AB CITY SERVICE

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010,
prepared in accordance with International Financial Reporting Standards,
as adopted by the European Union,
presented together with Independent Auditors' report

ERNST & YOUNG

UAB „Ernst & Young Baltic"
Subačiaus g. 7
LT-01302 Vilnius
Lietuva
Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com/lt
Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus St. 7
LT-01302 Vilnius
Lithuania
Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com/lt
Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Independent auditors' report to the shareholders of AB City Service

Report on the Financial Statements

We have audited the accompanying financial statements of AB City Service, a public limited liability company registered in the Republic of Lithuania (hereinafter "the Company"), and the consolidated financial statements of AB City Service and its subsidiaries (hereinafter the Group), which comprise the statements of financial position as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB City Service and the Group as at 31 December 2010, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying consolidated Management Annual Report for the year ended 31 December 2010 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2010.

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

Jonas Akelis	Asta Štreimikienė
Auditor's licence	Auditor's licence
No. 000003	No. 000382
President	

The audit was completed on 5 April 2011.

Statements of financial position

		Notes	Group As of 31 December 2010	Group As of 31 December 2009	Company As of 31 December 2010	Company As of 31 December 2009
	ASSETS					
A.	**Non-current assets**					
I.	Intangible assets					
I.1.	Goodwill	4	63,715	37,784	-	-
I.2.	Other intangible assets	5	74,658	56,012	784	37
	Total intangible assets		138,373	93,796	784	37
II.	Property, plant and equipment	7				
II.1.	Buildings		21,050	21,154	-	-
II.2.	Vehicles		15,943	3,664	1,590	1,369
II.3.	Other property, plant and equipment		9,254	1,869	1,168	1,129
II.4.	Construction in progress		1,567	544	242	544
	Total property, plant and equipment		47,814	27,231	3,000	3,042
III.	Investment property	6	589	609	-	-
IV.	Non-current financial assets					
IV.1.	Investments into subsidiaries	8	-	-	127,774	45,419
IV.2.	Investments into associates	1	386	351	220	220
IV.3.	Non-current receivables	11, 13	3,612	2,748	744	29
IV.4.	Other financial assets		5	-	-	-
	Total non-current financial assets		4,003	3,099	128,738	45,668
V.	Deferred income tax asset	27	7,025	2,630	560	650
	Total non-current assets		**197,804**	**127,365**	**133,082**	**49,397**
B.	**Current assets**					
I.	Inventories and prepayments					
I.1.	Inventories	9	3,186	3,909	529	322
I.2.	Prepayments	10	11,125	13,991	243	146
	Total inventories and prepayments		14,311	17,900	772	468
II.	Accounts receivable					
II.1.	Trade receivables	11	95,483	73,913	38,335	32,092
II.2.	Receivables from related parties (including loans granted)	32	6,445	5,065	36,605	53,476
II.3.	Other receivables	12	14,615	2,093	9,768	843
	Total accounts receivable		116,543	81,071	84,708	86,411
III.	Prepaid income tax		460	1,142	460	151
IV.	Other current assets		139	2,679	95	-
V.	Cash and cash equivalents	13	17,435	5,510	296	425
	Total current assets		**148,888**	**108,302**	**86,331**	**87,455**
	Total assets		**346,692**	**235,667**	**219,413**	**136,852**

(cont'd on the next page)

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

Statements of financial position (cont'd)

		Notes	Group		Company	
			As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
	EQUITY AND LIABILITIES					
C.	**Equity**					
I.	Share capital	1	31,610	19,110	31,610	19,110
II.	Share premium	14	73,830	23,456	73,830	23,456
III.	Legal reserve	14	2,455	1,922	2,444	1,911
IV.	Other reserves	14	6,000	6,000	6,000	6,000
V.	Foreign currency translation reserve	2.2.	(1,712)	(491)	-	-
VI.	Retained earnings		43,346	21,631	29,604	17,774
	Equity attributable to equity holders of the parent		**155,529**	**71,628**	**143,488**	**68,251**
	Non-controlling interests		**1,396**	**851**	**-**	**-**
	Total equity		**156,925**	**72,479**	**143,488**	**68,251**
D.	**Liabilities**					
I.	**Non-current liabilities**					
I.1.	Non-current borrowings	15	21,877	21,649	20,659	21,649
I.2.	Financial lease obligations	16	5,454	229	450	131
I.3.	Deferred income tax liability	27	14,221	12,050	-	-
I.4.	Non-current employee benefits	18	724	460	312	226
I.5.	Non-current payables		48	252	-	-
	Total non-current liabilities		**42,324**	**34,640**	**21,421**	**22,006**
II.	**Current liabilities**					
II.1.	Current loans	15	10,853	6,303	14,418	9,317
II.2.	Current portion of non-current borrowings	15	7,116	7,116	7,116	7,116
II.3.	Current portion of financial lease obligations	16	3,662	486	285	265
II.4.	Trade payables	19	70,768	72,555	301	8,911
II.5.	Payables to related parties	32	22,017	12,447	22,542	12,130
II.6.	Advances received	20	13,703	11,570	4,667	4,114
II.7.	Income tax payable		1,555	1,658	-	-
II.8.	Other current liabilities	19, 21	17,769	16,413	5,175	4,742
	Total current liabilities		**147,443**	**128,548**	**54,504**	**46,595**
	Total equity and liabilities		**346,692**	**235,667**	**219,413**	**136,852**

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

General Manager	Žilvinas Lapinskas		5 April 2011
Finance Director	Jonas Janukėnas		5 April 2011

Statements of comprehensive income

		Notes	Group 2010	Group 2009	Company 2010	Company 2009
I.	Sales	3, 22	541,846	374,495	118,151	124,570
II.	Cost of sales	23	(450,557)	(308,753)	(86,819)	(101,065)
III.	**Gross profit**		**91,289**	**65,742**	**31,332**	**23,505**
IV.	General and administrative expenses	24	(69,874)	(45,546)	(16,544)	(15,878)
V.	Other operating income	25	7,447	3,055	550	563
VI.	Other operating expenses	25	(4,138)	(2,663)	(522)	(516)
VII.	**Profit from operations**		**24,724**	**20,588**	**14,816**	**7,674**
VIII.	Finance income	26	2,353	890	3,942	7,095
IX.	Finance expenses	26	(1,841)	(4,493)	(1,509)	(2,248)
X.	Share of profit of associates		38	40	-	-
XI.	**Profit before tax**		**25,274**	**17,025**	**17,249**	**12,521**
XII.	Income tax	27	196	(1,732)	(2,199)	(1,856)
XIII.	**Net profit**		**25,470**	**15,293**	**15,050**	**10,665**
	Other comprehensive income					
XIV.	Exchange differences on translation of foreign operations		(1,511)	153	-	-
	Total comprehensive income for the year, net of tax		**23,959**	**15,446**	**15,050**	**10,665**
	Profit attributable to:					
XV.	The shareholders of the Company		24,935	14,446	15,050	10,665
XVI.	Non-controlling interests		535	847	-	-
			25,470	**15,293**	**15,050**	**10,665**
	Total comprehensive income attributable to:					
XVII.	The shareholders of the Company		23,714	15,440	15,050	10,665
XVIII.	Non-controlling interests		245	6	-	-
			23,959	**15,446**	**15,050**	**10,665**
	Basic and diluted earnings per share (LTL)	28	0.80	0.76		

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

General Manager	Žilvinas Lapinskas		5 April 2011
Finance Director	Jonas Janukėnas		5 April 2011

Statements of changes in equity

Group		Equity attributable to equity holders of the Company								
	Notes	**Share capital**	**Share premium**	**Legal reserve**	**Foreign currency translation reserve**	**Other reserves**	**Retained earnings**	**Subtotal**	**Non-controlling interest**	**Total**
Balance as of 1 January 2009		**19,110**	**23,456**	**1,586**	**(644)**	**-**	**15,483**	**58,991**	**266**	**59,257**
Net profit for the year		-	-	-	-	-	14,446	14,446	847	15,293
Other comprehensive income		-	-	-	153	-	-	153	-	153
Total comprehensive income		-	-	-	153	-	14,446	14,599	847	15,446
Transfer to reserves		-	-	336	-	6,000	(6,336)	-	-	-
Dividends declared	29	-	-	-	-	-	(2,102)	(2,102)	-	(2,102)
Acquisition of non-controlling interest		-	-	-	-	-	140	140	(262)	(122)
Balance as of 31 December 2009		**19,110**	**23,456**	**1,922**	**(491)**	**6,000**	**21,631**	**71,628**	**851**	**72,479**
Net profit for the year		-	-	-	-	-	24,935	24,935	535	25,470
Other comprehensive income		-	-	-	(1,221)	-	-	(1,221)	(290)	(1,511)
Total comprehensive income		-	-	-	(1,221)	-	24,935	23,714	245	23,959
Increase of share capital	1	12,500	50,374	-	-	-	-	62,874	-	62,874
Transfer to legal reserve		-	-	533	-	-	(533)	-	-	-
Dividends declared	29	-	-	-	-	-	(2,687)	(2,687)	(5)	(2,692)
Acquisition of subsidiary	1	-	-	-	-	-	-	-	25	25
Disposal of subsidiary	1	-	-	-	-	-	-	-	280	280
Balance as of 31 December 2010		**31,610**	**73,830**	**2,455**	**(1,712)**	**6,000**	**43,346**	**155,529**	**1,396**	**156,925**

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

Statements of changes in equity (cont'd)

Company	Notes	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2009		**19,110**	**23,456**	**1,575**	**-**	**15,547**	**59,688**
Net profit for the year		-	-	-	-	10,665	10,665
Total comprehensive income					-	10,665	10,665
Transfer to legal reserve		-	-	336	6,000	(6,336)	-
Dividends declared		-	-	-	-	(2,102)	(2,102)
Balance as of 31 December 2009		**19,110**	**23,456**	**1,911**	**6,000**	**17,774**	**68,251**
Net profit for the year		-	-	-	-	15,050	15,050
Total comprehensive income		-	-	-	-	15,050	15,050
Increase in share capital	1	12,500	50,374	-	-	-	62,874
Transfer to legal reserve		-	-	533	-	(533)	-
Dividends declared	29	-	-	-	-	(2,687)	(2,687)
Balance as of 31 December 2010		**31,610**	**73,830**	**2,444**	**6,000**	**29,604**	**143,488**

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

General Manager	Žilvinas Lapinskas		5 April 2011
Finance Director	Jonas Janukėnas		5 April 2011

Statements of cash flows

		Notes	Group		Company	
			2010	**2009**	**2010**	**2009**
I.	**Cash flows from (to) operating activities**					
I.1.	Net profit		25,470	15,293	15,050	10,665
	Adjustments for non-cash items:					
I.2.	Income tax expenses		(196)	1,732	2,199	1,856
I.3.	Depreciation and amortisation	5, 6, 7	10,979	4,492	1,185	1,133
I.4.	Impairment of accounts receivable and write-off of accounts receivable	11	11,359	6,743	74	882
I.5.	Allowance for inventories	9	-	39	-	-
I.6.	Loss (gain) on disposal of property, plant and equipment	25	(556)	(46)	84	(4)
I.7.	Discounting effect of long-term trade receivables		(52)	240	-	-
I.8.	Dividend (income)	26	-	-	(1,930)	(5,225)
I.9.	Profit from sale of investments	26	(346)	(426)	(287)	-
I.10.	Impairment of investments	8	-	-	-	835
I.11.	Interest (income)	26	(687)	(215)	(1,683)	(1,768)
I.12.	Interest expenses	26	1,611	2,796	1,379	1,179
I.13.	Share of net profit of associate		(38)	(40)	-	-
			47,544	30,696	16,071	9,553
	Changes in working capital:					
I.14.	Decrease (increase) in inventories		1,099	3,683	(207)	780
I.15.	(Increase) decrease in trade receivables, receivables from related parties, other receivables and other current assets		(26,530)	(16,732)	2,273	(30,079)
I.16.	Decrease (increase) in prepayments		1,060	(6,719)	(97)	4,470
I.17.	Increase in trade payables and payables to related parties		11,966	15,386	1,888	20,345
I.18.	Income tax (paid)		(4,288)	(4,940)	(2,418)	(2,189)
I.19.	(Decrease) increase in advances received and other current liabilities		(402)	(4,917)	986	8,684
	Net cash flows from (to) operating activities		**30,449**	**16,457**	**18,496**	**11,564**
II.	**Cash flows from (to) investing activities**					
II.1.	(Acquisition) of non-current assets	5, 6, 7	(5,878)	(1,830)	(2,121)	(1,378)
II.2.	Proceeds from sale of non-current assets		1,658	-	748	38
II.3.	(Acquisition) of investments in subsidiaries (net of cash acquired in the Group) and associates	4, 8	(11,320)	(24,194)	(8,160)	(11,159)
II.4.	Disposal of investments in subsidiaries	1	(916)	7,812	3,413	-
II.5.	Dividends received		-	-	1,930	5,225
II.6.	Interest received	26	52	135	592	135
II.7.	Loans repaid		-	-	36	-
II.7.	Loans (granted)	32	(8,705)	-	(30,576)	(18,531)
	Net cash flows (to) investing activities		**(25,109)**	**(18,077)**	**(34,138)**	**(25,670)**

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

Statements of cash flows (cont'd)

		Note	Group 2010	Group 2009	Company 2010	Company 2009
III.	**Cash flows from (to) financing activities**					
III.1.	Dividends (paid)		(2,692)	(639)	(2,687)	(639)
III.2.	Contributions from shareholders	1	15,729	-	15,729	-
III.3.	Proceeds from loans	15	13,272	24,332	7,916	20,606
III.4.	Loans (repaid)	15	(9,417)	(18,254)	(3,804)	(4,600)
III.5.	Interest (paid)		(1,229)	(2,810)	(1,376)	(859)
III.6.	Financial lease (payments)	16	(9,078)	(885)	(265)	(590)
	Net cash flows from financial activities		**6,585**	**1,744**	**15,513**	**13,918**
IV.	**Net increase (decrease) in cash and cash equivalents**		**11,925**	**124**	**(129)**	**(188)**
V.	**Cash and cash equivalents at the beginning of the year**		**5,510**	**5,386**	**425**	**613**
VI.	**Cash and cash equivalents at the end of the year**		**17,435**	**5,510**	**296**	**425**
	Supplemental information of cash flows:					
	Non-cash investing activity:					
	Property, plant and equipment acquisitions financed by financial lease		3,518	287	601	108
	Non-cash acquisition of subsidiaries	1, 4	47,144	-	47,144	-
	Non-cash increase in share capital of subsidiaries	8	-	-	30,177	-
	Non-cash financing activity:					
	Non-cash dividends to shareholders (set-off against intercompany receivables)		-	1,463	-	1,463

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

General Manager	Žilvinas Lapinskas		5 April 2011
Finance Director	Jonas Janukėnas		5 April 2011

Notes to the financial statements

1 General information

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

The Company's registered office:	The Company's address of residence:
Konstitucijos Ave. 7,	Smolensko Str. 12,
Vilnius, Lithuania.	Vilnius, Lithuania.

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

As of 31 December 2010 and 2009 the shareholders of the Company were:

	2010		**2009**	
	Number of shares held	**Owned percentage of the share capital and votes, %**	**Number of shares held**	**Owned percentage of the share capital and votes, %**
UAB ICOR	19,751,547	62.50 %	13,303,544	69.62 %
Shareholders of UAB ICOR:				
Mr. Andrius Janukonis	95,784	0.30 %	146,434	0.766 %
Mr. Gintautas Jaugielavičius	95,782	0.30 %	146,432	0.766 %
Mr. Linas Samuolis	95,782	0.30 %	146,432	0.766 %
AB East Capital Asset Management*	3,035,009	9.60 %	-	-
Other private and institutional shareholders	8,536,096	27.00 %	5,367,158	28.082 %
Total	**31,610,000**	**100 %**	**19,110,000**	**100 %**

* As of 31 December 2009 AB East Capital Asset Management was holding less than 5% shares of the Company.

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

The parent of AB City Service, UAB ICOR, has pledged part of the Company's shares, i.e. 13,486,275 units, which constitutes 42.66 % of the authorised capital of the Company, to the bank. The right to transfer, pledge or dispose of the abovementioned shares otherwise has been restricted. All other property and non-property rights of UAB ICOR, as the shareholder, are free from any encumbrances or restrictions.

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

The share capital of the Company was LTL 31,610 thousand as of 31 December 2010 (LTL 19,110 thousand as of 31 December 2009). It is divided into 31,610,000 ordinary registered book-entry shares with the nominal value of LTL 1 each (19,110,000 shares as of 31 December 2009).

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

All shares of the Company are fully paid. The Company does not have any other classes of shares than ordinary shares mentioned above, there are no restrictions of share rights or special control rights for the shareholders set in the articles of association of the Company. No shares of the Company are held by itself or its subsidiaries. No convertible securities, exchangeable securities or securities with warrants are outstanding; likewise, there are no outstanding acquisition rights or undertakings to increase share capital as of 31 December 2010.

1 General information (cont'd)

Structure of the Group

On 31 December the AB City Service group consists of AB City Service and the following subsidiaries (hereinafter - the Group):

Company	Country	Share of stock held by the Group as of 31 December 2010	Share of stock held by the Group as of 31 December 2009	Main activities
UAB Žaidas	Lithuania	99.33 %	99.33 %	Administration of dwelling-houses
UAB Vingio Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Buitis Be Rūpesčių	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Sostinės Naujienos	Lithuania	100 %	100 %	Dormant
UAB Ąžuolyno Valda	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Marių Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Pempininkų Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Mūsų Namų Valdos	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Namų Priežiūros Centras	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Pašilaita	Lithuania	100 %	100 %	Administration of dwelling-houses
ОАО Сити Сервис	Russia	100 %	100 %	Administration of dwelling-houses
ЗАО Сити Сервис	Russia	100 %	100 %	Administration of dwelling-houses
ОАО Специализированное ремонтно-наладочное управление	Russia	100 %	100 %	Construction and engineering
SIA Riga City Service	Latvia	100 %	100 %	Administration of dwelling-houses
ТОВ Київ Сіті Сервіс	Ukraine	100 %	100 %	Administration of dwelling-houses
UAB Sinsta	Lithuania	-	100 %	Dormant
UAB Fervėja	Lithuania	100 %	100 %	Dormant
UAB Saulės Valda (former UAB Atidumas)	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Ūkvedys	Lithuania	-	100 %	Administration of dwelling-houses
UAB Eco Holding (former UAB Šiaulių Butų Remonto Tarnyba)	Lithuania	100 %	100 %	Development of eco-friendly utilities
UAB Lazdynų Būstas	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Vilko Pėda	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Šilutės Butų Ūkis	Lithuania	99.84 %	99.84 %	Administration of dwelling-houses
UAB Antakalnio Ūkis	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Karoliniškių Būstas	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Naujamiesčio Būstas	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Viršuliškių Būstas	Lithuania	100 %	100 %	Administration of dwelling-houses
UAB Radviliškio Komunalinės Paslaugos	Lithuania	100 %	-	Administration of dwelling-houses
UAB Litmilma	Lithuania	100 %	-	Administration of dwelling-houses
UAB Ecoservice	Lithuania	100 %	-	Collection and removal of waste
UAB Specialus Autotransportas	Lithuania	100 %	-	Collection and removal of waste
UAB Trakų Rajono Komunalinių Įmonių Kombinatas	Lithuania	99.71 %	-	Collection and removal of waste
UAB Pagėgių Savivaldybės Komunalinis Ūkis	Lithuania	66 %	-	Dormant
UAB Šiaulių Liftas	Lithuania	95.76 %	-	Elevator installing & techn. support
UAB Baltijos Liftai	Lithuania	100 %	-	Elevator installing & techn. support
UAB Baltijos Pastatų Valdymas	Lithuania	100 %	-	Administration of dwelling-houses
UAB Baltijos Būsto Priežiūra	Lithuania	100 %	-	Administration of dwelling-houses
UAB Skolos LT	Lithuania	100 %	-	Debt collection services
UAB Economus	Lithuania	49 %	-	Maintenance of residential houses and environmental care
ООО Жилкомсервис г. Ломоносов	Russia	-	80 %	Administration of dwelling-houses
ООО Жилкомсервис № 3 Фрунзенского района	Russia	80 %	80 %	Administration of dwelling-houses
ООО Жилкомсервис № 2 Невского района	Russia	80 %	80 %	Administration of dwelling-houses

1 General information (cont'd)

Changes in the Group in 2010

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

- On 5 January 2010, the Company via a 100 % owned subsidiary acquired the title to 100 % shareholding interest in UAB Ecoservice, from a related party UAB Bionovus (a subsidiary of ICOR UAB). UAB Ecoservice has two active subsidiaries: UAB Specialus Autotransportas and UAB Trakų Rajono Komunalinių Įmonių Kombinatas, performing its operations (waste collection business) in the regions of Vilnius, Klaipėda and Trakai. Additionally, UAB Ecoservice has one dormant subsidiary – UAB Pagėgių Savivaldybės Komunalinis Ūkis.

- On 23 March, 2010 AB City Service acquired 49 % share stock of UAB Economus for LTL 481 thousand, and with the shareholders of UAB Economus signed shareholders' agreement, according to which actual control of the subsidiary is transferred to AB City Service. UAB Economus provides individual residential house maintenance and environmental care services.

- In May 2010 a subsidiary of AB City Service won the auction of the privatisation of UAB Radviliškio Komunalinės Paslaugos and on 23 July 2010 the 100 % of UAB Radviliškio Komunalinės Paslaugos shares were acquired.

- On 17 August 2010 AB City Service, through its subsidiary company, has acquired 100 percent of UAB Litmilma shares.

- On 8 November 2010 the subsidiary of City Service has acquired 95.76 % of UAB Šiaulių Liftas shares. UAB Šiaulių Liftas provides the elevator installing and technical support services.

- On 22 March 2010 the Board of AB City Service decided to establish four new subsidiaries: UAB Baltijos Liftai, UAB Baltijos Pastatų Valdymas, UAB Baltijos Būsto Priežiūra and UAB Skolos LT.

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

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

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

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

- During June – July 2010 a reorganisation of UAB Sinsta, which is controlled by AB City Service was performed: UAB Sinsta was merged into UAB Namų Priežiūros Centras. On 27 July 2010 UAB Sinsta was removed from the official company register, whereas all the rights and obligations were taken over by UAB Namų Priežiūros Centras.

- During October 2010 a reorganisation of UAB Ūkvedys, which is controlled by AB City Service, was performed: UAB Ūkvedys was merged into UAB Atidumas. On 2 November 2010 UAB Ūkvedys was removed from the official company register, whereas all the rights and obligations were taken over by UAB Atidumas. In addition, on 9 December 2010 UAB Atidumas was renamed into UAB Saulės Valda.

1 General information (cont'd)

Changes in the Group in 2010 (cont'd)

- On 14 October 2010 according to the decision of the Board of the Company the title and the type of activities of UAB Šiaulių Butų Ūkio Remonto Tarnyba has been changed and UAB Eco Holding was formed. UAB Eco Holding will execute active development of public utility and environmental business in Lithuania and foreign markets by acquiring and developing enterprises of this sector. UAB Eco Holding will manage UAB Ecoservice and its subsidiaries, which were acquired in 2010 as noted above.

More information on the subsidiaries acquired and disposed in 2010 is presented in Note 4 and Note 8.

Investments into associates

The Group's and the Company's investments into associates balance as of 31 December 2010 and 2009 comprise an investment in UAB Būsto Administravimo Agentūra (37 % of share capital, acquisition price LTL 220 thousand), which was acquired on 7 November 2005.

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

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

	UAB Būsto Administravimo Agentūra	
	2010	**2009**
Assets	1,357	1,212
Liabilities	310	263
Net assets	1,047	949
Revenue	163	1,702
Net profit	94	108

As of 31 December 2010 the number of employees of the Group was 3,011 (as of 31 December 2009 – 3,234).
As of 31 December 2010 the number of employees of the Company was 783 (as of 31 December 2009 – 712).

2 Accounting policies

2.1. Basis of preparation

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

The Company's management authorised these financial statements on 5 April 2011. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

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

Adoption of new and/or changed IFRSs and IFRIC interpretations

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

- Amendment to IFRS 2 *Share-based Payment*
- Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

The principal effects of these changes are as follows:

Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*

The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

The amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes to IFRS 3 and IAS 27 were applied prospectively, therefore, they affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The other standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Group and the Company, because they did not have the respective financial statement items and transactions addressed by these changes.

<u>Standards issued but not yet effective</u>

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

Amendments to IFRS 7 *Financial instruments: Disclosures* (effective for financial years beginning on or after 1 July 2011, once adopted by the EU)
The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated and parent company's financial statements since the Group does not have these kinds of transfers.

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

Amendments to IAS 12 *Income Taxes* (effective for financial years beginning on or after 1 January 2012, once adopted by the EU).
The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. These changes will have no effect on the financial statements of the Group / the Company, as its investment properties are accounted using cost method.

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

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

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Improvements to IFRSs
In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but are expected not to have any impact on the financial position or performance of the Group / the Company:

- IFRS 3 *Business Combinations*;
- IFRS 7 *Financial instruments: Disclosures;*
- IAS 1 *Presentation of Financial Statements;*
- IAS 27 *Consolidated and Separate Financial Statements*;
- IFRIC 13 *Customer Loyalty Programmes*.

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

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after 1 July 2010).

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Group / the Company does not have such transactions, IFRIC 19 will not have any impact on the consolidated and parent Company's 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), rounded to LTL thousand, unless otherwise stated.

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

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

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

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

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

2.3. Principles of consolidation

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

2 Accounting policies (cont'd)

2.3 Principles of consolidation (cont'd)

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

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

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

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

<u>Business combinations from 1 January 2010</u>

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

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

<u>Business combinations prior to 1 January 2010</u>

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

2 Accounting policies (cont'd)

2.3 Principles of consolidation (cont'd)

Business combinations prior to 1 January 2010 (cont'd)

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4. Investments in subsidiaries and associates (the Company)

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

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

2.5. Intangible assets other than goodwill

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

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

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

Contractual investments	6 years
Customer relationship	10-40 years
Other intangible assets	3-10 years

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

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

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

2.6. Property, plant and equipment and investment property

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

2 Accounting policies (cont'd)

2.6 Property, plant and equipment and investment property (cont'd)

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

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

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

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

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

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

2.7. Financial assets

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

Financial assets at fair value through profit or loss

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

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

Held-to-maturity investments

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

The Group and the Company did not have any held-to-maturity investments as of 31 December 2010 and 2009.

Loans and receivables

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

2 Accounting policies (cont'd)

2.7 Financial assets (cont'd)

Loans and receivables (cont'd)

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

Available-for-sale financial assets

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

2.8. Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.9. Inventories

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

2.10. Cash and cash equivalents

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

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

2 Accounting policies (cont'd)

2.11. Borrowings

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

The Group and the Company capitalise borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. However, there were no borrowing costs matching the capitalisation criteria in 2010 and 2009.

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

2.12. Financial and operating leases

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

Financial lease

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

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

Operating lease

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

2.13. Non-current employee benefits

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

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

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

2 Accounting policies (cont'd)

2.14. Provisions

Provisions are recognised when the Group and the Company has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Group / the Company re-evaluates provisions at each date of the statement of financial position and adjusts them in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses, which are expected to be incurred to settle the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

2.15. Income tax

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

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

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

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

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

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

2.16. Revenue recognition

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

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

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

Revenue from services is recognised when services are rendered.

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

2 Accounting policies (cont'd)

2.17. Impairment of assets

Financial assets

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

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

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

Other assets (excluding goodwill)

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

2.18. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation (Note 2.6., Note 6 and Note 7), amortization (Note 2.5 and Note 5), percentage of completion evaluation for customer specific contracts (Note 2.16. and Note 22), non-current employee benefits (Note 2.13 and Note 18), impairment evaluation of goodwill, including allocation of Group assets to cash generating units (Note 2.3. and Note 4) and other assets (Note 2.17., Note 5, Note 9, Note 10 and Note 11). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

At the date of preparing these financial statements, the underlying assumptions and estimates were not subject to a significant risk that from today's point of view it is likely that the carrying amounts of assets and liabilities will have to be adjusted significantly in the subsequent fiscal year, except for the estimated useful life of customer relationships intangible assets, which are accounted for under other intangible assets and their acquisition value amounts to LTL 77,990 thousand as of 31 December 2010 and LTL 57,111 thousand as of 31 December 2009 (Note 5). The management amortises these customer relationship intangible assets over the estimated validity period of existing contracts, which is 10-40 years. The management estimated the expected validity term of customer relationships based on the current development of the operations, i.e. already concluded contracts as well as current rate of terminated contracts, which is insignificant. Should the circumstances change in the future, the estimate may need to be revised and the size of such revision cannot be reasonably estimated at the date of these financial statements. The net book value of these intangible assets of the Group amount to LTL 73,648 thousand as of 31 December 2010 and LTL 61,707 thousand as of 31 December 2009.

2 Accounting policies (cont'd)

2.19. Contingencies

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

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

2.20. Subsequent events

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

3 Segment information

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

- Heating infrastructure renovation
- Buildings' administration (Baltic states and CIS states)
- Waste management

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

Segment of Buildings' administration includes services of administration and maintenance of commercial and residential buildings. The segment also includes services of maintenance of heat and water systems and supply of heating energy and water to educational institutions. The segment information is presented as analysed by chief operating decision makers of the Group, i.e. allocated to Baltic states and CIS states.

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

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

3 Segment information (cont'd)

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

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

Operating Segments

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

	Group					Company		
Year ended 31 December 2010	**Heating infrastructure renovation**	**Buildings' administration**		**Waste management**	**Total**	**Heating infrastructure renovation**	**Buildings' administration**	**Total**
		Baltic states	**CIS states**					
Revenue	19,157	199,359	284,681	37,317	540,514	19,157	97,662	116,819
Unallocated income					1,332[1]			1,332[1]
Total revenue					**541,846**			**118,151**
Segment results	474	24,598	5,844[2]	4,561	35,477	474	25,095	25,569
Unallocated expenses					(10,753)[3]			(10,753)[3]
Profit before tax, finance costs and finance revenue					**24,724**			**14,816**
Net financial costs					550[4]			2,433[4]
Profit / (loss) before income tax					25,274			17,249
Income tax expenses					196			(2,199)
Net profit for the year					**25,470**			**15,050**
Other segment information								
Capital expenditure	-	2,722	-	8,784	**11,506**	-	2,722	**2,722**

[1] Unallocated income includes other income not attributable to either of the listed segments, namely IT services (LTL 1,332 thousand).
[2] Segment results include allowance for doubtful trade receivables expensed in subsidiaries in Russia (LTL 9,467 thousand).
[3] Unallocated expenses include costs related to unallocated income (LTL 1,360 thousand), general and administrative expenses (LTL 9,375 thousand) and other expenses (LTL 18 thousand) identifiable as costs managed on a group basis.
[4] Financing of the Group and the Company (including finance costs and finance income) (LTL 550 thousand, including share of profit of associates, and LTL 2,433 thousand respectively) and income taxes (LTL 1,127 thousand and LTL 2,199 thousand respectively) are managed on a group basis and are not allocated to operating segments.

3 Segment information (cont'd)

	Group				Company		
Year ended 31 December 2009	**Heating infrastructure renovation**	**Buildings' administration**		**Total**	**Heating infrastructure renovation**	**Buildings' administration**	**Total**
		Baltic states	**CIS states**				
Revenue	31,268	186,537	155,415	373,220	31,268	92,027	123,295
Unallocated income				1,275[1]			1,275[1]
Total revenue				**374,495**			**124,570**
Segment results	(264)	21,409	8,776	29,921	(264)	17,271	17,007
Unallocated expenses				(9,333)[2]			(9,333)[2]
Profit before tax, finance costs and finance revenue				**20,588**			**7,674**
Net financial costs				(3,563)[3]			4,847[3]
Profit / (loss) before income tax				17,025			12,521
Income tax expenses				(1,732)[3]			(1,856)[3]
Net profit for the year				**15,293**			**10,665**
Other segment information							
Capital expenditure	-	1,489	750	2,239	-	1,489	1,489
Impairment losses recognised in statement of comprehensive income	-	-	-	-	-	835	835

All segment sales are made to external customers.

[1] Unallocated income includes other income not attributable to either of the listed segments, namely IT services (LTL 1,275 thousand).
[2] Unallocated expenses include costs related to unallocated income (LTL 1,017 thousand), general and administrative expenses (LTL 5,918 thousand) and other expenses (LTL 98 thousand) identifiable as costs managed on a group basis.
[3] Financing of the Group and the Company (including finance costs and finance income) (LTL 3,563 thousand, including share of profit of associates, and LTL 4,847 thousand respectively) and income taxes (LTL 1,732 thousand and LTL 1,856 thousand respectively) are managed on a group basis and are not allocated to operating segments.
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3 Segment information (cont'd)

Geographical information

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

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

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

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

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

2009	**Baltic states**	**CIS states**	**Total**
Non-current assets			
Segment assets	73,884	53,481	127,365
Total assets	**73,884**	**53,481**	**127,365**

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

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

Revenue from the largest customer amounted to LTL 32,204 thousand (LTL 29,731 thousand in 2009), arising from sales to Vilnius Municipality and is accounted in the buildings' administration segment. Sales to this customer exceed 10 % of sales of the Company, but compose only approximately 6 % in the Group. There are no other individual customers exceeding 10 % of segment sales.

4 Goodwill

	Group
Cost:	
Balance as of 1 January 2009	14,816
Additions	23,258
Balance as of 31 December 2009	38,074
Additions	27,331
Disposals	(1,948)
Exchange differences	548
Balance as of 31 December 2010	64,005
Impairment:	
Balance as of 1 January 2009	290
Impairment for the year	-
Balance as of 31 December 2009	290
Impairment for the year	-
Balance as of 31 December 2010	290
Net book value as of 31 December 2010	**63,715**
Net book value as of 31 December 2009	**37,784**

<u>Acquisitions during 2010</u>

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

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

- UAB Radviliškio Komunalinės Paslaugos. The purchase price is LTL 1.635 million, all paid in cash and included in cost of investment.

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

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

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

All the costs related to acquisitions above have been expensed, in total amount of LTL 10 thousand. At the acquisition of these subsidiaries goodwill of LTL 27,331 thousand has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from vertical expansion of business.

Amount of LTL 26,880 thousand of the goodwill created on mergers, as described in Note 1, is considered to be tax deductible in the future.

<u>Disposal in 2010</u>

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

4 Goodwill (cont'd)

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

Fair value of assets, liabilities and contingent liabilities	**UAB Economus**	**UAB Ecoservice Group**	**UAB Radviliškio Komunalinės Paslaugos**	**UAB Litmilma**	**UAB Šiaulių Liftas**
Date of acquisition	**23 March 2010**	**5 January 2010**	**23 July 2010**	**17 August 2010**	**8 November 2010**
Property, plant and equipment	37	19,581	1,013	20	191
Intangible assets	9	21,773	1,310	1,579	260
Other non-current assets	469	597	107	264	49
Trade receivables	71	7,805	984	1,008	256
Other current assets	66	1,169	325	864	659
Total assets	**652**	**50,925**	**3,739**	**3,735**	**1,415**
Interest bearing financial liabilities	87	13,899	384	-	-
Deferred tax liability	-	3,456	213	237	39
Trade payables	70	3,251	488	82	78
Other current liabilities	14	2,199	854	1,175	467
Total liabilities	**171**	**22,805**	**1,939**	**1,494**	**584**
Total identifiable net assets at fair value	**481**	**28,120**	**1,800**	**2,241**	**831**
attributable to equity holders of the parent	481	28,120	1,800	2,241	806
attributable to non-controlling interests	-	-	-	-	25

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

Book values	**UAB Economus**	**UAB Ecoservice Group**	**UAB Radviliškio Komunalinės Paslaugos**	**UAB Litmilma**	**UAB Šiaulių Liftas**
Date of acquisition	**23 March 2010**	**5 January 2010**	**23 July 2010**	**17 August 2010**	**8 November 2010**
Property, plant and equipment	46	19,581	1,013	20	191
Other non-current assets	469	597	107	264	49
Trade receivables, gross	71	9,667	1,923	1,008	350
Valuation allowance for trade receivables	-	(1,862)	(939)	-	(94)
Other current assets	66	1,169	325	864	698
Total assets	**652**	**29,152**	**2,429**	**2,156**	**1,194**
Interest bearing financial liabilities	87	13,899	384	-	-
Deferred tax liability	-	224	17	1	1
Trade payables	70	3,251	488	82	78
Other current liabilities	14	2,199	854	1,175	467
Total liabilities	**171**	**19,573**	**1,743**	**1,258**	**546**

4 Goodwill (cont'd)

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

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

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

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

As it is disclosed further in the financial statements, in 2010 the Group's management finalized the purchase price allocation of ООО Жилкомсервис г. Ломоносов, ООО Жилкомсервис № 3 Фрунзенского района, ООО Жилкомсервис № 2 Невского района, acquired on 1 June 2009 and included with provisional accounting in the financial statements of 2009. As a result of finalization of purchase price allocation the following corrections in fair value of assets and liabilities assumed were recorded:

	Provisional fair value recognized on acquisition	Effect of finalization of purchase price allocation	Final fair value recognized on acquisition
Property, plant and equipment	591	-	591
Intangible assets	30,881	(6,050)	24,831
Current assets	15,703	(662)	15,041
Total assets	**47,175**	**(6,712)**	**40,463**
Non-current and current liabilities	**46,538**	**(442)**	**46,096**
Total identifiable net assets at fair value:	**637**	**(6,270)**	**(5,633)**
attributable to equity holders of the parent	637	(7,111)	(6,474)
attributable to non-controlling interests	-	841	841

4 Goodwill (cont'd)

The differences between the amounts paid and the fair values of assets acquired and liabilities and contingent liabilities assumed for ООО Жилкомсервис г. Ломоносов, ООО Жилкомсервис № 3 Фрунзенского района, ООО Жилкомсервис № 2 Невского района according to finalized purchase price allocation are as follows:

	Provisional fair value recognized on acquisition	Effect of finalization of purchase price allocation	Final fair value recognized on acquisition
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	637	(7,111)	(6,474)
Non-controlling interests	-	841	841
Goodwill	6,741	6,270	13,011
Total purchase consideration	**7,378**	**-**	**7,378**
Cash acquired	880	-	880
Total purchase consideration, net of cash acquired	**6,498**	**-**	**6,498**

In these financial statements comparative figures for 2009 have been amended as outlined above due to finalization of the purchase price allocation of ООО Жилкомсервис г. Ломоносов, ООО Жилкомсервис № 3 Фрунзенского района, ООО Жилкомсервис № 2 Невского района.

Acquisitions during 2009

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

The fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2009 were as follows (finalized provisional accounting for ООО Жилкомсервис г. Ломоносов , ООО Жилкомсервис № 3 Фрунзенского района and ООО Жилкомсервис № 2 Невского района):

Fair value of assets, liabilities and contingent liabilities	**UAB Fervėja**	**ООО Жилкомсервис г. Ломоносов, ООО Жилкомсервис № 3 Фрунзенского района, ООО Жилкомсервис № 2 Невского района**
Date of acquisition	**1 January 2009**	**1 June 2009**
Property, plant and equipment	10,936	591
Intangible assets	24,155	24,831
Other non-current assets	649	-
Current assets	9,491	15,041
Total assets	**45,231**	**40,463**
Non-current and current liabilities	**42,511**	**46,096**
Total identifiable net assets at fair value	**2,720**	**(5,633)**
attributable to equity holders of the parent	2,720	(6,474)
attributable to non-controlling interests	-	841

4 Goodwill (cont'd)

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

Book values	**UAB Fervėja**	**ООО Жилкомсервис г. Ломоносов, ООО Жилкомсервис № 3 Фрунзенского района, ООО Жилкомсервис № 2 Невского района**
Date of acquisition	**1 January 2009**	**1 June 2009**
Property, plant and equipment	3,093	591
Other non-current assets	649	-
Current assets	21,870	15,703
Total assets	**25,612**	**16,294**
Non-current and current liabilities	36,113	40,361
Total liabilities	**36,113**	**40,361**

The differences between the amounts paid and the fair values of assets acquired and liabilities and contingent liabilities assumed for the acquisitions of 2009 were as follows (finalized provisional accounting for ООО Жилкомсервис г. Ломоносов , ООО Жилкомсервис № 3 Фрунзенского района and ООО Жилкомсервис № 2 Невского района):

	UAB Fervėja	**ООО Жилкомсервис г. Ломоносов, ООО Жилкомсервис № 3 Фрунзенского района, ООО Жилкомсервис № 2 Невского района**
Date of acquisition	**1 January 2009**	**1 June 2009**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	2,720	(6,474)
Non-controlling interests	-	841
Goodwill	10,248	13,011
Total purchase consideration	**12,968**	**7,378**
Cash acquired	752	880
Total purchase consideration, net of cash acquired	**12,216**	**6,498**

<u>Goodwill allocation</u>

For the purpose of impairment evaluation, the goodwill as of 31 December 2010 and 2009 was allocated to the following cash generating units:

Cash generating unit	**Carrying value of allocated goodwill as of 31 December 2010**	**Carrying value of allocated goodwill as of 31 December 2009**
Subsidiaries operating in Klaipėda (administration of dwelling-houses in Klaipėda)	4,894	4,894
Subsidiaries operating in Kaunas (administration of dwelling-houses in Kaunas)	2,144	2,144
Subsidiaries operating in Vilnius (administration of dwelling-houses in Vilnius)	15,955	15,704
Subsidiaries operating in Šiauliai (administration of dwelling-houses in Šiauliai)	1,022	822
Subsidiaries operating in St. Petersburg (administration of dwelling-houses in Russia, St. Petersburg)	12,820	14,220
Subsidiaries involved in waste management activities (UAB Ecoservice)	26,880	-
	63,715	**37,784**

4 Goodwill (cont'd)

The recoverable amount of each cash generating unit as of 31 December 2010 and 2009 was determined based on the value in use calculation using cash flow projections based on the five-year financial forecasts prepared by the management. Significant assumptions used for the assessment of the value in use in 2010 are described further. A new cash generating unit of waste management activities was established based on the acquisition of UAB Ecoservice and its subsidiaries in the beginning of the year.

The forecasted revenues were estimated based on the area of the dwelling-houses administered as of 31 December 2010 and 2009 assuming that the area administered will remain the same in the future years and the growth in revenue will be derived from a service fee increase, which was forecasted to be in line with the estimated inflation rate. In 2010 the assessed revenue from additional services for CGU's operating in the territory of Lithuania are forecasted to decrease for several years to come because of the existing economic conditions in Lithuania. The costs were projected based on the actual cost level taking into account estimated inflation. Cash flows beyond the five-year period were extrapolated using 2 % growth rate (same in 2009) that reflects the best estimate of the management based on the current situation in the respective industry. The discount rate used by the management was estimated for each individual cash generating unit as a weighted average cost of capital for that particular cash generating unit and is equal to 12 % for cash generating units located in Lithuania (14 % and 10 % for short-term and long-term perspectives, respectively in 2009), and 15% for locations in St. Petersburg (Russia) (16 % in 2009).

In the opinion of the Group's management, the most important and most change-like assumptions are the level of reinvestments and discount rate. Based on management's estimations, a reasonable change in assumptions may result in impairment of goodwill, i.e. 1 % change in discount rate used would result in impairment consisting of 2 % from total goodwill net balance sheet value as of 31 December 2010 (no impairment issue as of 31 December 2009). At the moment of preparing these financial statements the management of the Group did not expect any significant changes in assumptions used.

5 Other intangible assets

Movement of other intangible assets in 2010 and 2009 is presented below:

	Group	Company
Cost:		
Balance as of 1 January 2009	9,009	374
Additions arising from acquisitions of subsidiaries	48,986	-
Additions	19	19
Disposals	(20)	(1)
Exchange differences	4	-
Retirements	(7)	-
Balance as of 31 December 2009	57,991	392
Additions arising from acquisitions of subsidiaries	24,730	-
Additions	812	790
Disposals of subsidiaries	(3,978)	-
Disposals	(2)	(2)
Exchange differences	21	-
Retirements	(106)	(24)
Balance as of 31 December 2010	79,468	1,156
Accumulated amortisation:		
Balance as of 1 January 2009	535	297
Charge for the year	1,454	59
Disposals	(1)	(1)
Exchange differences	(2)	-
Retirements	(7)	-
Balance as of 31 December 2009	1,979	355
Charge for the year	3,097	41
Disposals	(1)	-
Retirements	(106)	(24)
Disposals of subsidiaries	(159)	
Balance as of 31 December 2010	4,810	372
Net book value as of 31 December 2010	**74,658**	**784**
Net book value as of 31 December 2009	**56,012**	**37**

The main part of other intangible assets consists of customer relationship intangible assets, which are amortised during the period of 10-40 years. As of 31 December 2010 net book value of such intangible assets constituted LTL 73,648 thousand (LTL 55,657 thousand as of 31 December 2009).

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

Part of the non-current intangible assets of the Group and the Company with the acquisition value of LTL 653 thousand and LTL 332 thousand respectively as of 31 December 2010 was fully amortised but still in use (LTL 1,744 thousand as of 31 December 2009) (Note 15).

6 Investment property

Movement of the Group's investment property during 2010 and 2009 is presented below:

	Buildings
Cost:	
Balance as of 1 January 2009	759
Reclassifications to property, plant and equipment	(29)
Balance as of 31 December 2009	730
Reclassifications to property, plant and equipment	-
Balance as of 31 December 2010	730
Accumulated depreciation:	
Balance as of 1 January 2009	101
Reclassifications to property, plant and equipment	-
Charge for the year	20
Balance as of 31 December 2009	121
Reclassifications to property, plant and equipment	-
Charge for the year	20
Balance as of 31 December 2010	141
Net book value as of 31 December 2010	**589**
Net book value as of 31 December 2009	**609**

Investment property includes part of office building in Vilnius and premises in Alytus owned by UAB Pašilaita leased to other entities. The expenses related to investment property comprising of depreciation charge are included under the cost of sales caption in the statement of comprehensive income. The fair value of investment property as of 31 December 2010 is estimated by the management to be approximately LTL 700 thousand.

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

7 Property, plant and equipment

Movement of property, plant and equipment in 2010 and 2009 is presented below:

Group	**Buildings**	**Vehicles**	**Other property, plant and equipment**	**Construction in progress**	**Total**
Cost:					
Balance as of 1 January 2009	12,486	4,975	2,664	164	20,289
Additions arising from acquisitions of subsidiaries	10,108	741	585	48	11,482
Additions	85	736	944	380	2,145
Disposals	(12)	(369)	(184)	-	(565)
Exchange differences	-	51	10	12	73
Retirements	(14)	(92)	(125)	(60)	(291)
Reclassifications	-	221	(221)	-	-
Balance as of 31 December 2009	22,653	6,263	3,673	544	33,133
Additions arising from acquisitions of subsidiaries	1,335	12,681	6,220	564	20,800
Additions	-	3,050	4,588	1,146	8,784
Disposals	(367)	(672)	(166)	-	(1,205)
Exchange differences	-	145	56	-	201
Retirements	-	(227)	(3,393)	(687)	(4,307)
Balance as of 31 December 2010	23,621	21,240	10,978	1,567	57,406
Accumulated depreciation:					
Balance as of 1 January 2009	424	1,622	1,269	-	3,315
Charge for the year	1,075	1,072	959	-	3,106
Disposals	-	(263)	(148)	-	(411)
Exchange differences	-	7	3	-	10
Retirements	-	(4)	(114)	-	(118)
Reclassifications	-	165	(165)	-	-
Balance as of 31 December 2009	1,499	2,599	1,804	-	5,902
Charge for the year	1,127	3,270	3,465	-	7,862
Disposals	(55)	(356)	(145)	-	(556)
Exchange differences	-	39	37	-	76
Retirements	-	(255)	(3,437)	-	(3,692)
Balance as of 31 December 2010	2,571	5,297	1,724	-	9,592
Net book value as of 31 December 2010	**21,050**	**15,943**	**9,254**	**1,567**	**47,814**
Net book value as of 31 December 2009	**21,154**	**3,664**	**1,869**	**544**	**27,231**

7 Property, plant and equipment (cont'd)

Company

	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:				
Balance as of 1 January 2009	2,865	2,161	163	5,189
Additions	391	699	381	1,471
Disposals	(102)	(31)	-	(133)
Balance as of 31 December 2009	3,154	2,829	544	6,527
Additions	905	642	385	1,932
Disposals	(195)	(603)	(687)	(1,485)
Balance as of 31 December 2010	3,864	2,868	242	6,974
Accumulated depreciation:				
Balance as of 1 January 2009	1,276	1,231	-	2,507
Charge for the year	582	492	-	1,074
Disposals	(73)	(23)	-	(96)
Balance as of 31 December 2009	1,785	1,700	-	3,485
Charge for the year	614	530	-	1,144
Disposals	(125)	(530)	-	(655)
Balance as of 31 December 2010	2,274	1,700	-	3,974
Net book value as of 31 December 2010	**1,590**	**1,168**	**242**	**3,000**
Net book value as of 31 December 2009	**1,369**	**1,129**	**544**	**3,042**

The depreciation charge of the Group's and the Company's property, plant and equipment for the year 2010 amounts to LTL 7,862 thousand and LTL 1,144 thousand, respectively (LTL 3,106 thousand and LTL 1,074 thousand in the year 2009, respectively). Amounts of LTL 3,536 thousand and LTL 1,128 thousand for the year 2010 (LTL 2,515 thousand and LTL1,032 thousand for the year 2009) have been included into general and administrative expenses in the Group's and the Company's statement of comprehensive income, respectively. Meanwhile, LTL 16 thousand (LTL 42 thousand in 2009) have been included into other operating expenses in the Group's and Company's statement of comprehensive income. The remaining depreciation expenses of property, plant and equipment have been included into the cost of sales.

Property, plant and equipment of the Group and the Company with an acquisition cost of LTL 5,060 thousand and LTL 1,432 thousand, respectively, were fully depreciated as of 31 December 2010 (LTL 3,175 thousand and LTL 932 thousand as of 31 December 2009, respectively), but were still in active use.

As described in Note 15, as of 31 December 2010 buildings of the Group with a net book value of LTL 16,828 thousand were pledged to banks as collateral for the loans (LTL 17,297 thousand as of 31 December 2009).

8 Investments into subsidiaries

The Company's investments into subsidiaries as of 31 December 2010 and 31 December 2009 are as follows:

	2010	2009
Cost of investments at the beginning of the year	45,419	30,177
Increase of authorised share capital of UAB Šiaulių Butų Remonto Tarnyba	55,000	-
Increase of authorised share capital of UAB Naujamiesčio būstas	23,943	-
Increase of authorised share capital of UAB Namų priežiūros centras	6,234	-
Establishment of four new subsidiaries: UAB Baltijos liftai, UAB Baltijos pastatų valdymas, UAB Baltijos būsto priežiūra, UAB Skolos LT	40	-
Increase of authorised share capital of UAB Baltijos liftai	1,000	-
Disposal of UAB Atidumas to UAB Ūkvedys	(3,413)	-
Legal compensation received for investment in UAB Ąžuolyno Valda*	(843)	-
Acquisition of UAB Fervėja	-	12,968
Acquisition of non-controlling interest of UAB Pempininkų valdos	-	100
Increase of authorised share capital of OAO City Service	-	1,133
Set-off loss of OAO City Service carried from 2008	-	1,785
Acquisition of UAB Šiaulių Butų Remonto Tarnyba	-	91
Impairment of investment in Šiauliai	-	(711)
Reduction of share capital in TOB Kiev City Service	(87)	(124)
Cost of investments at the period end	**127,293**	**45,419**

*After a litigation process in 2010 the Company received a compensation from Klaipėda city municipality for the acquisition of UAB Ąžuolyno Valda due to incorrect financial data provided on the subsidiary at the date of its acquisition. The compensation received was used to decrease the cost of investment in the Company, as indicated in the table above.

Impairment testing of investments has been performed by the management of the Group using methods and based on assumptions described in Note 4. Based on management's estimations no impairment issue exists as of 31 December 2010 and 2009.

9 Inventories

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Raw and auxiliary materials	2,239	1,873	529	319
Goods for resale	656	2,144	-	3
Other	384	1	-	-
	3,279	4,018	529	322
Less: net realisable value allowance	(93)	(109)	-	-
	3,186	3,909	529	322

Change in allowance for inventories for the year 2010 and 2009 has been included into general and administrative expenses.

10 Prepayments

Prepayments of the Group amount to LTL 11,125 thousand as of 31 December 2010 (LTL 13,991 thousand as of 31 December 2009) and mainly include prepayments to subcontractors for residential renovation projects in St. Petersburg amounting to LTL 9,928 thousand (LTL 12,034 thousand as of 31 December 2009).

11 Trade receivables

	Group		Company	
	As of 31 December 2010	**As of 31 December 2009**	**As of 31 December 2010**	**As of 31 December 2009**
Trade receivables, gross	116,139	84,871	39,779	33,462
Less: allowance for doubtful trade receivables	(20,656)	(10,958)	(1,444)	(1,370)
	95,483	73,913	38,335	32,092

Change in allowance for doubtful trade receivables for the year 2010 and 2009 has been included into general and administrative expenses.

As of 31 December 2010 a part of Group's and Company's trade receivables in the amount of LTL 2,410 thousand and LTL 744 thousand, respectively, are accounted under non-current receivables caption (LTL 2,286 thousand and LTL 29 thousand as of 31 December 2009).

The Group's and the Company's accounts receivable from Vilnius City Municipality for maintenance and heat supply within Vilnius schools and kindergartens amounts to LTL 27,326 thousand as of 31 December 2010 (LTL 15,014 thousand as of 31 December 2009).

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

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

	Individually impaired	**Collectively impaired**	**Total**
Balance as of 1 January 2009	1,094	3,357	4,451
Charge for the year	-	7,837	7,837
Exchange differences	-	(236)	(236)
Reversed during the year	(1,094)	-	(1,094)
Balance as of 31 December 2009	-	10,958	10,958
Charge for the year	827	13,141	13,968
Exchange differences	(146)	(1,515)	(1,661)
Reversed during the year	(157)	(2,452)	(2,609)
Balance as of 31 December 2010	**524**	**20,132**	**20,656**

11 Trade receivables (cont'd)

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

	Individually impaired	Collectively impaired	Total
Balance as of 1 January 2009	284	204	488
Charge for the year	-	1,166	1,166
Reversed during the year	(284)	-	(284)
Balance as of 31 December 2009	-	1,370	1,370
Charge for the year	-	74	74
Balance as of 31 December 2010	-	1,444	1,444

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

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	Total
2009	42,759	9,109	8,193	6,180	7,672	-	**73,913**
2010	46,349	13,788	9,888	5,620	15,074	4,764	**95,483**

The growth of the Group receivables overdue for more than 90 days was caused mainly by the increase in the receivables from municipal entities in AB City Service and decrease of valuation allowance in Russian subsidiaries as a result of the increased effectiveness of bad debt collection.

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

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	Total
2009	20,031	4,895	4,844	759	1,563	-	**32,092**
2010	15,107	5,333	5,919	713	10,117	1,146	**38,335**

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

12 Other receivables

Other receivables of the Group and the Company as of 31 December 2010 mainly increased due to loan granted to UAB Novrita in the amount of LTL 8,705 thousand with maturity on 31 December 2011, fixed interest rate of 7 % applied. Other receivables of the Group also include restricted cash held as guarantee to suppliers in amount of LTL 519 thousand (refer to Note 13).

13 Cash and cash equivalents

	Group		Company	
	2010	**2009**	**2010**	**2009**
Cash at bank	17,308	5,303	246	425
Cash on hand	127	62	50	-
Short-term deposits	-	145	-	-
	17,435	5,510	296	425

The original term of all deposits is less than three months, the weighted average annual interest rate of the Group as of 31 December 2010 was 7 % (7.7 % in 2009).

Short-term deposits are usually made for one month period and earn interest at the respective deposit rates. The fair value of cash and short-term deposits as of 31 December 2010 of the Group and the Company was LTL 17,435 thousand and LTL 296 thousand respectively (LTL 5,510 thousand and LTL 425 thousand in 2009, respectively).

As of 31 December 2010 the Group had restricted cash of LTL 1,271 thousand (LTL 462 thousand as of 31 December 2009) held in the bank as guarantees provided by subsidiaries SIA Riga City Service and UAB Naujamiescio Būstas to their suppliers. LTL 752 thousand is accounted for under non-current receivables caption, whereas the remaining amount – under other receivables caption in the statement of financial position as of 31 December 2010 (the whole amount was accounted for under non-current receivables caption as of 31 December 2009).

As of 31 December 2010 and 2009 bank accounts of the Company and its subsidiaries are pledged to banks for loans, as described further in Note 15.

14 Reserves and share premium

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 statutory reporting purposes are required until the reserve reaches 10 % of the share capital.

Other reserves

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

Share premium

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

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

15 Borrowings

The list of borrowings of the Group and the Company as of 31 December 2010 and 2009 are as follows:

				Group		Company	
Creditor	**Curren-cy of the loan**	**Amount of the loan (in currency of the loan)**	**Final repay-ment date**	**Balance as of 31 December 2010 (LTL)**	**Balance as of 31 December 2009 (LTL)**	**Balance as of 31 December 2010 (LTL)**	**Balance as of 31 December 2009 (LTL)**
Current loans							
Swedbank, AB (overdraft)	EUR	1,448	17.08.2011	5,000	5,000	5,000	5,000
Swedbank, AB (overdraft)	LTL	5,000	17.08.2011	4,465	887	4,465	887
DnB NORD bankas, AB (UAB Ecoservice)*	EUR	435	30.11.2012	1,388	-	-	-
Tax loan (UAB Naujamiesčio Būstas)	LTL	1,040	10.06.2010	-	416	-	-
Group Account (eliminated in the consolidated group accounts)**	Unspe-cified	Unspe-cified	Unspe-cified	-	-	4,953	3,430
Current loan balance				**10,853**	**6,303**	**14,418**	**9,317**
Non-current loans							
Swedbank, AB	EUR	10,486	09.08.2015	27,775	28,765	27,775	28,765
UAB Bionovus (UAB Ecoservice)	LTL	2,177	31.12.2012	1,218	-	-	-
Less: current portion of non-current borrowings				(7,116)	(7,116)	(7,116)	(7,116)
Non-current loan balance				**21,877**	**21,649**	**20,659**	**21,649**

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

Actual interest rates are close to effective interest rates. As of 31 December 2010 the weighted average annual interest rate of borrowings outstanding was 3.3 % (3.5 % as of 31 December 2009). In 2010 and 2009 the period of re-pricing of floating interest rates on borrowings was 6 months.

The total unutilized borrowing facilities of the Group and the Company as of 31 December 2010 amounted to LTL 535 thousand for both (LTL 4,113 thousand for both, the Group and the Company, as of 31 December 2009).

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

	Group		Company	
Term	**As of 31 December 2010**	**As of 31 December 2009**	**As of 31 December 2010**	**As of 31 December 2009**
Within one year	7,116	7,116	7,116	7,116
In the period of five years	21,877	21,649	20,659	21,649
	28,993	28,765	27,775	28,765

15 Borrowings (cont'd)

For the loan and overdraft facility the Company and its subsidiaries have pledged to the bank real estate (refer to Note 7) and bank accounts of the Company and its subsidiaries operating in Lithuania. For the loan of UAB Ecoservice accounted for as current, the Company has pledged to the bank its assets, up to amount of LTL 1,001 thousand.

Compliance with loan covenants

Based on the terms of the loan and overdraft agreements, the Group and the Company have to comply with certain financial and non-financial covenants, such as: debt service coverage ratio, financial debt to EBITDA ratio, requirements for the minimum capital of the Company and a minimum set volume of the Company's and its subsidiaries bank transactions through the bank.

One of the Group's subsidiaries - UAB Ecoservice - as of 31 December 2010 was not in compliance with a bank covenant, as described further: UAB Ecoservice has two bank loans from AB DnB Nord Bankas for the amount of LTL 1,388 thousand with maturity on 30 November 2012. According to the agreements it is required to perform a turnover through the latter bank's accounts of no less than the proportion between loans received from AB DnB Nord Bankas and all other financial debts. As of 31 December 2010 the company was not in compliance with this covenant. The agreements also contain a clause, which states that starting from 1 December 2011 the agreement can be terminated, regardless of compliance with covenants. Due to this clause, the financial debts are classified as current loans in the statements of financial position of the Group in total amount of LTL 1,388 thousand as of 31 December 2010.

As of 31 December 2010 AB City Service complied with all debt covenants as set in financial agreements.

16 Financial lease

The assets leased by the Group and the Company under financial lease contracts mainly consist of vehicles. Apart from the lease payments, other obligations under lease contracts are maintenance and insurance. The net book value of the vehicles acquired under financial lease amounted to LTL 13,892 thousand as of 31 December 2010 in the Group and LTL 842 thousand in the Company (LTL 952 thousand in the Group and LTL 533 thousand in the Company as of 31 December 2009). The terms of the financial lease agreements are from 2 to 4 years. The currencies of the financial lease agreements are EUR and LTL.

As of 31 December 2010 the interest rate on the financial lease obligations is 6 month EUR LIBOR + 1.2 % - 4.1 %, or 6 month VILIBOR + 2.3 % (as of 31 December 2009 – 6 month EUR LIBOR + 1 % - 4.1 %, 3 month EUR LIBOR + 3 %, or 6 month VILIBOR + 2.3 %).

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

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

16 Financial lease (cont'd)

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

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

17 Operating lease

As of 31 December 2010 and 2009 the Group and the Company had several contracts of operating lease for vehicles outstanding. The remaining part of the operating lease comprises of rent of offices in Vilnius, Riga and St. Petersburg. The terms of lease do not include restrictions of the activities of the Group and the Company in connection with the dividends, additional borrowings or additional lease agreements.

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

	Group		Company	
	As of 31 December 2010	As of 31 December 2009	As of 31 December 2010	As of 31 December 2009
Within one year	901	1,021	205	208
From one to five years	1,024	1,962	14	62
	1,925	2,983	219	270

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.

18 Non-current employee benefits

As of 31 December 2010 the Group and Company accounted for non-current employee benefits for employees leaving the Group or the Company at the age of retirement. Related expenses are included into operating expenses in the Group's and the Company's statements of comprehensive income and under the non-current employee benefits caption in the statements of financial position.

	Group		Company	
	2010	**2009**	**2010**	**2009**
As of 31 December of the previous year	460	-	226	-
Additions arising from acquisitions of new subsidiaries	194	437	-	-
Change during the year	70	23	86	226
As of 31 December of the financial year	724	460	312	226

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

	As of 31 December 2010	As of 31 December 2009
Discount rate	4.85%	7.67 %
Anticipated annual salary increase	3.00%	3-5 %

19 Trade and other payables

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

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

Trade payables of the Group amount to LTL 70,768 thousand as of 31 December 2010 and have decreased since the prior year (LTL 72,555 as of 31 December 2009).

20 Advances received

A significant part of the Group's and the Company's advances received consists of payments received from UAB Litesko and UAB Vilniaus Energija for heating system renovation works amounting to LTL 3,468 thousand as of 31 December 2010 (LTL 3,009 thousand as of 31 December 2009). The remaining amount represents advances received from the owners of commercial and residential buildings administrated by the Group and the Company for repair and other works.

21 Other current liabilities

	Group		Company	
	As of 31 December 2010	**As of 31 December 2009**	**As of 31 December 2010**	**As of 31 December 2009**
Salaries and social security	3,757	3,289	702	860
Vacation pay accrual	4,894	4,085	1,953	1,920
Accrued expenses and deferred income	2,790	3,534	1,049	1,352
Other current liabilities	6,328	5,505	1,471	610
	17,769	16,413	5,175	4,742

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

22 Sales

	Group		Company	
	2010	**2009**	**2010**	**2009**
Buildings' administration and related services	484,040	332,317	97,662	92,028
Heating system renovation and heating components installation services	19,157	31,268	19,157	31,268
Waste management	37,317	-	-	-
Other services and goods	1,332	10,910	1,332	1,274
	541,846	**374,495**	**118,151**	**124,570**

The Company has a relatively significant concentration of trading counterparties. The main customer of the Company – Vilnius City Municipality – in 2010 and 2009 accounted for 27 % and 24 %, of total Company's sales, respectively.

Increase in Group's sales volume is attributable to the enlargement of the Group in 2010 as well as to the increase in the activity volume and tariffs in the CIS countries.

Information about customer specific contracts in progress as of 31 December 2010 and 2009:

	Group and Company	
	2010	**2009**
Sales of customer specific contracts in progress, recognised in the statement of comprehensive income during the year	990	7,549
Sales from customer specific contracts in progress, recognised to date	22,522	23,052
Expenses incurred on the customer specific contracts, recognised in the statement of comprehensive income during the year	648	7,917
Expenses incurred on the customer specific contracts, recognised to date	16,858	17,411
(Deferred) contract revenue (included in other current liabilities caption within the statement of financial position in 2010 and 2009)	(1,050)	(1,352)
Due from customers (accounted for as trade accounts receivable)	1,977	9,693
Due to customers (accounted for as advances received)	3,468	3,009

23 Cost of sales

	Group		Company	
	2010	**2009**	**2010**	**2009**
Services of subcontractors and materials used	374,302	250,606	66,309	83,164
Wages and salaries and social security	64,655	52,205	19,643	17,271
Cost of goods sold	4,345	5,373	867	630
Depreciation	4,330	569	-	-
Other	2,925	-	-	-
Total cost of sales	**450,557**	**308,753**	**86,819**	**101,065**

24 General and administrative expenses

	Group		Company	
	2010	**2009**	**2010**	**2009**
Wages and salaries and social security	28,136	17,013	6,535	5,266
Allowance for and write-off of receivables	11,359	6,743	74	882
Depreciation and amortisation	6,633	3,969	1,169	1,091
Commissions for collection of payments	4,367	3,375	1,609	1,692
Consulting and similar expenses	2,921	2,041	1,017	884
Rent of premises and other assets	2,639	1,822	1,160	1,112
Computer software maintenance	693	608	46	44
Utilities	1,113	677	333	250
Fuel expenses	1,013	508	162	134
Transportation	907	445	159	209
Advertising	1,232	678	857	557
Communication expenses	1,028	891	233	289
Business trips and training	1,053	725	857	546
Taxes other than income tax	751	354	22	22
Representational costs	663	204	407	127
Charity and support	630	453	554	443
Bank payments	569	505	55	77
Insurance	453	487	135	226
Vacation pay accrual	809	1,405	32	298
Other	2,905	2,643	1,128	1,729
Total general and administrative expenses	**69,874**	**45,546**	**16,544**	**15,878**

25 Other operating income (expenses), net

	Group		Company	
	2010	**2009**	**2010**	**2009**
Income from rent	102	483	149	162
Gain on disposal of property, plant and equipment	556	46	-	4
Fines and penalties	2,227	1,018	-	-
Tax risk accrual reversal	1,819	-	-	-
Other income	2,743	1,508	401	397
Total other operating income	**7,447**	**3,055**	**550**	**563**
Depreciation of rented assets	16	42	16	42
Fines and penalties	710	886	84	-
Legal claims*	425	-	-	-
State duties**	296	-	-	-
Other expenses	2,691	1,735	422	474
Total other operating expenses	**4,138**	**2,663**	**522**	**516**

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

26 Finance income and (expenses), net

	Group		Company	
	2010	**2009**	**2010**	**2009**
Interest income	687	215	1,683	1,768
Dividend income	-	-	1,930	5,225
Foreign currency exchange gain	1,101	75	34	71
Gain on sale of investments	346	426	287	-
Other financial income	219	174	8	31
Total finance income	**2,353**	**890**	**3,942**	**7,095**
Interest (expenses)	(1,611)	(2,796)	(1,379)	(1,179)
Foreign currency exchange loss	(92)	(1,078)	(43)	(206)
Impairment of investments	-	-	-	(835)
Discounting effect of long-term loans	-	(240)	-	-
Other financial (expenses)	(138)	(379)	(87)	(28)
Total finance (expenses)	**(1,841)**	**(4,493)**	**(1,509)**	**(2,248)**
Financial activity, net	**512**	**(3,603)**	**2,433**	**4,847**

27 Income tax

	Group		Company	
	2010	**2009**	**2010**	**2009**
Components of the income tax expenses				
Current income tax	4,502	4,245	2,109	2,182
Deferred income tax (income) expenses	(4,698)	(2,513)	90	(326)
Income tax (income) expenses recorded in the statement of comprehensive income	**(196)**	**1,732**	**2,199**	**1,856**

27 Income tax (cont'd)

	Group		Company	
	2010	**2009**	**2010**	**2009**
Deferred income tax asset				
Allowance for accounts receivable	7,906	5,823	217	205
Allowance for inventories	17	17	-	-
Accruals and similar temporary differences	1,106	1,040	340	322
Deferred income (percentage of completion method)	158	203	157	203
Impairment of investments	-	-	63	125
Tax loss carry forward	2,391	3,077	-	-
Tax goodwill	2,651	-	-	-
Deferred income tax asset before valuation allowance	14,229	10,160	777	855
Less: valuation allowance	(3,797)	(5,113)	(217)	(205)
Deferred income tax asset, net of valuation allowance	10,432	5,047	560	650
Deferred income tax liability				
Property, plant and equipment and intangible assets	(14,724)	(12,290)	-	-
Accrued income and other	(2,904)	(2,177)	-	-
Deferred income tax liability	(17,628)	(14,467)	-	-
Deferred income tax, net	(7,196)	(9,420)	560	650
Presented in the statement of financial position as follows:				
Deferred income tax asset	7,025	2,630	560	650
Deferred income tax liability	(14,221)	(12,050)	-	-

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

Tax loss carry forward can be utilised as follows: in Lithuania (LTL 10,234 thousand as of 31 December 2010) – indefinitely, in Russia (LTL 4,281 thousand as of 31 December 2010) – mainly until the year 2012.

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15 % rate in 2010 and 2009. The deferred tax of companies operating in Russia, Ukraine and Latvia was calculated using 20 %, 25 % and 15 % tax rates, respectively in 2010 (same as in 2009).

Due to mergers of UAB Būsto Investicijų Valdymas with UAB Naujamiesčio Būstas, UAB Namų Priežiūros Centras with UAB Sinsta, and UAB Atidumas with UAB Ūkvedys (Note 1), tax goodwill was created as of the merger dates. Consequently, the respective deferred tax asset arising on this transaction amounting to LTL 2,651 thousand was accounted for in the Group's financial statements as of 31 December.

27 Income tax (cont'd)

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

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

	Balance as of 31 December 2008	Recognised in statement of compre-hensive income	Exchange differences	Acquired subsidiaries	Balance as of 31 December 2009
Allowance for accounts receivable	7,750	6,710	(20)	16,245	30,685
Allowance for inventories	335	(275)	-	25	85
Accruals and similar temporary differences	3,915	(5,058)	(4)	7,350	6,203
Deferred income (percentage of completion)	-	1,352	-	-	1,352
Tax loss carry forward	3,259	(626)	(8)	15,775	18,400
Property, plant and equipment and intangible assets	(18,956)	1,953	2	(56,804)	(73,805)
Accrued income and other	(1,595)	(3,732)	7	(5,595)	(10,915)
Total temporary differences before valuation allowance	(5,292)	324	(23)	(23,004)	(27,995)
Valuation allowance	(1,003)	4,865	-	(30,565)	(26,703)
Total temporary differences	(6,295)	5,189	(23)	(53,569)	(54,698)
Deferred income tax, net	(1,220)	2,513	(5)	(10,708)	(9,420)

27 Income tax (cont'd)

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

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

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

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	
	2010	2009	2010	2009
Income tax expenses computed at 15 % in 2010 and 20% in 2009	3,791	3,405	2,587	2,504
Effect of different tax rates applicable to foreign subsidiaries	(354)	-	-	-
Deferred tax asset recognized on reorganization of subsidiaries (on tax goodwill)	(2,651)	-	-	-
Effect of change in tax rate	-	(1,185)	-	217
Change in deferred tax asset valuation allowance	(1,316)	(1,187)	12	(107)
Permanent differences	334	699	(400)	(758)
Income tax expenses reported in the statement of comprehensive income	(196)	1,732	2,199	1,856

28 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	
	2010	**2009**
Net profit attributable to the shareholders	24,935	14,446
Number of shares (thousand), opening balance	19,110	19,110
Number of shares (thousand), closing balance	31,610	19,110
Weighted average number of shares (thousand)	31,096	19,110
Basic and diluted earnings per share (LTL)	0.80	0.76

As disclosed in Note 1, on 13 January 2010 the share capital of the Company was increased up to LTL 31,610 thousand. As of 31 December 2010 the authorized share capital of the Company is divided into 31,610 thousand ordinary registered shares with the nominal value of LTL 1 each.

29 Dividends per share

	2010	**2009**
Approved dividends*	2,687	2,102
Number of shares (in thousand)**	31,610	19,110
Approved dividends per share (LTL)	0.09	0.11

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

30 Financial assets and liabilities and risk management

Credit risk

The Group's and the Company's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. Furthermore, the credit risk of the main customer of the Company, regarding which there is a trading and credit risk concentration (Note 22), is managed by trying to get partial prepayments from these customers. Receivables from Vilnius City Municipality as of 31 December 2010 amounted to 28 % and 70 % of the Group's and the Company's total trade accounts receivable, respectively (20 % and 47 % as of 31 December 2009, respectively).

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

Interest rate risk

The major part of the Group's and the Company's borrowings (loans and financial lease obligations) are subject to variable rates, related to EUR LIBOR and VILIBOR, which create an interest rate risk (Notes 15 and 16). There are no financial instruments designated to manage the exposure to the interest rate risk outstanding as of 31 December 2010 and 2009.

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

Interest rate risk (cont'd)

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

2010	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(430)
LTL	+100	(60)
LTL	-100	60
2009		
EUR	+100	(338)
EUR	-100	338
LTL	+100	(9)
LTL	-100	9

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

2010	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(335)
LTL	+100	(45)
LTL	-100	45
2009		
EUR	+100	(338)
EUR	-100	338
LTL	+100	(9)
LTL	-100	9

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

Liquidity risk

The Group's and the Company's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed overdraft and loans to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as of 31 December 2010 were 1.01 and 0.99 respectively (0.84 and 0.81 as of 31 December 2009 respectively). The Company's liquidity and quick ratios as of 31 December 2010 were 1.58 and 1.57 respectively (1.88 and1.87 as of 31 December 2009, respectively).

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2010 and 2009 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings	-	-	-	23,100	-	23,100
Financial lease obligations	-	969	2,908	5,637	-	9,514
Current portion of non-current interest bearing borrowings	-	2,018	5,973	-	-	7,991
Current loans	-	-	11,233	-	-	11,233
Trade payables	-	70,768	-	-	-	70,768
Payables to related parties	-	22,017	-	-	-	22,017
Other current liabilities	-	86	-	-	-	86
Balance as of 31 December 2010	**-**	**95,858**	**20,114**	**28,737**	**-**	**144,709**
Non-current interest bearing borrowings	-	-	-	22,800	-	22,800
Financial lease obligations	-	85	430	238	-	753
Current portion of non-current interest bearing borrowings	-	2,024	5,965	-	-	7,989
Current loans	947	222	5,333	-	-	6,502
Trade payables	162	28,232	44,161	-	-	72,555
Payables to related parties	196	11,331	844	76	-	12,447
Other current liabilities	-	24	-	-	-	24
Balance as of 31 December 2009	**1,305**	**41,918**	**56,733**	**23,114**	**-**	**123,070**

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

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2010 and 2009 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings	-	-	-	21,797	-	21,797
Current portion of non-current interest bearing borrowings	-	2,018	5,973	-	-	7,991
Current loans	-	-	14,695	-	-	14,695
Financial lease obligations	-	76	229	480	-	785
Trade payables	-	301	-	-	-	301
Payables to related parties	-	22,542	-	-	-	22,542
Other current liabilities	-	86	-	-	-	86
Balance as of 31 December 2010	**-**	**25,023**	**20,897**	**22,277**	**-**	**68,197**
Non-current interest bearing borrowings	-	-	-	22,800	-	22,800
Current portion of non-current interest bearing borrowings	-	2,024	5,965	-	-	7,989
Current loans	4,645	-	5,102	-	-	9,747
Financial lease obligations	-	70	212	141	-	423
Trade payables	-	8,911	-	-	-	8,911
Payables to related parties	-	11,331	844	-	-	12,175
Other current liabilities	-	24	-	-	-	24
Balance as of 31 December 2009	**4,645**	**22,360**	**12,123**	**22,941**	**-**	**62,069**

Foreign exchange risk

The Company's monetary assets and liabilities as of 31 December 2010 and 2009 are denominated in LTL or EUR, to which LTL is pegged. Therefore, the management of the Company believes that foreign exchange risk is insignificant.

Monetary assets and liabilities of the Group denominated in various currencies as of 31 December 2010 and 2009 were as follows:

	2010		2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	81,121	70,389	59,253	54,358
RUB	61,437	70,859	32,690	63,347
LVL	1,606	653	678	810
EUR	-	34,163	-	33,765
	144,164	176,064	92,621	152,280

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

Foreign exchange risk (cont'd)

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

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2010		
EUR	+ 15.00 %	(1,897)
EUR	- 15.00 %	1,897
2009		
EUR	+ 15.00 %	(1,835)
EUR	- 15.00 %	1,835

Fair value of financial instruments

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

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction, other than in forced or liquidation sale. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

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

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

	Carrying amount		Fair value	
	2010	2009	2010	2009
Financial assets				
Cash	17,435	5,510	17,435	5,510
Receivables from related parties (including loans granted)	6,445	5,065	6,445	5,065
Trade receivables	95,483	73,913	95,483	73,913
Other receivables	14,615	2,093	14,615	2,093
Non-current receivables	3,612	2,748	3,161	2,748
Financial liabilities				
Interest bearing loans and borrowings	39,846	35,068	39,846	35,068
Financial lease obligations	9,116	715	9,116	715
Trade payables	70,768	72,555	70,768	72,555
Payables to related parties	22,017	12,447	22,017	12,447
Other current liabilities	86	24	86	24

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

Fair value of financial instruments (cont'd)

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

	Carrying amount		Fair value	
	2010	**2009**	**2010**	**2009**
Financial assets				
Cash	296	425	296	425
Receivables from related parties (including loans granted)	36,605	53,476	36,605	53,476
Trade receivables	38,335	32,092	38,335	32,092
Other receivables	9,768	843	9,768	843
Non-current receivables	744	29	744	29
Financial liabilities				
Interest bearing loans and borrowings	42,193	38,082	42,193	38,082
Financial lease obligations	735	396	735	396
Trade payables	301	8,911	301	8,911
Payables to related parties	22,542	12,130	22,542	12,130
Other current liabilities	86	24	86	24

31 Commitments and contingencies

Acquisition of UAB Lazdynų Būstas

On 19 February 2009 the Appeal Court of the Republic of Lithuania resumed the litigation process on privatization of UAB Lazdynų Būstas 100 % shares, which previously ended by concluding a peace treaty approving the share purchase – sale agreement between the Company and Vilnius municipality as approved by Vilnius regional court. The Appeal Court of the Republic after the separate complaint of the general prosecutor of the Republic of Lithuania returned the case for the new consideration in Vilnius district court. On 7 December 2010 Vilnius district court left the case not heard, as at the moment all the parties that are related to the case shall own the right to claim to the court with the same or similar lawsuit that is related to the privatization process.

In case concerned party shall claim and the court shall decide that 100 % of UAB Lazdynų Būstas shares could not be transferred to the Company in the public auction by Vilnius municipality, restitution in full must be applied. Firstly Vilnius municipality shall be obliged to return all the Company's consideration paid (LTL 7,551 thousand) in order to re-acquire the above mentioned shares from the Company. It should be mentioned that the Company shall transfer UAB Lazdynų Būstas shares only after the above mentioned sum would be paid to the Company. Considering the fact that in practice there is no occurrence of such cases that after a public auction state or municipal authority would return received consideration to the acquirer in order to re-acquire the shares as well as other circumstances, it is unlikely that the final court decision in the new case will require to apply the restitution in full. The net assets and net loss of UAB Lazdynų Būstas included in the consolidated financial statements of the Group as of 31 December 2010 amount to LTL 3,190 thousand and LTL 663 thousand, respectively.

31 Commitments and contingencies (cont'd)

UAB Vilko Pėda litigation

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

UAB Būsto Administravimo Agentūra acquisition litigation

The Company is in litigation process with the Lithuanian Competition Board due to its decision No. 2S-19, dated 15 July 2010 "Regarding the correspondence of AB City Service actions to the article 10, part 1 and article 11, part 2 of the Lithuanian Law on Competition" in respect of the acquisition of 37.2% of shares in UAB Būsto Administravimo Agentūra without informing and receiving approval from the Competition Board. The Company has already paid a fine of LTL 10 thousand according to the above decision, however, has appealed to Vilnius district court, which has partially approved the appeal by its decision dated 3 March 2011 and revoked the previous decision. However, at the same time it instructed the Competition Board to perform additional check. AB City Service is going to appeal to the Lithuanian Supreme Administration Court to completely revoke the decision. No additional liabilities have been accounted for in the Group's financial statements in respect of this matter.

Embezzlement of assets in UAB Fervėja

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

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

UAB Specialusis Autotransportas claim

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

31 Commitments and contingencies (cont'd)

Other contingencies

The Company concluded a general construction agreement with UAB Litesko on 20 November 2009, the value of the contract was LTL 1,088 thousand. Accordingly, the Company subcontracted AB Axis Industries for the fulfilment of the contractual obligations for the price of LTL 1,043 thousand. The deadlines of constructions works settled in the general construction agreement had passed due to the fact that new technical decisions were communicated with the customer and this resulted in the changes of construction capacity. As a result, the Company has to change the agreement with the subcontractor and the negotiations are to be performed. In accordance with the negotiations, the Company expects that the changes of construction works capacity shall not affect the financial plans of this project and the new conditions shall be agreed with the subcontractor. The obligations arising from this contract are not included in the balance sheet of the Company.

The Company performs two general construction agreements with UAB Vilniaus Energija (concluded on 5 October 2006 and 8 January 2007). Accordingly, the Company subcontracted AB Axis Industries for the fulfilment of the contractual obligations. The construction works settled in the agreements are not finished yet due to the fact that the customer's plans for renovation have changed. As a result, the Company has not finished the construction works of the total value of LTL 11,077 thousand. The Company's obligation to buy from subcontractor amounts to LTL 3,560 thousand. Such obligations are not accounted for in the financial statements of the Company as of 31 December 2010 and 2009.

Contingencies related to foreign subsidiaries

In 2009 OAO City Service and ZAO City Service started to participate in residential renovation projects, whose funding is largely covered by the state by signing financing agreements with local government bodies, called Housing Committees. The implementation costs of these residential renovation projects are covered by the state funds. Group companies have committed to implement projects until letters of credit in bank accounts under the contracts for these projects expire. As of 31 December 2010 the letters of credit were extended since the contractors hadn't completed renovation projects on time. For extension of those letters of credit written authorization of the Housing Committee was not obtained before the year end, however, before the release date of these financial statements the majority of the funds under the contract has already been used for paying the contractors' work. Therefore, the Management of the Group does not think that the extension of letters of credit without the written permission of the Housing Committee is a significant breach of the contract and that any sanctions against the Group are probable.

Due to lack of taxation practices and clear legislative requirements in 2010 and 2009 Group subsidiaries, carrying out business operations in the region of St. Petersburg, namely ZAO City Service, OAO City Service, OOO Жилкомсервис № 3 Фрунзенского района and OOO Жилкомсервис № 2 Невского района, were dealing with some uncertainties related to tax treatment of certain transactions. The management accounted for taxes related to such transactions based on the management's interpretation of tax rules. In case the local tax authorities challenge the management's view on treatment and accounting of taxes, the Group could be charged with additional taxes. The maximum exposure of additional VAT and income tax risk has been estimated by the management to amount to approximately LTL 3 million. However, based on the fact, that tax inspections have already been performed in 2010 in several subsidiaries and did not challenge the management's treatment of taxes in the companies and also due to the fact that the management considers such tax risks to be not probable, no accruals in respect of these tax contingencies have been accounted for in these financial statements.

In 2010 OAO City Service and ZAO City Service started court litigation against TGK-1 (the provider of heating). The companies challenged the amounts invoiced by TGK, because the companies believe the invoices should be calculated not based on volumes of heating dispatched by TGK-1, but based on estimated volumes of heating consumed by the inhabitants (based on the norms set for consumption). In case the companies win the litigation, they could be reimbursed by decreasing payables according to the invoices issued by TGK-1 by LTL 1-3 million each company. Considering that there is no reliable court practice, and the issue is subject to regulation by the state authorities, estimate the outcome of this litigation cannot be made at this stage. Thus, the companies have recorded the amounts payable according to the invoices received as of 31 December 2010.

32 Related party transactions

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

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

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

Prices for the intercompany purchase and sale transactions are established by the management and shareholders of the UAB ICOR and/or UAB Lag&d and AB City Service considering the results of independent valuations, if any, undertaken for the purposes of the transfer pricing regulations – which may not always be at their fair value.

There are no guarantees or pledges given or received in respect of the related party payables and receivables. Related party receivables and payables are expected to be settled in cash or netted-off with payables / receivables to / from a respective related party. In addition, part of trade payables to UAB Vilniaus Energija is expected to be settled by transferring claim rights to accounts receivable from Vilnius city municipal entities (such method of settlement has already been used).

2010 **Group**	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables (long and short-term)**
UAB ICOR	2,761	44	-	-	924
Subsidiaries of UAB ICOR: AB Axis Industries	20,265	1,260	42	-	6,457
Other subsidiaries of UAB ICOR	1,080	2,178	3,182	-	1,944
Management of the Company	-	17	329	874	-
Shareholders of the Company	-	-	19	-	-
Other related parties	[illegible]	19,673	1,999	-	13,910
Total	[illegible]	**23,172**	**5,571**	**874**	**23,235**

2010 **Company**	**Purchases**	**Sales**	**Receivables and prepayments**	**Loans granted**	**Payables**
UAB ICOR	1,911	44	-	-	689
Subsidiaries of UAB ICOR AB Axis Industries	19,869	1,216	36	-	6,261
Other subsidiaries of UAB ICOR	60	1,264	3,086	-	542
Subsidiaries of the Company	[illegible]	28,203	11,325	18,937	1,291
Management of the Company		17	329	874	-
Shareholders of the Company			19	-	-
Other related parties	[illegible]	[illegible]	1,999	-	13,759
Total	[illegible]	[illegible]	**16,794**	**19,811**	**22,542**

32 Related party transactions (cont'd)

Loans granted to subsidiaries of the Company as of 31 December 2010 and 2009 are payable in one year and carry fixed interest rates of 4-8 % (accounted under short-term receivables from related parties caption in the statement of financial position as of 31 December 2010 and 2009). Loans granted to the management of the Company are payable in 1-3 years and carry fixed interest rates of 3-6 % (accounted under non-current receivables and short-term receivables from related parties captions in the statement of financial position).

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

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

Group payables also include a non-current loan which was taken by the subsidiary of the Company UAB Ecoservice from UAB Bionovus. Total amount outstanding as of 31 December 2010 was LTL 1,218 thousand. This loan is included in the non-current borrowings caption in the statement of financial position and disclosed in the Note 15.

2009

Group	Purchases	Sales	Receivables and prepayments	Loans granted	Payables
UAB ICOR	2,454	58	1,160	-	37
Subsidiaries of UAB ICOR:					
AB Axis Industries	18,699	1,122	48	-	10,525
Other subsidiaries of UAB ICOR	9,648	4,710	3,642	36	1,885
Management of the Company	-	8	9	150	-
Shareholders of the Company	-	4	20	-	-
	30,801	**5,902**	**4,879**	**186**	**12,447**

2009

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

The ageing analysis of receivables from related parties as of 31 December 2010 is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	
Company	4,928	1,156	765	3,845	1,871	4,229	**16,794**
Group	1,942	114	53	61	1,018	2,383	**5,571**

32 Related party transactions (cont'd)

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

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

Remuneration of the management and other payments

The Group's and the Company's management remuneration amounted to LTL 4,005 thousand and LTL 2,306 thousand in 2010, respectively (LTL 2,334 thousand and LTL 1,411 thousand in 2009, respectively). The outstanding balance of the loans granted by the Company to the management is disclosed in the tables above under Management of the Company heading. Non-current employee benefit accrual for the management of the Group and the Company amounted to LTL 15 thousand and LTL 8 thousand respectively as of 31 December 2010 (LTL 19 thousand and LTL 1 thousand respectively as of 31 December 2009). In 2010 and 2009 the management of the Company did not receive any guarantees; no other payments or property transfers were made or accrued. No impairment of loans granted to the management of the Company has been recorded as of 31 December 2010 and 2009.

33 Capital management

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

The Group and the Company manage capital structure and makes adjustments to it in the light of changes in economic conditions and risk characteristics of the activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders and/or return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2010 and 2009.

The Group and the Company are obliged to upkeep its equity at not less than 50 % of its share capital (comprised of share capital and share surplus), as imposed by the Law on Companies of the Republic of Lithuania. In addition, as disclosed in Note 15, the Company has committed to its lenders to keep to certain minimum capital requirements. There were no other externally imposed capital requirements on the Group and the Company. As of 31 December 2010 and 2009, the Group and the Company were not in breach of the above mentioned requirements.

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

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

	Group		Company	
	2010	2009	2010	2009
Non-current liabilities (including deferred tax and grants)	42,324	34,640	21,421	22,006
Current liabilities	147,443	128,548	54,504	46,595
Liabilities	**189,767**	**163,188**	**75,925**	**68,601**
Equity	**156,925**	**72,479**	**143,488**	**68,251**
Debt to equity ratio	**121 %**	**225 %**	**53 %**	**101 %**

34 Subsequent events

Acquisition of new subsidiaries and investments after 31 December 2010

In January 2011 the Company acquired a group of private companies in the city of Stavropol, Russia. The group consists of 17 separate companies. The acquisition price is RUB 68.5 million, equivalent to LTL 5.9 million as of 31 December 2010. The acquired companies manage approximately 2 million square meters of residential buildings.

On 1 February 2011 the subsidiary of the Company UAB Eco Holding acquired 100% shares of UAB .A.S.A Vilnius. Acquired company manages collection and removal of waste in Vilnius. The acquisition price is LTL 100 thousand.

The financial information on the acquired companies as of 31 December 2010 is only available unaudited as of the date of the release of these financial statements and is presented below. The fair values of the net assets acquired have not yet been assessed by the Group due to complex economic and tax environment in Russia and recent acquisition dates.

	17 companies in Stavropol	.A.S.A. Vilnius UAB
	31 December 2010 (unaudited)	31 December 2010 (unaudited)
Carrying values:		
Assets	11,425	2,736
Liabilities	8,734	3,272
Net assets	2,691	(536)
Revenue	26,474	3,335
Net profit (loss)	958	(981)

Changes in the shareholders of the Company

After the shareholder of the Company AB East Capital Asset Management acquired 19.5 thousand shares of the Company and crossed the 10 percent limit on 11 February 2011 and on 21 of February the shareholders of the ultimate parent of AB City Service, UAB Lag&d, Mr. Andrius Janukonis, Mr. Gintautas Jaugielavičius and Mr. Linas Samuolis sold their shares of the Company, the ownership structure has changed and described in the annual report, note 13.

Other subsequent events

At the date of the release of these financial statements the Ordinary Shareholders Meeting has not been held, therefore, the management of the Company has not yet prepared a draft of the profit distribution for 2010.