and prepayments | Loans granted | Payables and advances received |
|---|---|---|---|---|---|
| UAB Rubicon Group * | 1,352 | 20,630 | 10,314 | - | - |
| UAB Rubicon Eventus | 153 | 1,234 | 1,714 | 11,500 | - |
| UAB Katra | 13,061 | 1,164 | 1,041 | - | 3,633 |
| UAB Limatika | 8,411 | 200 | 6 | - | 4,249 |
| UAB Axis Industries (former – UAB Kazlų rūdos metalas) | 5,475 | 25 | 7 | - | 2,974 |
| UAB Bioautomatika | 810 | - | - | - | - |
| UAB Baloša | - | 265 | 2 | - | 455 |
| UAB Arkoveta | 407 | 185 | - | 250 | 26 |
| UAB Buitis Be Rūpesčių | 19 | 348 | 64 | - | - |
| UAB Tiketa | - | 162 | 321 | - | - |
| UAB Penktas Kanalas | 28 | 194 | 12 | - | 13 |
| UAB Vingio Valdos | 20 | 140 | 20 | - | - |
| UAB Rubikon | - | 137 | 18 | - | - |
| UAB Verslo Plėtros ir Administravimo Agentūra | 13 | 127 | 2 | - | - |
| UAB Aviridis | - | 73 | 7 | - | - |
| UAB Vilniaus Pramogų Parkas | - | 66 | 3 | - | - |
| UAB Bioprojektas | 50 | - | - | - | - |
| UAB Effectus | 30 | 8 | - | - | 1 |
| UAB Vienituras | 11 | 27 | 9 | - | - |
| UAB Medvija | - | 18 | 18 | - | - |
| UAB Skiedrynė | - | 9 | 7 | - | - |
| UAB Profista | 8 | - | - | - | - |
| UAB Movestas | - | 7 | - | - | - |
| UAB Ozantis | - | 5 | 1 | - | - |
| UAB Žaidas | 3 | 4 | - | - | - |
| UAB Rubicon Aqua | - | 2 | 1 | - | - |
| | 29,851 | 25,030 | 13,567 | 11,750 | 11,351 |

* Sales to and purchases from UAB Rubicon Group include sales and purchases of investments amounting to LTL 18,979 thousand and LTL 500 thousand respectively as well as sales of property, plant and equipment amounting to LTL 614 thousand.

Total gain reported from sales of investments to related parties in 2005 amount to LTL 944. Property, plant and equipment was sold for the net book value.

Receivables from related parties include discounted receivable from UAB Rubicon Group amounting to LTL 10,314 thousand for the investments sold. The discounting effect amounting to LTL 430 thousand was included into financial and investment activity expenses in the income statement for the year ended 31 December 2005.

Loans granted to related parties include loan granted to UAB Rubicon Eventus amounting to LTL 11,500 thousand. The loan bears 5% annual interest rate and will be transferred to UAB Rubicon Group in 2006.

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

## 28 Related party transactions (cont'd)

**2004**

| Company | Purchases | Sales | Receivables and prepayments | Loans granted | Payables and advances received |
|---|---|---|---|---|---|
| UAB Rubicon Group* | 300 | 11,584 | 10,702 | - | - |
| UAB Arkoveta | 182 | 108 | - | - | 46 |
| UAB Verslo Plėtros Ir Administravimo Agentūra | 93 | 98 | 4 | - | - |
| UAB Rubicon Eventus | 53 | 316 | 1,961 | 10,000 | - |
| UAB Aviridis | 703 | 3,113 | 3 | 80 | - |
| UAB Penktas Kanalas | - | 67 | 73 | 1,375 | - |
| UAB AR Studija | - | - | - | - | - |
| UAB Buitis Be Rūpesčių | 24 | 406 | 110 | - | - |
| UAB Movestas | - | 5 | 1 | 250 | - |
| UAB Žaidas | - | 1 | - | - | - |
| UAB Vingio Valdos | 17 | 167 | 59 | - | - |
| UAB Sostinės Naujienos | - | 5 | - | - | - |
| UAB Katra | 30,825 | 1,118 | 1,812 | - | 6,015 |
| UAB Kazlų rūdos metalas | 4,141 | 63 | 5 | - | 765 |
| UAB Vilniaus Pramogų Parkas | 1,100 | 51 | 43 | - | 180 |
| UAB Skiedrynė | 129 | 7 | 1 | - | - |
| UAB Medvija | 3 | 13 | 8 | - | - |
| UAB Baloša | - | 33 | 37 | 801 | - |
| UAB Vienituras | - | 1 | 1 | - | - |
| UAB Tiketa | 250 | 116 | 133 | - | 70 |
| UAB Limatika | 3,125 | 2,710 | 40 | | 784 |
| | 40,945 | 19,982 | 14,993 | 12,506 | 7,860 |

* Sales to related parties include sales of investments amounting to LTL 11,245 thousand to Rubicon Group UAB as well as sales of property, plant and equipment amounting to LTL 3,087 thousand to other Rubicon Group companies.

Total loss reported from sales of investments to related parties in 2004 amount to LTL 2,844 thousand. Property, plant and equipment was sold for the net book value.

Receivables from related parties include discounted receivable from UAB Rubicon Group amounting to LTL 10,608 thousand for the investments sold. The discounting effect amounting to LTL 637 thousand was included into financial and investment activity expenses in the income statement for the year ended 31 December 2004.

Loans granted to related parties include loan granted to UAB Rubicon Eventus amounting to LTL 10,000 thousand. The loan bears 5% annual interest rate. The repayment date was not defined, therefore the loan was classified as current.

Payables to related parties mostly represent payables for heating system components.

<u>Remuneration of the management and other payments</u>

The Group's and Company's management remuneration amounted to LTL 884 thousand and LTL 390 thousand in 2005, respectively (LTL 1,610 thousand and LTL 211 thousand in 2004, respectively). In 2005 the General Director of the Company received a loan in amount of LTL 70 thousand bearing interest of 4% that is accounted under other receivables captions in the balance sheet of the Company. In 2005 and 2004, the management of the Company did not receive any other loans, guarantees; no other payments or property transfers were made or accrued.

## 29 Subsequent events

On 10 January 2006 the Company signed a share swap agreement with Mrs. Arne Raam and Mr. Eduard Puss. According to the agreement, the Company transferred to Mrs. Arne Raam and Mr. Eduard Puss 37% of UAB Būsto Administravimo Agentūra share capital owned and acquired 48% of OU Versus, operating in Estonia. No financial information of OU Versus as of the date of acquisition was available until the issue of these financial statements.

On 30 January 2006 the Company acquired 70% of UAB Marių Valdos and 71% of UAB Ąžuolyno Valda share capital from Klaipėda city municipality for LTL 3,100 thousand and LTL 2,500 thousand respectively. No financial information of UAB Marių Valdos and UAB Ąžuolyno Valda as of the date of acquisition was available until the issue of these financial statements.

On 27 February 2006 the Company granted UAB Rubicon Group and UAB Aviridis short-term loans amounting to LTL 1,300 thousand and LTL 200 thousand, respectively. The loans bear 4% annual interest rate and has to be repaid by 31 March 2006.

On 17 March 2006 the Company acquired 100% of UAB URBAN HOUSING and UAB DOMESTAS from UAB Vilniaus Pramogų Parkas for LTL 7,800 thousand and LTL 3,800 thousand respectively. On 17 March 2006 the Company also transferred to UAB Vilniaus Pramogų Parkas loan receivable from UAB Rubicon Eventus amounting to LTL 11,500 thousand. The payable to UAB Vilniaus Pramogų Parkas for shares acquired amounting to LTL 11,600 thousand was settled off against the transferred loan received. The Company only paid the difference amounting to LTL 100 thousand. No financial information of UAB URBAN HOUSING and UAB DOMESTAS as of the date of acquisition was available until the issue of these financial statements.

# AB CITY SERVICE

(former AB RUBICON CITY SERVICE)

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006,
prepared in accordance with International Financial Reporting Standards, as adopted by the EU,
presented together with Independent Auditors' report

## Independent auditors' report to the shareholders of AB City Service

We have audited the accompanying 2006 financial statements of AB City Service, a joint stock company registered in the Republic of Lithuania („the Company"), and consolidated financial statements of AB City Service and its subsidiaries („the Group"), which comprise the balance sheets as of 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of AB City Service and the Group as of 31 December 2006, 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.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514

| | |
|---|---|
| Jonas Akelis<br>Auditor's licence<br>No. 000003 | Inga Gudinaitė<br>Auditor's licence<br>No. 000366 |

The audit was completed on 19 March 2007.

## Balance sheet

| | | Notes | Group | | Company | |
|---|---|---|---|---|---|---|
| | | | As of 31 December 2006 | As of 31 December 2005 | As of 31 December 2006 | As of 31 December 2005 |
| | **ASSETS** | | | | | |
| **A.** | **Non-current assets** | | | | | |
| I. | Intangible assets | | | | | |
| I.1. | Goodwill | 4 | 3,516 | - | - | - |
| I.2. | Other intangible assets | 5 | 38 | 21 | 26 | 7 |
| | Total intangible assets | | 3,554 | 21 | 26 | 7 |
| II. | Property, plant and equipment | 6 | | | | |
| II.1. | Land and buildings | | 5,628 | 358 | - | - |
| II.2. | Vehicles | | 1,742 | 829 | 1,418 | 794 |
| II.3. | Other property, plant and equipment | | 989 | 807 | 723 | 790 |
| II.4. | Construction in progress | | 373 | - | - | - |
| | Total property, plant and equipment | | 8,732 | 1,994 | 2,141 | 1,584 |
| III. | Non-current financial assets | | | | | |
| III.1. | Investments into subsidiaries | 7 | - | - | 10,468 | 911 |
| III.2. | Investments into associates | 1 | 220 | 220 | 220 | 220 |
| III.3. | Non-current receivables | 8 | 138 | 314 | - | 291 |
| III.4. | Prepayment for acquisition of subsidiary | 29 | 498 | 200 | 498 | 200 |
| | Total non-current financial assets | | 856 | 734 | 11,186 | 1,622 |
| IV. | Deferred income tax asset | 23 | 207 | 51 | 157 | 51 |
| | **Total non-current assets** | | **13,349** | **2,800** | **13,510** | **3,264** |
| **B.** | **Current assets** | | | | | |
| I. | Inventories and prepayments | | | | | |
| I.1. | Inventories | 9 | 2,419 | 1,028 | 1,785 | 941 |
| I.2. | Prepayments | | 972 | 2,176 | 141 | 2,162 |
| I.3. | Prepayment to related parties | 28 | 2,054 | 65 | 2,047 | 65 |
| | Total inventories and prepayments | | 5,445 | 3,269 | 3,973 | 3,168 |
| II. | Accounts receivable | | | | | |
| II.1. | Trade receivables | 10 | 27,673 | 18,509 | 24,857 | 18,158 |
| II.2. | Receivables from related parties (including loans granted) | 28 | 25,580 | 25,238 | 27,743 | 25,322 |
| II.3. | Other receivables | | 738 | 1,375 | 349 | 442 |
| | Total accounts receivable | | 53,991 | 45,122 | 52,949 | 43,922 |
| III. | Prepaid income tax | | 801 | 556 | 785 | 556 |
| IV. | Other current assets | | 299 | 759 | 240 | 750 |
| V. | Cash and cash equivalents | 11 | 4,972 | 1,747 | 2,570 | 1,512 |
| | **Total current assets** | | **65,508** | **51,453** | **60,517** | **49,908** |
| | **Total assets** | | **78,857** | **54,253** | **74,027** | **53,172** |

## Balance sheet (cont'd)

| | | Notes | Group | | Company | |
|---|---|---|---|---|---|---|
| | | | As of 31 December 2006 | As of 31 December 2005 | As of 31 December 2006 | As of 31 December 2005 |
| | **EQUITY AND LIABILITIES** | | | | | |
| **C.** | **Equity attributable to equity holders of the Company** | | | | | |
| I. | Share capital | 1 | 10,500 | 10,500 | 10,500 | 10,500 |
| II. | Reserves | 12 | 1,061 | 1,050 | 1,050 | 1,050 |
| III. | Foreign currency translation | 2.2 | (15) | - | - | - |
| IV. | Retained earnings (deficit) | | 19,309 | 13,304 | 19,082 | 13,032 |
| | | | **30,855** | **24,854** | **30,632** | **24,582** |
| | **Minority interests** | | **615** | **3** | **-** | **-** |
| | **Total equity** | | **31,470** | **24,857** | **30,632** | **24,582** |
| **D.** | **Liabilities** | | | | | |
| **I.** | **Non-current liabilities** | | | | | |
| I.1. | Non-current borrowings | 13 | 4,125 | - | 4,125 | - |
| I.2. | Financial lease obligations | 14 | 642 | 311 | 526 | 287 |
| I.3. | Non-current payables | | 244 | - | - | - |
| | **Total non-current liabilities** | | **5,011** | **311** | **4,651** | **287** |
| **II.** | **Current liabilities** | | | | | |
| II.1. | Current portion of non-current borrowings | 13 | 1,180 | - | 1,180 | - |
| II.2. | Current portion of financial lease obligations | 14 | 489 | 165 | 418 | 165 |
| II.3. | Trade payables | | 18,286 | 9,452 | 15,993 | 8,864 |
| II.4. | Payables to related parties | 28 | 10,766 | 10,546 | 11,471 | 10,546 |
| II.5. | Advances received from related parties | | - | 805 | - | 805 |
| II.6. | Other advances received | 16 | 8,154 | 4,749 | 6,865 | 4,689 |
| II.7. | Income tax payable | | 44 | - | - | - |
| II.8. | Other current liabilities | 17 | 3,457 | 3,368 | 2,817 | 3,234 |
| | **Total current liabilities** | | **42,376** | **29,085** | **38,744** | **28,303** |
| | **Total equity and liabilities** | | **78,857** | **54,253** | **74,027** | **53,172** |

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

| | | | |
|---|---|---|---|
| General Manager | Žilvinas Lapinskas | | 19 March 2007 |
| Finance Director | Jonas Mačiuitis | | 19 March 2007 |

## Income statement

| | | Notes | Group 2006 | Group 2005 | Company 2006 | Company 2005 |
|---|---|---|---|---|---|---|
| I. | Sales | 18 | 113,607 | 117,232 | 103,447 | 95,986 |
| II. | Cost of sales | 19 | (94,795) | (96,127) | (86,756) | (82,002) |
| **III.** | **Gross profit (loss)** | | **18,812** | **21,105** | **16,691** | **13,984** |
| IV. | General and administrative expenses | 20 | (11,527) | (15,123) | (8,397) | (7,069) |
| V. | Other operating income (expenses) | 21 | 259 | 2,389 | 141 | 2,330 |
| **VI.** | **Profit (loss) from operations** | | **7,544** | **8,371** | **8,435** | **9,245** |
| VII. | Income from financial and investment activities | 22 | 2,254 | 1,687 | 897 | 5,609 |
| VIII. | (Expenses) from financial and investment activities | 22 | (148) | (3,866) | (137) | (84) |
| **IX.** | **Profit (loss) before tax** | | **9,650** | **6,192** | **9,195** | **14,770** |
| X. | Income tax | 23 | (2,122) | (1,661) | (1,645) | (1,732) |
| **XI.** | **Net profit (loss)** | | **7,528** | **4,531** | **7,550** | **13,038** |
| | **Attributable to:** | | | | | |
| | The shareholders of the Company | | 7,516 | 5,049 | 7,550 | 13,038 |
| | Minority interests | | 12 | (518) | - | - |
| | | | **7,528** | **4,531** | **7,550** | **13,038** |
| | Basic and diluted earnings per share (LTL) | 24 | 0.72 | 0.48 | | |

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

| | | | |
|---|---|---|---|
| General Manager | Žilvinas Lapinskas | | 19 March 2007 |
| Finance Director | Jonas Mačiuitis | | 19 March 2007 |

## Statement of changes in equity

| | | Equity attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | | | |
| **Group** | **Notes** | **Share capital** | **Legal reserve** | **Other** | **Foreign currency translation** | **Retained earnings (deficit)** | **Total** | **Minority interest** | **Total** |
| **Balance as of 31 December 2004** | | **10,500** | **700** | **10,000** | **-** | **23,005** | **44,205** | **14,993** | **59,198** |
| Transfer from reserves | 12 | - | - | (10,000) | - | 10,000 | - | - | - |
| Transfer to reserves | | - | 350 | - | - | (350) | - | - | - |
| Dividends declared | 25 | - | - | - | - | (24,400) | (24,400) | - | (24,400) |
| Net profit for the year | | - | - | - | - | 5,049 | 5,049 | (518) | 4,531 |
| Subsidiaries sold | 1 | - | - | - | - | - | - | (14,472) | (14,472) |
| **Balance as of 31 December 2005** | | **10,500** | **1,050** | **-** | **-** | **13,304** | **24,854** | **3** | **24,857** |
| Transfer to reserves | | - | 11 | - | - | (11) | - | - | - |
| Dividends declared | 25 | - | - | - | - | (1,500) | (1,500) | - | (1,500) |
| Net profit for the year | | - | - | - | - | 7,516 | 7,516 | 12 | 7,528 |
| Foreign currency translation | | - | - | - | (15) | - | (15) | - | (15) |
| Acquisition of subsidiaries | 1 | - | - | - | - | - | - | 600 | 600 |
| **Balance as of 31 December 2006** | | **10,500** | **1,061** | **-** | **(15)** | **19,309** | **30,855** | **615** | **31,470** |

## Statement of changes in equity (cont'd)

| Company | Notes | Share capital | Reserves: Legal reserve | Reserves: Other | Retained earnings (deficit) | Total |
|---|---|---|---|---|---|---|
| **Balance as of 31 December 2004** | | **10,500** | **700** | **10,000** | **14,744** | **35,944** |
| Dividends declared | 24 | - | - | - | (24,400) | (24,400) |
| Transfer from reserves | | - | - | (10,000) | 10,000 | - |
| Transfer to reserves | | - | 350 | - | (350) | - |
| Net profit for the year | | - | - | - | 13,038 | 13,038 |
| **Balance as of 31 December 2005** | | **10,500** | **1,050** | **-** | **13,032** | **24,582** |
| Dividends declared | 24 | - | - | - | (1,500) | (1,500) |
| Net profit for the year | | - | - | - | 7,550 | 7,550 |
| **Balance as of 31 December 2006** | | **10,500** | **1,050** | **-** | **19,082** | **30,632** |

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

| | | | |
|---|---|---|---|
| General Manager | Žilvinas Lapinskas | | 19 March 2007 |
| Finance Director | Jonas Mačiuitis | | 19 March 2007 |

## Cash flow statement

| | | Notes | Group | | Company | |
|---|---|---|---|---|---|---|
| | | | 2006 | 2005 | 2006 | 2005 |
| **I.** | **Cash flows from (to) operating activities** | | | | | |
| I.1. | Net profit | | 7,528 | 4,531 | 7,550 | 13,038 |
| | **Adjustments for non-cash items:** | | | | | |
| I.2. | Income tax expenses | | 2,122 | 1,661 | 1,645 | 1,732 |
| I.3. | Depreciation and amortisation | | 775 | 1,917 | 581 | 707 |
| I.4. | Goodwill impairment | 4 | 290 | - | - | - |
| I.5. | (Reversal of) impairment of accounts receivable and write-off of accounts receivable | | 1,053 | (1,011) | 415 | 1 |
| I.6. | Allowance for inventories | | - | 393 | - | - |
| I.7. | (Gain) loss on disposal of property, plant and equipment | | (57) | (2,215) | 1 | (2,187) |
| I.8. | Loss (gain) from disposal, write-off and impairment of investments | | - | 3,441 | - | (944) |
| I.9. | Discounting of receivables | | (430) | (208) | (430) | (208) |
| I.10. | Negative goodwill recognised | 4 | (1,486) | - | - | - |
| I.11. | Dividend income | | (60) | (466) | (210) | (3,641) |
| I.12. | Interest income | | (231) | (827) | (235) | (779) |
| I.13. | Interest expenses | | 136 | 158 | 137 | - |
| | | | 9,640 | 7,374 | 9,454 | 7,719 |
| | **Changes in working capital:** | | | | | |
| I.12. | (Increase) decrease in inventories | | (996) | (1,472) | (844) | 1,122 |
| I.13. | (Increase) in receivables and other current assets | | (5,226) | (6,374) | (8,115) | (8,877) |
| I.14. | (Increase) decrease in prepayments | | (661) | 3,420 | 39 | 5,232 |
| I.15. | Increase in trade payables and payables to related parties | | 5,881 | 1,950 | 7,427 | 2,598 |
| I.16. | Income tax (paid) | | (2,456) | (3,608) | (1,980) | (3,199) |
| I.17. | Increase (decrease) in advances received and other current liabilities | | 733 | (680) | 954 | (5,379) |
| | **Net cash flows from (to) operating activities** | | **6,915** | **610** | **6,935** | **(784)** |
| **II.** | **Cash flows (to) from investing activities** | | | | | |
| II.1. | (Acquisition) of non-current assets (except investments) | | (929) | (2,555) | (340) | (800) |
| II.2. | Proceeds from sale of non-current assets (except investments) | | 257 | 4,038 | 33 | 3,838 |
| II.3. | (Acquisition) of investments in subsidiaries (net of cash acquired in the Group) and associates | 7, 4,29 | (6,567) | (4,617) | (9,228) | (4,730) |
| II.4. | Proceeds from sales of investments, net | 1,7 | - | 468 | - | 1,550 |
| II.5. | Dividends received | | 60 | 466 | 114 | 2,598 |
| II.6. | Interest received | | 231 | 827 | 235 | 209 |
| | **Net cash flows (to) from investing activities** | | **(6,948)** | **(1,373)** | **(9,186)** | **2,665** |

## Cash flow statement (cont'd)

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| **III.** | **Cash flows (to) from financing activities** | | | | |
| III.1. | Dividends (paid) | (1,500) | (1,000) | (1,500) | (1,000) |
| III.2. | Proceeds from loans | 9,100 | 5,051 | 9,100 | - |
| III.3. | Loans (repaid) | (3,795) | (4,462) | (3,795) | - |
| III.4. | Interest (paid) | (136) | (158) | (137) | - |
| III.5. | Financial lease (payments) | (411) | (843) | (359) | (308) |
| | **Net cash flows from (to) financial activities** | **3,258** | **(1,412)** | **3,309** | **(1,308)** |
| **IV.** | **Net (decrease) increase in cash and cash equivalents** | **3,225** | **(2,175)** | **1,058** | **573** |
| **V.** | **Cash and cash equivalents at the beginning of the year** | **1,747** | **3,922** | **1,512** | **939** |
| **VI.** | **Cash and cash equivalents at the end of the year** | **4,972** | **1,747** | **2,570** | **1,512** |
| | **Supplemental information of cash flows:** | | | | |
| | **Non-cash investing activity:** | | | | |
| | Non-cash acquisition of subsidiaries and associates (set-off against intercompany receivables) | - | 720 | - | 720 |
| | Non-cash sales of investments (set-off against intercompany payables) | - | 17,429 | - | 17,429 |
| | Property, plant and equipment acquisitions financed by financial lease | 1,066 | 211 | 851 | 211 |
| | Non-cash dividends received (set-off against intercompany payables) | - | 1,043 | - | 1,043 |
| | Non-cash interest received (set-off against intercompany payables) | - | 570 | - | 570 |
| | **Non-cash financing activity:** | | | | |
| | Non-cash dividends to shareholders (set-off against intercompany receivables) | - | 23,400 | - | 23,400 |

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

| | | | |
|---|---|---|---|
| General Manager | Žilvinas Lapinskas | | 19 March 2007 |
| Finance Director | Jonas Mačiuitis | | 19 March 2007 |

# Notes to the financial statements

## 1 General information

AB City Service (hereinafter – "the Company") (former AB Rubicon City Service) is a public limited liability company registered in the Republic of Lithuania on 28 January 1997. The Company's name was changed from AB Rubicon City Service to AB City Service on 11 May 2006. The Company's legal status was changed from a private limited liability company to a public limited liability company on 6 October 2005. Until 3 January 2005 the Company was named UAB Rubikon Apskaitos Sistemos.

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 renovation and maintenance of thermal systems, installation and maintenance of thermal installations, administration of commercial buildings and dwelling-houses.

As of 31 December 2006 and 2005 the shareholders of the Company were:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Number of shares held** | **Percentage** | **Number of shares held** | **Percentage** |
| UAB Rubicon Group | 8,850,000 | 84% | 8,850,000 | 84% |
| Shareholders of UAB Rubicon Group (private individuals) | 1,650,000 | 16% | - | - |
| UAB Arkoveta | - | - | 1,650,000 | 16% |
| Total | 10,500,000 | 100% | 10,500,000 | 100% |

On 26 October 2005 the Company issued additional 10,395,000 shares and decreased the nominal value of its share from LTL 100 to LTL 1. The shares were distributed to the shareholders based of the percentage of the shares owned. As a result, only the number of shares and their nominal value has changed, with no change to the LTL value of share capital. All the shares are ordinary shares and were fully paid as of 31 December 2006 and 2005.

16% of the Company's shares as of 31 December 2006 are owned by private individuals who have the controlling interest in UAB Rubicon Group.

## 1 General information (cont'd)

The Group consists of AB City Service and the following subsidiaries (hereinafter referred to as „the Group"):

| Company | Country | Share of the stock held by the Company as of 31 December 2006 | Share of the stock held by the Company as of 31 December 2005 | 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% | - | Administration of dwelling-houses |
| UAB Marių Valdos | Lithuania | 86% | - | Administration of dwelling-houses |
| UAB Pempininkų Valdos | Lithuania | 75% | - | Administration of dwelling-houses |
| OAO Remontnoje Stroitelnoje Priedprijatije (hereinafter OAO RSP) | Russia | 100% | - | Administration of dwelling-houses |
| SIA Riga City Service | Latvia | 100% | - | Administration of dwelling-houses |
| ZAT Kiev City Service | Ukraine | 100% | - | Administration of dwelling-houses |

In January 2006 the Company acquired 70% of UAB Marių Valdos and 71% of UAB Ąžuolyno Valda share capital from Klaipėda city municipality for LTL 3,100 thousand and LTL 2,500 thousand respectively. The Company has also aquired respectively 16% (LTL 45 thousand was paid for the shares) and 29% (LTL 48 thousand was paid for the shares) of the mentioned subsidiaries' shares from the minority shareholders during the period January – October 2006. The minority acquisition has been accounted together with the main purchase of the shares as the result of these acquisitions was not material to the financial statements. The results of UAB Marių Valdos and UAB Ąžuolyno Valda have been consolidated from 1 January 2006.

In 2006 the Company has also acquired 100% of shares of OAO RSP for the amount of LTL 602 thousand (RUB 5,940 thousand). The result of the acquired subsidiary has been consolidated in the Group's financial statements starting from 1 September 2006.

In December 2006 the Company has acquired 75% of shares of UAB Pempininkų Valdos for the amount of LTL 2,000 thousand. The assets and liabilities of the subsidiary acquired are consolidated in the Group's financial statements as of 31 December 2006.

In addition to the above acquisitions in 2006 the Company has established the following new subsidiaries: SIA Riga City Service with share capital of LVL 200 thousand (equivalent to LTL 992 thousand as of 19 April 2006) and ZAT Kiev City Service with share capital of UAH 500 thousand (equivalent to LTL 270 thousand as of 24 August 2006). According to the agreements of establishment the Company has paid in share capital of the subsidiaries equal to the equivalent of LTL 494 thousand and LTL 139 thousand respectively by 31 December 2006. The remaining amounts are accounted as a liability to subsidiaries in the Company's financial statements as of 31 December 2006.

During 2005 a number of subsidiaries' share purchase and sales transactions have been concluded between the Company and UAB Rubicon Group as summarized below.

As disclosed in Note 7 in more detail, in 2005 the Company re-acquired UAB Buitis Be Rūpesčių from UAB Rubicon Group (this subsidiary was sold to UAB Rubicon Group in 2004). UAB Buitis Be Rūpesčių was consolidated in the Group's financial statements from 31 December 2005.

In 2005 the Company sold its investments in UAB Katra, UAB Skiedrynė (subgroup) and UAB Axis Industries (subgroup). The result of UAB Skiedrynė (subgroup) was included in the consolidated financial statements of the Group till 1 January 2005. The results of UAB Katra and UAB Axis Industries were included in the consolidated financial statements of the Group till 30 June 2005.

## 1 General information (cont'd)

Carrying values of assets and liabilities of the subsidiaries disposed of were as follows:

| | UAB Skiedrynė (1 January 2005) | UAB Katra (30 June 2005) | UAB Axis Industries (30 June 2005) |
|---|---|---|---|
| Non-current assets | 4,129 | 7,512 | 8,002 |
| Current assets | 2,911 | 21,128 | 20,889 |
| **Total assets** | **7,040** | **28,640** | **28,891** |
| Equity | 1,378 | 10,891 | 8,921 |
| Non-current liabilities | 2,550 | 2,493 | 2,002 |
| Current liabilities | 3,112 | 15,256 | 17,968 |
| **Total equity and liabilities** | **7,040** | **28,640** | **28,891** |
| Sales consideration | 306 | 3,188 | 2,722 |
| Cash in disposed of subsidiaries | 122 | 691 | 269 |
| Total sales consideration, net of cash disposed | 184 | 2,497 | 2,453 |

In 2005 UAB Axis Industries has been consolidated in the Company's financial statements as the Company exercised control over the operations of this entity irrespective of the fact that it's share holding was less than 50%. The control was exercised as a result of the power of attorney issued by a few minority shareholders to the Company that entitled the Company to vote in the shareholders' meetings on behalf of these minority shareholders on all questions at a disposition of the Company.

All of the share purchase and sales transactions made in 2005 were made with a view to restructure the Group and to transfer all subsidiaries not related to the business of the Company, i.e. thermal systems maintenance and installations as well as administration of commercial buildings and dwelling-houses, to the ultimate shareholder UAB Rubicon Group, which was established on 28 April 2004. The net result of the Group for 2005 was significantly affected by these disposals of subsidiaries as disclosed in Note 22.

The Group's and the Company's investment in an associate as of 31 December 2006 and 2005 included an investment in UAB Būsto Administravimo Agentūra (37% of share capital), which was acquired on 7 November 2005. The result of the associate attributable to the Company for the period from the acquisition date till 31 December 2005 is not material to the consolidated financial statements and was not included in the consolidated income statement for 2005. As described in more detail in Note 27, due to litigations related to the acquisition of the shares of the associate, the Group's and the Company's significant influence over the associate is currently under restrictions by the civil court. Therefore, the share of the associate's result attributed to the Company was not included in the consolidated income statement for 2006 and the investment is carried at cost of acquisition as of 31 December 2006.

Moreover, due to the restrictions further described in Note 27, the Company is unable to obtain the financial information of the associate as of 31 December 2006. The summarized financial information of UAB Būsto Administravimo Agentūra as of 31 December 2005 (the latest available to the Company) is presented below (unaudited):

| | 31 December 2005 |
|---|---|
| Assets | 485 |
| Liabilities | 107 |
| Net assets | 378 |
| Revenue | 1,100 |
| Net profit | 213 |

## 1 General information (cont'd)

As of 31 December 2006, the number of employees of the Group was 927 (as of 31 December 2005 – 373).
As of 31 December 2006, the number of employees of the Company was 376 (as of 31 December 2005 – 301).

The Company's management authorised these financial statements on 19 March 2006. 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.

## 2 Accounting policies

The principal accounting policies adopted in preparing the Group's and the Company's financial statements for 2006 are as follows:

### 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.

<u>Adoption of new and/or changed IFRSs and IFRIC interpretations</u>

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

- IAS19 Amendment-Employee Benefits
- IAS 21 Amendment-The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments-Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

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

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

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRS 8 Operating Segments (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

## 2 Accounting principles (cont'd)

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

- IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

The Group and the Company expects that the adoption of the pronouncements listed above will have no significant impact on the Group's and the Company's financial statements in the period of initial application, except for IFRS 7 "Financial Instruments: Disclosures"; IAS 1 amendment Capital Disclosures and IFRS 8 "Operating Segments". The Group and the Company are still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements.

### 2.2. Measurement and presentation currency

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

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

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

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

### 2.3. Principles of consolidation

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

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

## 2 Accounting principles (cont'd)

### 2.3. Principles of consolidation (cont'd)

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.

*Goodwill*

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.

### 2.5. Intangible assets other than goodwill

Intangible assets are measured initially at cost. 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. After initial recognition, intangible assets 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 (3 years).

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.

## 2 Accounting principles (cont'd)

### 2.6. Property, plant and equipment

Property, plant and equipment 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 have been put into operation, 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 non-current assets | 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.

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

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

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

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the 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.

## 2 Accounting principles (cont'd)

### 2.7. Financial assets (cont'd)

<u>Loans and receivables.</u>

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

<u>Available-for-sale financial assets</u>

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 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. 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 is determined by the first-in, first-out (FIFO) method. Unrealisable inventory has been fully written-off.

### 2.9. Receivables

Receivables are initially recorded at the fair value of the consideration given. Current receivables are subsequently carried at cost less impairment, and non-current receivables and loans granted – at amortised cost, less impairment.

### 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 demand deposits at banks.

### 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 Accounting principles (cont'd)

### 2.12. Financial and operating leases

Financial lease

The Company and the Group 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 composite interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets and it also gives rise to financial expenses in the Company's and the Group'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 Company or the Group, according by 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.

### 2.13. 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 statement 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.

In 2005 the standard income tax rate in Lithuania was 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies have to pay an additional 4% tax calculated based on the income tax principles, and for the following year starting from 1 January 2007 a 3% additional tax. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%. Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and / or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and / or derivative financial instruments can be only 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.

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 Accounting principles (cont'd)

### 2.14. 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 Company and the Group recognises revenue from projects on renovation of thermal systems and installation of thermal components 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.

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

### 2.15. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognised in the income statement. Such balances are translated at period-end exchange rates.

### 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 Accounting principles (cont'd)

### 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, percentage of completion evaluation for long-term contracts, and impairment evaluation. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

### 2.18. 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 is probable.

### 2.19. Subsequent events

Post-balance sheet events that provide additional information about 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 Company or the Group 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 Company or the Group 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 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.

Renovation of heating infrastructure segment includes services of renovation, modernisation of heating infrastructure and equipment.

Buildings' administration segment 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.

## 3 Segment information (cont'd)

*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 2006** | **Heating infrastructure renovation** | **Buildings' administration** | **Total** | **Heating infrastructure renovation** | **Buildings' administration** | **Total** |
| Revenue | 56,899 | 55,554 | 112,453 | 56,899 | 45,394 | 102,293 |
| Unallocated income | | | 1,154 | | | 1,154 |
| **Total revenue** | | | **113,607** | | | **103,447** |
| Segment results | 6,681 | 3,303 | 9,984 | 6,681 | 3,904 | 10,585 |
| Unallocated expenses | | | (2,440) | | | (2,150) |
| Profit before tax, finance costs and finance revenue | | | 7,544 | | | 8,435 |
| Net financial costs | | | 2,106 | | | 760 |
| Profit/(Loss) before income tax | | | 9,650 | | | 9,195 |
| Income tax expenses | | | (2,122) | | | (1,645) |
| **Net profit for the year** | | | **7,528** | | | **7,550** |
| **As at 31 December 2006** | | | | | | |
| **Assets and liabilities** | | | | | | |
| Segment assets | 19,178 | 31,516 | 50,694 | 19,178 | 26,537 | 45,715 |
| Unallocated assets | | | 28,163 | | | 28,163 |
| **Total assets** | | | **78,857** | | | **73,878** |
| Segment liabilities | 25,793 | 12,500 | 38,293 | 25,793 | 8,508 | 34,301 |
| Unallocated liabilities | | | 9,094 | | | 8,945 |
| **Total liabilities** | | | **47,387** | | | **43,246** |
| **Other segment information** | | | | | | |
| Capital expenditure | 8 | 1,987 | 1,995 | 8 | 1,183 | 1,191 |
| Depreciation and amortisation | 11 | 764 | 775 | 11 | 570 | 581 |
| Impairment losses recognised in income statement | - | 290 | 290 | - | - | - |

## 3 Segment information (cont'd)

| | **Group** | | | **Company** | | |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2005** | **Heating infrastructure renovation** | **Buildings' administration** | **Total** | **Heating infrastructure renovation** | **Buildings' administration** | **Total** |
| Revenue | 80,682 | 35,941 | 116,623 | 60,762 | 34,615 | 95,377 |
| Unallocated income | | | 609 | | | 609 |
| **Total revenue** | | | **117,232** | | | **95,986** |
| Segment results | 6,000 | 2,772 | 8,772 | 6,920 | 2,726 | 9,646 |
| Unallocated gain | | | 2,187 | | | 2,187 |
| Unallocated expenses | | | (2,588) | | | (2,588) |
| Profit before tax, finance costs and finance revenue | | | 8,371 | | | 9,245 |
| Net financial costs | | | (2,179) | | | 5,525 |
| Profit/(Loss) before income tax | | | 6,192 | | | 14,770 |
| Income tax expenses | | | (1,661) | | | (1,732) |
| **Net profit for the year** | | | **4,531** | | | **13,038** |
| **As at 31 December 2005** | | | | | | |
| **Assets and liabilities** | | | | | | |
| Segment assets | 11,727 | 22,959 | 34,686 | 11,727 | 21,878 | 33,605 |
| Unallocated assets | | | 19,567 | | | 19,567 |
| **Total assets** | | | **54,253** | | | **53,172** |
| Segment liabilities | 20,317 | 5,845 | 26,162 | 20,317 | 5,039 | 25,356 |
| Unallocated liabilities | | | 3,234 | | | 3,234 |
| **Total liabilities** | | | **29,396** | | | **28,590** |
| **Other segment information** | | | | | | |
| Capital expenditure | 52 | 3,044 | 3,096 | 52 | 1,241 | 1,293 |
| Depreciation and amortisation | 1,086 | 831 | 1,917 | - | 707 | 707 |
| Impairment losses recognised in income statement | - | - | - | - | - | - |

## 3 Segment information (cont'd)

*Geographical segments*

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

| Year ended 31 December 2006 | **Baltic states** | **CIS states** | **Total** |
|---|---|---|---|
| **Revenue** | | | |
| Sales to external customers | 108,837 | 4,770 | 113,607 |
| **Segment revenue** | **108,837** | **4,770** | **113,607** |
| **Other segment information** | | | |
| Segment assets | 75,503 | 3,134 | 78,637 |
| Investment in associate | 220 | - | 220 |
| **Total assets** | | | **78,857** |
| Capital expenditure | 1,506 | 489 | 1,995 |

| Year ended 31 December 2005 | **Baltic states** |
|---|---|
| **Revenue** | |
| Sales to external customers | 117,232 |
| **Segment revenue** | **117,232** |
| **Other segment information** | |
| Segment assets | 54,033 |
| Investment in associate | 220 |
| **Total assets** | **54,253** |
| Capital expenditure | 3,096 |

## 4 Goodwill

| | Group |
|---|---|
| **Cost:** | |
| Balance as of 31 December 2005 | - |
| Additions | 3,806 |
| Balance as of 31 December 2006 | 3,806 |
| **Impairment:** | |
| Balance as of 31 December 2005 | - |
| Impairment for the year | 290 |
| Balance as of 31 December 2006 | 290 |
| **Net book value as of 31 December 2006** | **3,516** |
| **Net book value as of 31 December 2005** | **-** |

As disclosed in Notes 1 and 7, during 2006 the Company has acquired 4 subsidiaries: UAB Ąžuolyno Valda, UAB Marių Valdos, UAB Pempininkų Valdos, and OAO RSP. At the date of acquisition of UAB Ąžuolyno Valda, UAB Marių Valdos, and UAB Pempininkų Valdos, goodwill of LTL 3,806 thousand has been accounted for. The goodwill appears due to expected synergies and other benefits resulting from market imperfections.

The excess of acquired interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of OAO RSP over the cost of the investment amounting to LTL 1,486 thousand, resulting from a bargain purchase, has been recognised in the income statement of the Group under the income from financial and investment activity caption.

The fair values of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition were as follows:

| **Fair value of assets, liabilities and contingent liabilities** | **UAB Ąžuolyno Valda** | **UAB Marių Valdos** | **OAO RSP** | **UAB Pempininkų Valdos** |
|---|---|---|---|---|
| **Date of acquisition** | **1 January 2006** | **1 January 2006** | **1 September 2006** | **31 December 2006** |
| Property, plant and equipment | 2,414 | 1,427 | 112 | 1,784 |
| Current assets | 306 | 569 | 4,223 | 971 |
| **Total assets** | **2,720** | **1,996** | **4,335** | **2,755** |
| Equity | 1,562 | 1,228 | 2,088 | 1,697 |
| Non-current liabilities | - | - | - | - |
| Current liabilities | 1,158 | 768 | 2,247 | 1,058 |
| **Total equity and liabilities** | **2,720** | **1,996** | **4,335** | **2,755** |

The fair value of assets and liabilities on the date of acquisition approximated the carrying values, except for property, plant and equipment. The carrying values of the property, plant and equipment were as follows:

| **Carrying values** | **UAB Ąžuolyno Valda** | **UAB Marių Valdos** | **OAO RSP** | **UAB Pempininkų Valdos** |
|---|---|---|---|---|
| **Date of acquisition** | **1 January 2006** | **1 January 2006** | **1 September 2006** | **31 December 2006** |
| Property, plant and equipment | 83 | 460 | 112 | 86 |

## 4 Goodwill (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 2006 were as follows:

| | **UAB Ąžuolyno Valda** | **UAB Marių Valdos** | **OAO RSP** | **UAB Pempininkų Valdos** |
|---|---|---|---|---|
| **Date of acquisition** | **1 January 2006** | **1 January 2006** | **1 September 2006** | **31 December 2006** |
| Fair value of acquired assets, liabilities and contingent liabilities applicable to the Minority shareholders | - | 173 | - | 427 |
| Fair value of acquired assets, liabilities and contingent liabilities applicable to the Group | 1,562 | 1,055 | 2,088 | 1,270 |
| Goodwill | 986 | 2,090 | (1,486) | 730 |
| **Total purchase consideration** | **2,548** | **3,145** | **602** | **2,000** |
| Cash acquired | 98 | 168 | 1,196 | 564 |
| **Total purchase consideration, net of cash acquired** | **2,450** | **2,977** | **(594)** | **1,436** |

During the period between the acquisition date and 31 December 2006 UAB Ąžuolyno Valda has earned a profit of LTL 23 thousand; UAB Marių Valdos has earned a profit of LTL 120 thousand; and OAO RSP has incurred a loss of LTL 1,007 thousand.

If all the acquisitions would have been performed as of 1 January 2006, the revenue of the Group would be larger by LTL 8,427 thousand and the net result would be higher by LTL 130 thousand.

As it is disclosed in Note 1, on 31 December 2005 the Company reacquired UAB Buitis be rūpesčių from UAB Rubicon Group. The carrying values of assets and liabilities of the subsidiary acquired as of 31 December 2005 were as follows:

| **Carrying values** | **31 December 2005** |
|---|---|
| Property, plant and equipment | 173 |
| Current assets | 634 |
| **Total assets** | **807** |
| Equity | 500 |
| Non-current liabilities | - |
| Current liabilities | 307 |
| **Total equity and liabilities** | **807** |

## 4 Goodwill (cont'd)

The fair value of assets and liabilities on the date of acquisition approximated the carrying value.

| | **31 December 2005** |
|---|---|
| Fair value of acquired assets, liabilities and contingent liabilities | 500 |
| Goodwill | - |
| **Total purchase consideration** | **500** |
| Cash acquired | 113 |
| **Total purchase consideration, net of cash acquired** | **387** |

The revenue and net result of the Group for the year as though the acquisition date for this business combination had been 1 January 2005 is not presented due to the insignificance of the operations of the subsidiary acquired to the consolidated financial statements.

For the purpose of impairment evaluation, the goodwill was allocated to the following cash generating units:

| **Cash generating unit** | **Carrying value of allocated goodwill as of 31 December 2006** |
|---|---|
| UAB Ąžuolyno Valda (administration of dwelling-houses in Klaipeda) | 696 |
| UAB Marių Valdos (administration of dwelling-houses in Klaipeda) | 2,090 |
| UAB Pempininkų Valdos (administration of dwelling-houses in Klaipeda) | 730 |
| | 3,516 |

The recoverable amount of each cash generating unit as of 31 December 2006 was determined based on the value in use calculation using cash flow projections based on the five-year financial forecasts prepared by the management. The forecasted revenues were estimated based on the area of the dwelling houses administered as of 31 December 2006, assuming that the area administered will remain the same in the future years and the growth in revenue will be derived only from a service fee increase, which was forecasted to be in line with the estimated inflation rate. The costs were projected based on the actual cost level taking into account estimated inflation. In addition, the management assumed that the cost of personnel will increase beyond the effect of the expected inflation due to the overall significant increase of the salary levels in the Lithuanian market. 12.5% discount rate (post – tax) was applied to the cash flow projections and cash flows beyond five-year period were extrapolated using 2% growth rate 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.

The assessment of the recoverable amounts of the above cash generating units as of 31 December 2006 resulted in a LTL 290 thousand impairment of goodwill allocated to UAB Ąžuolyno Valda cash generating unit.

With regard to the assessment of the recoverable amount of UAB Marių Valdos and UAB Pempininkų Valdos units, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## 5 Other intangible assets

Movement of intangible assets in 2006 and 2005 is presented below:

| | Group | Company |
|---|---|---|
| **Cost:** | | |
| Balance as of 31 December 2004 | 1,699 | 498 |
| Additions arising from acquisitions of subsidiaries | 1 | - |
| Additions | 13 | - |
| Disposals arising from sales of subsidiaries | (1,154) | - |
| Retirements | (3) | - |
| Balance as of 31 December 2005 | 556 | 498 |
| Additions arising from acquisitions of subsidiaries | 2 | - |
| Additions | 40 | 30 |
| Retirements | (61) | - |
| Balance as of 31 December 2006 | 537 | 528 |
| | | |
| **Accumulated amortisation:** | | |
| Balance as of 31 December 2004 | 1,067 | 453 |
| Charge for the year | 204 | 38 |
| Disposals arising from sales of subsidiaries | (733) | - |
| Retirements | (3) | - |
| Balance as of 31 December 2005 | 535 | 491 |
| Charge for the year | 25 | 11 |
| Retirements | (61) | - |
| Balance as of 31 December 2006 | 499 | 502 |
| | | |
| **Net book value as of 31 December 2006** | **38** | **26** |
| **Net book value as of 31 December 2005** | **21** | **7** |

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 487 thousand as of 31 December 2006 was fully amortised (LTL 465 thousand as of 31 December 2005) but was still in use.

## 6 Property, plant and equipment

Movement of property, plant and equipment in 2006 and 2005 is presented below:

| **Group** | **Land and buildings** | **Vehicles** | **Other property, plant and equipment** | **Construction in progress** | **Total** |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance as of 31 December 2004 | 11,544 | 6,564 | 13,181 | 210 | 31,499 |
| Additions arising from acquisitions of subsidiaries | 171 | - | 1 | - | 172 |
| Additions | - | 1,129 | 831 | 1,123 | 3,083 |
| Disposals | (2,400) | (1,158) | (970) | - | (4,528) |
| Disposals arising from sales of subsidiaries | (9,150) | (5,202) | (11,122) | (1,113) | (26,587) |
| Retirements | - | (30) | (2) | - | (32) |
| Reclassifications | 220 | - | - | (220) | - |
| Balance as of 31 December 2005 | 385 | 1,303 | 1,919 | - | 3,607 |
| Additions arising from acquisitions of subsidiaries | 5,509 | 86 | 138 | - | 5,733 |
| Additions | - | 1,063 | 405 | 487 | 1,955 |
| Disposals | (151) | (83) | (27) | - | (261) |
| Retirements | - | (21) | (45) | - | (66) |
| Reclassifications | - | 67 | 47 | (114) | - |
| Balance as of 31 December 2006 | 5,743 | 2,415 | 2,437 | 373 | 10,968 |
| **Accumulated depreciation:** | | | | | |
| Balance as of 31 December 2004 | 2,937 | 2,104 | 6,125 | - | 11,166 |
| Charge for the year | 222 | 412 | 1,079 | - | 1,713 |
| Disposals | (870) | (372) | (406) | - | (1,648) |
| Disposals arising from sales of subsidiaries | (2,262) | (1,642) | (5,686) | - | (9,590) |
| Retirements | - | (28) | - | - | (28) |
| Balance as of 31 December 2005 | 27 | 474 | 1,112 | - | 1,613 |
| Charge for the year | 98 | 262 | 390 | - | 750 |
| Disposals | (10) | (57) | (17) | - | (84) |
| Retirements | - | (6) | (37) | - | (43) |
| Balance as of 31 December 2006 | 115 | 673 | 1,448 | - | 2,236 |
| **Net book value as of 31 December 2006** | **5,628** | **1,742** | **989** | **373** | **8,732** |
| **Net book value as of 31 December 2005** | **358** | **829** | **807** | **-** | **1,994** |

## 6 Property, plant and equipment (cont'd)

**Company**

| | Land and buildings | Vehicles | Other property, plant and equipment | Total |
|---|---|---|---|---|
| **Cost:** | | | | |
| Balance as of 31 December 2004 | 2,400 | 1,626 | 1,877 | 5,903 |
| Additions | - | 725 | 568 | 1,293 |
| Disposals | (2,400) | (1,091) | (620) | (4,111) |
| Balance as of 31 December 2005 | - | 1,260 | 1,825 | 3,085 |
| Additions | - | 872 | 289 | 1,161 |
| Disposals | - | (73) | (23) | (96) |
| Balance as of 31 December 2006 | - | 2,059 | 2,091 | 4,150 |
| **Accumulated depreciation:** | | | | |
| Balance as of 31 December 2004 | 834 | 555 | 862 | 2,251 |
| Charge for the year | 35 | 216 | 418 | 669 |
| Disposals | (869) | (305) | (245) | (1,419) |
| Balance as of 31 December 2005 | - | 466 | 1,035 | 1,501 |
| Charge for the year | - | 222 | 348 | 570 |
| Disposals | - | (47) | (15) | (62) |
| Balance as of 31 December 2006 | - | 641 | 1,368 | 2,009 |
| **Net book value as of 31 December 2006** | **-** | **1,418** | **723** | **2,141** |
| **Net book value as of 31 December 2005** | **-** | **794** | **790** | **1,584** |

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2006 amounts to LTL 750 thousand and LTL 570 thousand respectively (LTL 1,713 thousand and LTL 669 thousand in the year 2005 respectively). Amounts of LTL 525 thousand and LTL 399 thousand for the year 2006 (LTL 910 thousand and LTL 442 thousand for the year 2005) have been included into general and administrative expenses in the Group's and the Company's income statement respectively. LTL 171 thousand (LTL 229 thousand in 2005) have been included into other operating expenses in the Group's and the Company's income statement. The remaining depreciation expenses in 2006 and 2005 have been included in the cost of sales and cost of manufacturing.

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 1,214 thousand and LTL 928 thousand respectively were fully depreciated as of 31 December 2006 (LTL 943 thousand and LTL 891 thousand as of 31 December 2005 respectively) but were still in active use.

## 7 Investments into subsidiaries

The Company's investments in subsidiaries stated at cost as of 31 December 2006 and 2005 are as follows:

| | **2006** | **2005** |
|---|---|---|
| Cost of investments at the beginning of the year | 911 | 5,759 |
| Disposal of UAB Katra | - | (2,591) |
| Disposal of UAB Axis Industries (former UAB Kazlų Rūdos Metalas) | - | (2,510) |
| Disposal of UAB Skiedrynė | - | (247) |
| Acquisition of UAB Buitis Be Rūpesčių | - | 500 |
| Acquisition of UAB Ąžuolyno Valda | 2,548 | - |
| Acquisition of UAB Marių Valdos | 3,145 | - |
| Acquisition of UAB Pempininkų Valdos | 2,000 | - |
| Establishment of SIA Riga City Service | 992 | - |
| Establishment of ZAT Kiev City Service | 270 | - |
| Acquisition of OAO Remontnoje Stroitelnoje Priedprijatije | 602 | - |
| | 10,468 | 911 |

As described in Notes 1 and 4 in more detail, in 2006 the Company acquired four subsidiaries and established two new foreign subsidiaries.

## 8 Non-current receivables

The amount of other non-current receivables of the Group and the Company as of 31 December 2005 included non-current portion of receivables from UAB Edkinta amounting to LTL 291 thousand (current portion amounting to LTL 698 thousand as of 31 December 2005 was included in trade receivables). During the year the Company has collected payments in amount of LTL 595 thousand. The remaining amount equal to LTL 394 thousand has been written-off as it is not expected to be received.

## 9 Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | **As of 31 December 2006** | **As of 31 December 2005** | **As of 31 December 2006** | **As of 31 December 2005** |
| Raw and auxiliary materials | 2,414 | 983 | 1,780 | 895 |
| Goods for resale | 2 | 2 | 2 | 2 |
| Other | 3 | 44 | 3 | 44 |
| | 2,419 | 1,029 | 1,785 | 941 |
| Less: net realisable value allowance | - | (1) | - | - |
| | 2,419 | 1,028 | 1,785 | 941 |

## 10 Trade receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **As of 31 December 2006** | **As of 31 December 2005** | **As of 31 December 2006** | **As of 31 December 2005** |
| Trade receivables, gross | 28,456 | 18,850 | 25,198 | 18,499 |
| Less: allowance for doubtful trade receivables | | | | |
| As of 1 January | (341) | (2,233) | (341) | (340) |
| Disposal of subsidiaries (Note 1) | - | 881 | - | - |
| Additional allowance (recognised) reversed in income statement | (442) | 1,011 | - | (1) |
| As of 31 December | (783) | (341) | (341) | (341) |
| | 27,673 | 18,509 | 24,857 | 18,158 |

Change in allowance for doubtful trade receivables for the year 2006 and 2005 has been included into general and administrative expenses.

The Group's and the Company's accounts receivable from UAB Litesko and UAB Vilniaus Energija for heating system renovation works amount to LTL 15,441 thousand as of 31 December 2006 (LTL 10,125 thousand as of 31 December 2005).

## 11 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Cash at bank | 4,563 | 1,664 | 2,564 | 1,488 |
| Cash on hand | 21 | 83 | 6 | 24 |
| Restricted cash | 248 | - | - | - |
| Cash in transit | 140 | - | - | - |
| | 4,972 | 1,747 | 2,570 | 1,512 |

Restricted cash represents cash held in a restricted account in relation to the participation in tender by one of the subsidiaries of the Group. The restriction expired in January 2007.

## 12 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. Currently legal reserve of the Company is sufficient and no additional transfers are required.

Other reserves

Other non-restricted (distributable) reserves are formed based on the decision of the General Shareholders' Meeting on appropriation of distributable profit. These reserves can be used only for the purposes approved by the General Shareholders' Meeting.

## 13 Borrowings

On 22 June 2006 the Company signed a credit line agreement with AB DnB NORD Bankas. The credit line of the Company is presented in the table below:

| Creditor | Currency of the loan | Amount of the loan (in currency of the loan) | Annual interest rate | Final repayment date | Balance as of 31 December 2006 |
|---|---|---|---|---|---|
| AB DnB NORD Bankas | LTL | 5,600 | 6-month VILIBOR plus 1.2% | 30 June 2011 | 4,125 |
| Less: Current portion of non-current borrowings | | | | | (1,180) |
| Non-current borrowings excluding current portion | | | | | 5,305 |

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

| | As of 31 December 2006 | | | |
|---|---|---|---|---|
| | Group | | Company | |
| Year | Fixed interest rate | Variable interest rate | Fixed interest rate | Variable interest rate |
| 2007 | - | 1,180 | - | 1,180 |
| 2008 - 2009 | - | 2,360 | - | 2,360 |
| After 2009 | - | 1,765 | - | 1,765 |
| | - | 5,305 | - | 5,305 |

For the credit line the Company has pledged the shares of subsidiaries UAB Vingio Valdos, UAB Žaidas, UAB Buitis be rūpesčių, UAB Marių Valdos and UAB Ąžuolyno Valda.

Based on the terms of the loan agreement, the Company has to comply with certain financial and non-financial covenants, such as: the EBITDA of the Company shall be not less that LTL 5 million, the capital ratio of the Company shall be not less than 30% and a minimum set volume of the Company's bank transactions shall be performed through the bank. The Company was in compliance with these covenants.

There were no other non-current borrowings in the Group as of 31 December 2006.

As of 31 December 2005 the Group and the Company had no non-current or current borrowings.

## 14 Financial lease

The assets leased by the Company under financial lease contracts 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 1,131 thousand as of 31 December 2006 in the Group and LTL 944 thousand in the Company (LTL 476 thousand in the Group and LTL 452 thousand as of 31 December 2005 in the Company). 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 2006 the interest rate on the financial lease obligations is 6 – 12 -month EUR LIBOR plus 1.2 – 1.8% (as of 31 December 2005 6 – 12 -month EUR LIBOR plus 1.4 – 1.6%).

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2006 are as follows:

| | Group | Company |
|---|---|---|
| Within one year | 537 | 459 |
| From one to five years | 674 | 556 |
| Total financial lease obligations | 1,211 | 1,015 |
| Interest | (80) | (71) |
| Present value of financial lease obligations | 1,131 | 944 |
| Financial lease obligations are accounted as: | | |
| - current | 489 | 418 |
| - non-current | 642 | 526 |

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2005 are as follows:

| | Group | Company |
|---|---|---|
| Within one year | 179 | 179 |
| From one to five years | 322 | 297 |
| Total financial lease obligations | 501 | 476 |
| Interest | (25) | (24) |
| Present value of financial lease obligations | 476 | 452 |
| Financial lease obligations are accounted as: | | |
| - current | 165 | 165 |
| - non-current | 311 | 287 |

## 15 Operating lease

As of 31 December 2005 the Group and the Company had several contracts of operating lease for vehicles outstanding as disclosed in Note 20. 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 2006 | As of 31 December 2005 | As of 31 December 2006 | As of 31 December 2005 |
| Within one year | 114 | 197 | 114 | 197 |
| From one to five years | 6 | 40 | 6 | 40 |
| | 120 | 237 | 120 | 237 |

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.

## 16 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 6,752 thousand as of 31 December 2006 (LTL 4,548 thousand as of 31 December 2005). The remaining amount represents received advances from the owners of commercial and residential buildings administrated by the Group and the Company for repair and other works.

## 17 Other current liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | As of 31 December 2006 | As of 31 December 2005 | As of 31 December 2006 | As of 31 December 2005 |
| Salaries and social security | 642 | 260 | 304 | 224 |
| Vacation pay accrual | 1,055 | 590 | 871 | 586 |
| Other current liabilities | 1,760 | 2,518 | 1,642 | 2,424 |
| | 3,457 | 3,368 | 2,817 | 3,234 |

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

## 18 Sales

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Heating system renovation and heating components installation services | 57,436 | 79,088 | 56,899 | 60,762 |
| Buildings' administration and related services | 51,950 | 36,244 | 45,394 | 34,615 |
| Other services and goods | 4,221 | 1,900 | 1,154 | 609 |
| | 113,607 | 117,232 | 103,447 | 95,986 |

The Company has a significant concentration of trading counterparties. The main two customers of the Company – UAB Vilniaus Energija and UAB Litesko – in 2006 and 2005 accounted for 54% and 62%, respectively, of total Company's sales. The scope of the heating system renovation projects performed by UAB Vilniaus Energija and UAB Litesko in 2006 was lower, therefore the Company's sales of heating system renovation and heating components installation decreased.

## 19 Cost of sales

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Services of subcontractors and materials used | 79,860 | 79,363 | 75,834 | 73,597 |
| Cost of goods sold | 1,914 | 7,376 | 1,893 | 1,812 |
| Wages and salaries and social security | 12,867 | 8,823 | 9,029 | 6,593 |
| Depreciation | 54 | 468 | - | - |
| Other | 100 | 97 | - | - |
| | 94,795 | 96,127 | 86,756 | 82,002 |

## 20 General and administrative expenses

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Wages and salaries and social security | 3,309 | 5,845 | 2,459 | 1,758 |
| Rent of premises and other assets | 1,076 | 1,280 | 964 | 902 |
| Fuel expenses | 983 | 1,169 | 967 | 827 |
| Allowance for and write-off of receivables | 1,053 | (1,011) | 415 | 1 |
| Consulting and similar expenses | 810 | 1,088 | 699 | 700 |
| Depreciation and amortisation | 550 | 1,114 | 410 | 480 |
| Communication expenses | 449 | 533 | 366 | 344 |
| Repair and maintenance of premises and other assets | 357 | 455 | 285 | 284 |
| Commissions for collection of payments | 342 | 139 | 249 | 100 |
| Advertising | 330 | 585 | 293 | 416 |
| Goodwill impairment | 290 | - | - | - |
| Utilities | 221 | 297 | 139 | 120 |
| Business trips and training | 203 | 131 | 201 | 7 |
| Charity and support | 140 | 413 | 87 | 192 |
| Taxes other than income tax | 99 | 355 | 50 | 139 |
| Computer software maintenance | 99 | 142 | 38 | 34 |
| Other | 1,216 | 2,588 | 775 | 765 |
| | 11,527 | 15,123 | 8,397 | 7,069 |

The Company's and the Group's rent of premises and other assets in 2006 mainly represents office space (LTL 399 thousand; LTL 348 thousand in 2005) and vehicles operating lease expenses. The operating lease of the office is provided mainly by UAB Arkoveta, a related party. Vehicles are leased from third parties. Rent of part of vehicles is uncancellable, therefore related future minimum lease payments are disclosed in Note 15.

## 21 Other operating income (expenses), net

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Income from rent (net) | 153 | 177 | 137 | 177 |
| Gain on disposal of property, plant and equipment | 57 | 2,215 | (1) | 2,187 |
| Depreciation of rented assets | (171) | (229) | (171) | (229) |
| Other income (expenses) | 220 | 226 | 176 | 195 |
| | 259 | 2,389 | 141 | 2,330 |

## 22 Income (expenses) from financial and investment activities, net

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Realization of negative goodwill on acquisition of OAO RSP (Note 4) | 1,486 | - | - | - |
| Discounting of long-term receivables | 430 | 208 | 430 | 208 |
| Interest income | 231 | 827 | 235 | 779 |
| Dividend income * | 60 | 466 | 210 | 3,641 |
| Foreign currency exchange gain | 1 | 27 | 1 | - |
| Profit from disposal of investments (Note 1) | - | 159 | - | 981 |
| Other financial income | 46 | - | 21 | - |
| **Total financial income** | **2,254** | **1,687** | **897** | **5,609** |
| | | | | |
| Interest (expenses) | (136) | (158) | (137) | - |
| Loss from disposal of investments (Note 1) | - | (3,600) | - | (37) |
| Other financial (expenses) | (12) | (108) | - | (47) |
| **Total financial (expenses)** | **(148)** | **(3,866)** | **(137)** | **(84)** |

* The Company's dividend income recorded in 2006 represents dividends from subsidiaries UAB Vingio Valdos and UAB Ąžuolyno Valda and a former subsidiary UAB Vienituras (paid dividend for the year 2004). The Group's dividend income recorded in 2005 represents dividends from former subsidiary companies UAB Vienituras, and UAB Livesta Serviso Centras. The Company's dividend income recorded in 2005 represents dividends from subsidiary companies UAB Katra, UAB Axis Industries, UAB Vienituras, and UAB Livesta Serviso Centras, which were sold in 2005.

## 23 Income tax

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| **Components of the income tax expenses** | | | | |
| Current income tax | 2,278 | 1,899 | 1,751 | 1,970 |
| Deferred income tax (income) expenses | (156) | (238) | (106) | (238) |
| Income tax expenses recorded in the income statement | 2,122 | 1,661 | 1,645 | 1,732 |

## 23 Income tax (cont'd)

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Deferred income tax asset** | | | | |
| Valuation allowance for accounts receivable | 187 | 51 | 51 | 51 |
| Accruals | 190 | - | 157 | - |
| Loss carry forward | 21 | - | - | - |
| Deferred income tax asset before valuation allowance | 398 | 51 | 208 | 51 |
| Less: valuation allowance | (187) | - | (51) | - |
| Deferred income tax asset, net | 211 | 51 | 157 | 51 |
| **Deferred income tax liability** | | | | |
| Differences in depreciation | (4) | - | - | - |
| Deferred income tax liability, net | (4) | - | - | - |
| Deferred income tax, net | 207 | 51 | 157 | 51 |

The Group's deferred tax asset and liability were settled off in the amount that realizes in the same period in separate subsidiaries.

Loss carry forward can be utilised until the year 2011.

Deferred income tax asset and liability were accounted at 15% - 19% rate, depending on the estimated timing of the realization of temporary differences. The changes of temporary differences before the tax effect in the Group were as follows:

| | Balance as of 31 December 2005 | Recognised in income statement | Acquired subsidiaries | Balance as of 31 December 2006 |
|---|---|---|---|---|
| Valuation allowance for accounts receivable | 342 | 311 | 576 | 1,229 |
| Accruals | - | 1,038 | - | 1,038 |
| Loss carry forward | - | 140 | - | 140 |
| Differences in depreciation | - | (26) | - | (26) |
| Total temporary differences before valuation allowance | 342 | 1,463 | 576 | 2,381 |
| Valuation allowance | - | (653) | (576) | (1,229) |
| Total temporary differences | 342 | 810 | - | 1,152 |
| Deferred income tax, net | 51 | 156 | - | 207 |

## 23 Income tax (cont'd)

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

| | Balance as of 31 December 2005 | Recognised in income statement | Balance as of 31 December 2006 |
|---|---|---|---|
| Valuation allowance for accounts receivable | 342 | - | 342 |
| Accruals | - | 871 | 871 |
| Total temporary differences | 342 | 871 | 1,213 |
| Valuation allowance | - | (341) | (341) |
| Total temporary differences | 342 | 530 | 872 |
| Deferred income tax, net | 51 | 106 | 157 |

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 | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Income tax expenses computed at 19% in 2006 and 15% in 2005 | 1,834 | 929 | 1,747 | 2,216 |
| Effect of different tax rate applicable to foreign subsidiaries | (25) | - | - | - |
| Reimbursed income tax on dividends | - | - | - | (390) |
| Change in deferred tax asset valuation allowance | 187 | - | 51 | - |
| Non-deductible expenses / non-taxable income | 126 | 732 | (153) | (94) |
| Income tax expenses reported in the income statement | 2,122 | 1,661 | 1,645 | 1,732 |

## 24 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 | |
|---|---|---|
| | 2006 | 2005 |
| Net profit (loss) attributable to the shareholders | 7,516 | 5,049 |
| Number of shares (thousand), opening balance | 10,500 | 105 |
| Increase in the number of shares due to reduction of nominal value (thousand) (Note 1) | - | 10,395 |
| Number of shares (thousand), closing balance (restated) | 10,500 | 10,500 |
| Weighted average number of shares (thousand) | 10,500 | 10,500 |
| Basic and diluted earnings per share (LTL) | 0.72 | 0.48 |

## 25 Dividends per share

| | 2006* | 2005* |
|---|---|---|
| Approved dividends | 1,500 | 24,400 |
| Number of shares (in thousand) | 10,500 | 10,500 |
| Approved dividends per share (LTL) | 0.14 | 2.32 |

* The year when the dividends are approved.

## 26 Financial assets and liabilities and risk management

Credit risk

The Company's and the Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. Furthermore, the credit risk of the main two customers of the Company, regarding which there is a trading and credit risk concentration (Note 18), is managed by trying to get partial prepayments from these customers. Receivables from UAB Vilniaus energija and UAB Litesko as of 31 December 2006 amounted to 21% and 12% of the Group's and the Company's total trade accounts receivable, respectively (26% and 29% as of 31 December 2005, 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 13 and 14). There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2006 and 2005.

Liquidity risk

The Company's and the Group'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 and quick ratios as of 31 December 2006 were 1.55 and 1.49 respectively (1.77 and 1.73 as of 31 December 2005 respectively). The Company's liquidity and quick ratios as of 31 December 2006 were 1.56 and 1.52 respectively (1.76 and 1.73 as of 31 December 2005 respectively).

Foreign exchange risk

The Company's monetary assets and liabilities as of 31 December 2006 are denominated in LTL or EUR, to which LTL is pegged, consequently the management of the Company believes that foreign exchange risk on Euros is insignificant.

Monetary assets and liabilities of the Group denominated in various currencies as of 31 December 2006 were as follows:

| | Assets | Liabilities |
|---|---|---|
| LTL | 56,903 | 37,855 |
| RUB | 2,030 | 1,191 |
| LVL | 329 | 187 |
| EUR | 138 | - |
| | 59,400 | 39,233 |

## 26 Financial assets and liabilities and risk management (cont'd)

As of 31 December 2005 the Company's and the Group's monetary assets and liabilities were denominated in LTL or EUR, to which LTL is pegged, consequently neither the Company nor the Group was exposed to a foreign exchange risk.

Fair value of financial instruments

The Company's and the Group'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.

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.

## 27 Commitments and contingencies

Uncertainties related to the acquisition of associate

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 granted to Mr. and Mrs. Bačiliūnai a loan amounting to LTL 220 thousand, which had to be repaid until 31 December 2005. In addition, 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 for LTL 220 thousand. However, the ownership of UAB Vingio Valdos shares legally was not transferred to the Company by 31 December 2005, as the receivable from and payable to Mr. and Mrs. Bačiliūnai, amounting to LTL 220 thousand, were not set off. This transaction has been accounted for in the Company's financial statements following the substance of the transaction: the "sale" and "repurchase" of UAB Vingio Valdos was not accounted for as well as were not accounted any losses or gains on this transaction. 100% of UAB Vingio Valdos ownership was consolidated in the financial statements as of 31 December 2006 and 2005, though legally the set-off of payable for the shares and loan receivable was not completed due to litigation described below.

After the swap of shares, Mr. Virgilijus Strioga, one of the shareholders of UAB Būsto Administravimo Agentūra, appealed to the Court with a claim to cancel the swap of the shares. The claim has been judged in the Kaunas District Court and decision taken to approve the claim and declare restitution. The Company has appealed to the Appeal Court with the request to return the claim to first institution for a new judgement. The outcome of this matter was uncertain as of the date of issuing of these financial statements. In case the Court's decision is unfavourable for the Company, restitution may be confirmed. In case the restitution is confirmed, the Company will redeem the amount of the loan granted to Mr. and Mrs. Bačiliūnai and will have to transfer back the shares of UAB Būsto Administravimo Agentūra. The Court has applied temporary restrictions to the governing power of the Company over UAB Būsto Administravimo Agentūra.

## 28 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 2006 and 2005 were as follows (see also the table below):

UAB Rubicon Group (the shareholder of the Company);
UAB Arkoveta (same ultimate controlling shareholder; the shareholder of the Company in 2005);
UAB Verslo Plėtros Ir Administravimo Agentūra (same ultimate controlling shareholders);
UAB Rubicon Eventus (same ultimate controlling shareholders);
UAB Ozantis (same ultimate controlling shareholders);
UAB Marela (same ultimate controlling shareholders);
UAB Aviridis (same ultimate controlling shareholders);
UAB Penktas Kanalas (same ultimate controlling shareholders);
UAB AR Studija (same ultimate controlling shareholders);
UAB Buitis Be Rūpesčių (subsidiary);
UAB Movestas (same ultimate controlling shareholders);
UAB Profista (same ultimate controlling shareholders);
UAB Dalkia Lietuva (same ultimate controlling shareholders);
UAB Žaidas (subsidiary);
UAB Vingio Valdos (subsidiary);
UAB Axis Industries (same ultimate controlling shareholders, UAB Katra and UAB Limatika merged to UAB Axis Industries in 2006);
UAB Vilniaus Pramogų Parkas (same ultimate controlling shareholder);
UAB Skiedrynė (same ultimate controlling shareholders);
UAB Medvija (same ultimate controlling shareholder);
UAB Baloša (same ultimate controlling shareholders, subsidiary in 2005);
UAB Ecoservice (former UAB Vienituras, same ultimate controlling shareholders, subsidiary in 2005);
UAB Relinė Apsauga (same ultimate controlling shareholders, subsidiary in 2005);
UAB Tiketa (same ultimate controlling shareholders, subsidiary in 2005);
UAB City Invest (same ultimate controlling shareholders);
UAB Domestas (same ultimate controlling shareholders);
UAB Urban Housing ((same ultimate controlling shareholders);
ZAT Kiev City Service (subsidiary);
UAB Marių Valdos (subsidiary);
UAB Pempininkų Valdos (subsidiary);
UAB Ąžuolyno Valda (subsidiary);
SIA Riga City Service (subsidiary);
OAO Remontnoje Stroitelnoje Priedprijatije (subsidiary);
Ž. Lapinskas (general director of the Company);
L. Samuolis (the shareholder of UAB Rubicon Group).

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 to / from UAB Rubicon Group as disclosed further in the note, and acquisitions and disposals of property, plant and equipment.

As discussed in Note 1, in 2005 all of the share purchase and sales transactions made with UAB Rubicon Group were made with a view to restructure the Rubicon Group and City Service Group and to transfer all subsidiaries not related to the business of the Company to the ultimate parent.

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.

There are no guaranties 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.

## 28 Related party transactions (cont'd)

**2006**

| Group | Purchases | Sales | Receivables and prepayments | Loans granted | Payables and advances received |
|---|---|---|---|---|---|
| UAB Rubicon Group | 1,128 | 11,684* | 17,940 | 1,500 | 217 |
| UAB Rubicon Eventus | 156 | 886 | 2,576 | - | - |
| UAB Axis Industries | 20,626 | 2,574 | 1,787 | - | 10,232 |
| UAB Bioautomatika | 456 | - | 131 | - | - |
| UAB Baloša | - | 18 | 12 | - | - |
| UAB Arkoveta | 667 | 49 | - | - | 118 |
| UAB Tiketa | 21 | 99 | 72 | - | - |
| UAB Penktas Kanalas | 4 | 356 | 129 | - | 3 |
| UAB Rubikon | - | - | 244 | - | - |
| UAB Verslo Plėtros ir Administravimo Agentūra | 4 | 16 | 9 | - | - |
| UAB Vilniaus Pramogų Parkas | 11,624* | 19 | - | - | 4 |
| UAB Effectus | 3 | 33 | 4 | - | - |
| UAB Ecoservice (former UAB Vienituras) | 691 | 145 | - | - | 189 |
| UAB Medvija | - | 25 | 18 | - | - |
| UAB Skiedrynė | - | 17 | 15 | - | - |
| UAB Ozantis | - | 26 | 2 | - | - |
| UAB Rubicon Aqua | 1 | 65 | 8 | - | - |
| UAB Bionovus | 3 | 45 | 10 | - | - |
| UAB City Invest | 6 | 4 | - | 20 | 3 |
| UAB Domestas | - | 23 | 13 | 1,530 | - |
| UAB Relinė apsauga | 100 | 11 | 1 | - | - |
| UAB Trasana | 18 | - | - | - | - |
| UAB Urban Housing | - | 55 | 36 | 1,280 | - |
| Ž. Lapinskas | - | 18 | 15 | 280 | - |
| L. Samuolis | - | 4 | 2 | - | - |
| | 35,508 | 16,172 | 23,024 | 4,610 | 10,766 |

* Sales to UAB Rubicon Group include sales of UAB City Invest subgroup for LTL 11,610 thousand, while purchases from UAB Vilniaus Pramogų Parkas include purchases of UAB Domestas and UAB Urban Housing that were contributed to a newly established company UAB City Invest. The Company reported no gain or loss on this transaction. Taking into account the substance of the transaction, the results of the subgroup UAB City Invest have not been consolidated in the Group's 2006 accounts.

Purchases from UAB Axis Industries include purchases of goods and services.

Property, plant and equipment to related parties in 2006 was sold for the net book value.

Receivables from related parties include receivable from UAB Rubicon Group amounting to LTL 11,610 thousand for the investments sold.

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, UAB City Invest, UAB Domestas and UAB Urban Housing bear 5% annual interest rate and have been classified as short-term receivables as they are expected to be settled within a year.

## 28 Related party transactions (cont'd)

**2005**

| Group | Purchases | Sales | Receivables and prepayments | Loans granted | Payables and advances received |
|---|---|---|---|---|---|
| UAB Rubicon Group * | 1,352 | 20,630 | 10,314 | - | - |
| UAB Rubicon Eventus | 153 | 1,234 | 1,714 | 11,500 | - |
| UAB Katra | 7,067 | 602 | 1,041 | - | 3,633 |
| UAB Limatika | 8,411 | 200 | 6 | - | 4,249 |
| UAB Axis Industries | 2,161 | 15 | 7 | - | 2,974 |
| UAB Bioautomatika | 810 | - | - | - | - |
| UAB Baloša | - | 265 | 2 | - | 455 |
| UAB Arkoveta | 407 | 185 | - | 250 | 26 |
| UAB Buitis Be Rūpesčių | 19 | 348 | - | - | - |
| UAB Tiketa | - | 162 | 321 | - | - |
| UAB Penktas Kanalas | 28 | 194 | 12 | - | 13 |
| UAB Rubikon | - | 137 | 18 | - | - |
| UAB Verslo Plėtros ir Administravimo Agentūra | 13 | 127 | 2 | - | - |
| UAB Aviridis | - | 73 | 7 | - | - |
| UAB Vilniaus Pramogų Parkas | - | 66 | 3 | - | - |
| UAB Bioprojektas | 50 | - | - | - | - |
| UAB Effectus | 30 | 8 | - | - | 1 |
| UAB Vienituras | 11 | 27 | 9 | - | - |
| UAB Medvija | - | 18 | 18 | - | - |
| UAB Skiedrynė | - | 9 | 7 | - | - |
| UAB Profista | 8 | - | - | - | - |
| UAB Movestas | - | 7 | - | - | - |
| UAB Ozantis | - | 5 | 1 | - | - |
| UAB Rubicon Aqua | - | 2 | 1 | - | - |
| Ž. Lapinskas | - | - | - | 70 | - |
| | 20,520 | 24,314 | 13,483 | 11,820 | 11,351 |

* Sales to and purchases from UAB Rubicon Group include sales and purchases of investments amounting to LTL 18,979 thousand and LTL 500 thousand, respectively, as well as sales of property, plant and equipment amounting to LTL 614 thousand.

Loss reported from sales of investments and property, plant and equipment to related parties in 2005 amounts to LTL 3,329 thousand. Property, plant and equipment was sold for the net book value.

Receivables from related parties include discounted receivable from UAB Rubicon Group amounting to LTL 10,314 thousand for the investments sold. The discounting effect amounting to LTL 430 thousand was included into financial and investment activity expenses in the income statement for the year ended 31 December 2005.

Loans granted to related parties include loan granted to UAB Rubicon Eventus amounting to LTL 11,500 thousand. The loan bears 5% annual interest rate. Later in 2006 this receivable was used to set off against payable to UAB Vilniaus Pramogų Parkas for the shares of UAB Domestas and UAB Urban Housing as disclosed under 2006 Group related party transactions above.

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

**28 Related party transactions (cont'd)**

| **2006** Company | Purchases | Sales | Receivables and prepayments | Loans granted | Payables and advances received |
|---|---|---|---|---|---|
| UAB Rubicon Group | 1,044 | 11,610* | 17,940 | 1,500 | 208 |
| UAB Rubicon Eventus | 156 | 886 | 2,576 | - | - |
| UAB Axis Industries | 20,602 | 2,574 | 1,780 | - | 10,232 |
| UAB Bioautomatika | 456 | - | 131 | - | - |
| UAB Baloša | - | 18 | 12 | - | - |
| UAB Arkoveta | 667 | 49 | - | - | 117 |
| UAB Buitis Be Rūpesčių | 20 | 379 | 57 | - | - |
| UAB Tiketa | 21 | 99 | 71 | - | - |
| UAB Penktas Kanalas | 4 | 356 | 129 | - | 3 |
| UAB Vingio Valdos | 21 | 180 | 94 | - | - |
| UAB Rubikon | - | - | 244 | - | - |
| UAB Verslo Plėtros ir Administravimo | 4 | 16 | 9 | - | - |
| UAB Vilniaus Pramogų Parkas | 11,624* | 19 | - | - | 4 |
| UAB Effectus | 3 | 33 | 4 | - | - |
| UAB Ecoservice (former - UAB Vienituras) | 137 | 92 | - | - | 22 |
| UAB Medvija | - | 25 | 17 | - | - |
| UAB Skiedrynė | - | 17 | 15 | - | - |
| UAB Ozantis | - | 26 | 2 | - | - |
| UAB Žaidas | 1,132 | 1,006 | - | - | 220 |
| UAB Rubicon Aqua | 1 | 65 | 8 | - | - |
| UAB Bionovus | 3 | 45 | 10 | - | - |
| UAB Domestas | - | 23 | 13 | 1,530 | - |
| UAB Relinė aspauga | 100 | 11 | 1 | - | - |
| UAB City Invest | 6 | 4 | - | 20 | 3 |
| UAB Trasana | 18 | - | - | - | - |
| UAB Urban Housing | - | 55 | 36 | 1,280 | - |
| ZAT Kiev City Service | - | - | - | - | 131 |
| UAB Marių Valdos | 1 | 103 | 16 | - | - |
| UAB Pempininkų Valdos | 15 | 305 | 77 | - | 4 |
| UAB Ąžuolyno Valda | 17 | 401 | 646 | - | - |
| SIA Riga City Service | 6 | 13 | 15 | - | 527 |
| OAO Remontnoje Stroitelnoje Priedprijatije | - | 9 | 9 | 1,251 | - |
| Ž. Lapinskas | - | 18 | 15 | 280 | - |
| L. Samuolis | - | 4 | 2 | - | - |
| | 36,058 | 18,441 | 23,929 | 5,861 | 11,471 |

* Sales to UAB Rubicon Group include sales of UAB City Invest subgroup for LTL 11,610 thousand, while purchases from UAB Vilniaus Pramogų Parkas include purchases of UAB Domestas and UAB Urban Housing that were contributed to a newly established company UAB City Invest. The Company reported no gain or loss on this transaction. Taking into account the substance of the transaction, the results of the subgroup UAB City Invest have not been consolidated in the Group's 2006 financial statements.

Purchases from UAB Axis Industries include purchases of goods and services.

Property, plant and equipment to related parties in 2006 was sold for the net book value.

Loans granted to UAB Rubicon Group, UAB City Invest, UAB Domestas and UAB Urban Housing bear 5% annual interest rate and have been classified as short-term receivables as they are expected to be settled within a year.
Receivables from related parties include receivable from UAB Rubicon Group amounting to LTL 11,610 thousand for the investments sold.

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

## 28 Related party transactions (cont'd)

**2005**

| Company | Purchases | Sales | Receivables and prepayments | Loans granted | Payables and advances received |
|---|---|---|---|---|---|
| UAB Rubicon Group * | 1,352 | 20,630 | 10,314 | - | - |
| UAB Rubicon Eventus | 153 | 1,234 | 1,714 | 11,500 | - |
| UAB Katra | 13,061 | 1,164 | 1,041 | - | 3,633 |
| UAB Limatika | 8,411 | 200 | 6 | - | 4,249 |
| UAB Axis Industries | 5,475 | 25 | 7 | - | 2,974 |
| UAB Bioautomatika | 810 | - | - | - | - |
| UAB Baloša | - | 265 | 2 | - | 455 |
| UAB Arkoveta | 407 | 185 | - | 250 | 26 |
| UAB Buitis Be Rūpesčių | 19 | 348 | 64 | - | - |
| UAB Tiketa | - | 162 | 321 | - | - |
| UAB Penktas Kanalas | 28 | 194 | 12 | - | 13 |
| UAB Vingio Valdos | 20 | 140 | 20 | - | - |
| UAB Rubikon | - | 137 | 18 | - | - |
| UAB Verslo Plėtros ir Administravimo | 13 | 127 | 2 | - | - |
| UAB Aviridis | - | 73 | 7 | - | - |
| UAB Vilniaus Pramogų Parkas | - | 66 | 3 | - | - |
| UAB Bioprojektas | 50 | - | - | - | - |
| UAB Effectus | 30 | 8 | - | - | 1 |
| UAB Vienituras | 11 | 27 | 9 | - | - |
| UAB Medvija | - | 18 | 18 | - | - |
| UAB Skiedrynė | - | 9 | 7 | - | - |
| UAB Profista | 8 | - | - | - | - |
| UAB Movestas | - | 7 | - | - | - |
| UAB Ozantis | - | 5 | 1 | - | - |
| UAB Žaidas | 3 | 4 | - | - | - |
| UAB Rubicon Aqua | - | 2 | 1 | - | - |
| Ž. Lapinskas | - | - | - | 70 | - |
| | 29,851 | 25,030 | 13,567 | 11,820 | 11,351 |

* Sales to and purchases from UAB Rubicon Group include sales and purchases of investments amounting to LTL 18,979 thousand and LTL 500 thousand, respectively, as well as sales of property, plant and equipment amounting to LTL 614 thousand.

Total gain reported from sales of investments to related parties in 2005 amount to LTL 944. Property, plant and equipment was sold for the net book value.

Receivables from related parties include discounted receivable from UAB Rubicon Group amounting to LTL 10,314 thousand for the investments sold. The discounting effect amounting to LTL 430 thousand was included into financial and investment activity expenses in the income statement for the year ended 31 December 2005.

Loans granted to related parties include loan granted to UAB Rubicon Eventus amounting to LTL 11,500 thousand. The loan bears 5% annual interest rate. Later in 2006 this receivable was used to set off against payable to UAB Vilniaus Pramogų Parkas for the shares of UAB Domestas and UAB Urban Housing as disclosed under 2006 Group related party transactions above.

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

## 28 Related party transactions (cont'd)

Remuneration of the management and other payments

The Group's and Company's management remuneration amounted to LTL 1,031 thousand and LTL 614 thousand in 2006, respectively (LTL 884 thousand and LTL 390 thousand in 2005, respectively). In 2005 the General Director of the Company received a loan in amount of LTL 70 thousand bearing interest of 4%. The loan was increased to LTL 280 thousand in 2006. It is repayable within a year and is accounted for under receivables from related parties caption in the balance sheet of the Company. In 2006 and 2005, the management of the Company did not receive any other loans, guarantees; no other payments or property transfers were made or accrued.

## 29 Subsequent events

On 20 December 2006 the Company signed an agreement for purchase of 100% of shares of ZAO Remontno-ekspatacionaja Sluzba No 1 (further - "RES No 1"; a private limited liability company registered in the Russian Federation, St. Petersburg). The total purchase price of the shares is equal to RUB 10,000 thousand (equivalent to LTL 998 thousand as of 31 December 2006). The Company has paid the first instalment according to the agreement in the amount of RUB 5,000 thousand (equivalent to LTL 498 thousand as of 31 December 2006) on 22 December 2006. The amount of prepayment for the subsidiary shares is accounted under the financial assets caption in the Group's and Company's financial statements as of 31 December 2006. The final payment for the shares was made and transfer of ownership and control was executed in February 2007. The financial information of the acquired subsidiary as of the date of the acquisition was not available as of the date of release of these financial statements.

On 12 January 2007 the Company signed agreements for purchase of 100% of shares of UAB Ūkvedys (a limited liability company registered in Lithuania) for the total amount of LTL 798 thousand. The financial information for the acquired subsidiary was only available for the date of 30 September 2006 as of the date of the release of these financial statements and is presented below. No financial information as of 12 January 2007 is available as of the issuance of these financial statements.

| | **30 September 2006, LTL thousand (unaudited)** |
|---|---|
| Carrying values: | |
| Assets | 616 |
| Liabilities | 404 |
| Net assets | 212 |

On 9 February 2007 the Company signed an agreement for purchase of 100% of shares of OAO Specializirovanoje Remontna-naladocnoje Upravlenije (further "SpecRNU"; a limited liability company registered in the Russian Federation, St. Petersburg). The total purchase price for the shares is equal to RUB 2,250 thousand (equivalent to LTL 224 thousand as of purchase date). The preliminary financial information of the acquired subsidiary was only available for the date of 31 December 2006 as of the date of release of these financial statements and is presented below. The financial information as of the acquisition date was not available as of the release of these financial statements.

## 29 Subsequent events (cont'd)

| | **31 December 2006, LTL thousand (unaudited)** |
|---|---|
| Carrying values: | |
| Assets | 767 |
| Liabilities | 422 |
| Net assets | 345 |
| | |
| Revenue | 5,204 |
| Net profit | 206 |

During the months of January and February 2007 the Company increased the loans granted to subsidiary OAO RSP and related party UAB Domestas by the amounts of LTL 502 thousand and LTL 450 thousand respectively. The loans issued bear annual interest of 6% and 5%, respectively, and are repayable by 31 December 2007.

## COMPANY

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