

A stylized, grayscale silhouette of a city skyline with various skyscrapers of different heights and shapes, reflected in a horizontal line below them.

City Service AB

Consolidated and parent company's interim financial
statements for the six months of 2011
(unaudited)

Prepared in accordance with the Rules of preparation and submission of periodic
and additional information of the Lithuanian Securities Commission

Statements of financial position

| | Group | | Company | |
|--|--------------------------|------------------------------|--------------------------|------------------------------|
| | As of 30 June 2011 | As of 31 December 2010 | As of 30 June 2011 | As of 31 December 2010 |
| Assets | | | | |
| Non-current assets | | | | |
| Goodwill | 70,283 | 63,715 | - | - |
| Other intangible assets | 73,355 | 74,658 | 788 | 784 |
| Property, plant and equipment | 49,536 | 47,814 | 3,885 | 3,000 |
| Investment property | 388 | 589 | - | - |
| Investments into subsidiaries | - | - | 127,774 | 127,774 |
| Investments into associates | 861 | 386 | 220 | 220 |
| Non-current financial assets receivables and prepayments | 2,290 | 3,617 | 744 | 744 |
| Deferred income tax asset | 7,329 | 7,025 | 825 | 560 |
| Total non-current assets | 204,042 | 197,804 | 134,236 | 133,082 |
| Current assets | | | | |
| Inventories | 3,735 | 3,186 | 913 | 529 |
| Prepayments | 5,157 | 11,125 | 617 | 243 |
| Trade receivables | 97,877 | 95,483 | 28,370 | 38,335 |
| Receivables from related parties (including loans granted) | 2,237 | 6,445 | 38,413 | 36,605 |
| Other receivables and current assets | 13,086 | 15,214 | 9,171 | 10,323 |
| Cash and cash equivalents | 12,471 | 17,435 | 372 | 296 |
| Total current assets | 134,563 | 148,888 | 77,856 | 86,331 |
| Total assets | 338,605 | 346,692 | 212,092 | 219,413 |



Statements of financial position (cont'd)

| | Group | | Company | |
|---|--------------------------|------------------------------|--------------------------|------------------------------|
| | As of 30 June 2011 | As of 31 December 2010 | As of 30 June 2011 | As of 31 December 2010 |
| Equity and liabilities | | | | |
| Equity attributable to equity holders of the Company | | | | |
| Share capital | 31,610 | 31,610 | 31,610 | 31,610 |
| Reserves and share premium | 83,002 | 82,285 | 82,991 | 82,274 |
| Foreign currency translation | (2,089) | (1,712) | - | - |
| Retained earnings (deficit) | 45,666 | 43,346 | 28,518 | 29,604 |
| | 158,189 | 155,529 | 143,119 | 143,488 |
| Non-controlling interests | 1,493 | 1,396 | - | - |
| Total equity | 159,682 | 156,925 | 143,119 | 143,488 |
| Liabilities | | | | |
| Non-current liabilities | | | | |
| Non-current borrowings | 23,805 | 21,877 | 21,975 | 20,659 |
| Financial lease obligations | 8,241 | 5,454 | 1,388 | 450 |
| Deferred income tax liabilities | 14,394 | 14,221 | - | - |
| Non-current payables | 764 | 772 | 312 | 312 |
| Total non-current liabilities | 47,204 | 42,324 | 23,675 | 21,421 |
| Current liabilities | | | | |
| Current portion of non-current borrowings | 7,116 | 7,116 | 7,116 | 7,116 |
| Current portion of financial lease obligations | 2,572 | 3,662 | 306 | 285 |
| Short term loans | 6,849 | 10,853 | 12,487 | 14,418 |
| Trade payables | 69,440 | 70,768 | 4,927 | 301 |
| Payables to related parties | 5,782 | 22,017 | 6,462 | 22,542 |
| Advances received | 12,040 | 13,703 | 1,311 | 4,667 |
| Other current liabilities | 27,920 | 19,324 | 12,689 | 5,175 |
| Total current liabilities | 131,719 | 147,443 | 45,298 | 54,504 |
| Total equity and liabilities | 338,605 | 346,692 | 212,092 | 219,413 |



Statements of comprehensive income (for the period 1 January – 30 June)

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2011 1st half | 2010 1st half | 2011 1st half | 2010 1st half |
| Sales | 268,090 | 263,702 | 57,131 | 59,047 |
| Cost of sales | (219,154) | (220,802) | (41,914) | (43,037) |
| Gross profit (loss) | 48,936 | 42,900 | 15,217 | 16,010 |
| General and administrative expenses | (35,932) | (33,546) | (9,394) | (7,774) |
| Other operating income (expenses) | 583 | 1,174 | 34 | 27 |
| Profit (loss) from operations | 13,587 | 10,528 | 5,857 | 8,263 |
| Income from financial and investment activities, net | (534) | 907 | 3,006 | 2,090 |
| Profit (loss) before tax | 13,053 | 11,435 | 8,863 | 10,353 |
| Income tax | (2,016) | (1,629) | (1,329) | (1,484) |
| Net profit (loss) | 11,037 | 9,806 | 7,534 | 8,869 |
| Other comprehensive income | | | | |
| Exchange differences on translation of foreign operations | (377) | (2,188) | - | - |
| Total comprehensive income for the year, net of tax | 10,660 | 7,618 | 7,534 | 8,869 |
| Attributable to: | | | | |
| The shareholders of the Company | 10,940 | 9,802 | 7,534 | 8,869 |
| Non-controlling interests | 97 | 4 | - | - |
| | 11,037 | 9,806 | 7,534 | 8,869 |
| Total comprehensive income attributable to: | | | | |
| The shareholders of the Company | 10,563 | 7,614 | 7,534 | 8,869 |
| Non-controlling interests | 97 | 4 | - | - |
| | 10,660 | 7,618 | 7,534 | 8,869 |
| Basic and diluted earnings per share (LTL) | 0.35 | 0.31 | | |



Statements of comprehensive income (for the period 1 April – 30 June)

| | Group | | Company | |
|--|---------------|---------------|--------------|--------------|
| | 2011 Q2 | 2010 Q2 | 2011 Q2 | 2010 Q2 |
| Sales | 126,168 | 125,407 | 23,438 | 24,568 |
| Cost of sales | (100,498) | (106,450) | (17,183) | (18,483) |
| Gross profit (loss) | 25,670 | 18,957 | 6,255 | 6,085 |
| General and administrative expenses | (17,712) | (17,028) | (5,081) | (4,032) |
| Other operating income (expenses) | (1,392) | 581 | 31 | 27 |
| Profit (loss) from operations | 6,566 | 2,510 | 1,205 | 2,080 |
| Income from financial and investment activities, net | (408) | 117 | 3,020 | 1,815 |
| Profit (loss) before tax | 6,158 | 2,627 | 4,225 | 3,895 |
| Income tax | (1,131) | 203 | (628) | (527) |
| Net profit (loss) | 5,027 | 2,830 | 3,597 | 3,368 |



Statements of changes in equity

| <u>Group</u> | Share capital | Share premium | Legal reserve | Foreign currency translation | Other reserves | Retained earnings (deficit) | Total | Non-controlling interest | Total |
|--|---------------|---------------|---------------|------------------------------|----------------|-----------------------------|----------------|--------------------------|----------------|
| Balance as of 1 January 2010 | 19,110 | 23,456 | 1,922 | (491) | 6,000 | 21,631 | 71,628 | 851 | 72,479 |
| Net profit for the year | - | - | - | - | - | 9,802 | 9,802 | 4 | 9,806 |
| Income (expenses) for the year recognised directly in equity | - | - | - | (2,188) | - | - | (2,188) | - | (2,188) |
| Total income and (expense) for the year | - | - | - | (2,188) | - | 9,802 | 7,614 | 4 | 7,618 |
| Increase of the Share Capital | 12,500 | 50,374 | - | - | - | - | 62,874 | - | 62,874 |
| Transfer to legal reserve | - | - | 533 | - | - | (533) | - | - | - |
| Dividends declared | - | - | - | - | - | (2,687) | (2,687) | - | (2,687) |
| Balance as of 30 June 2010 | 31,610 | 73,830 | 2,455 | (2,679) | 6,000 | 28,213 | 139,429 | 855 | 140,284 |
| Balance as of 1 January 2011 | 31,610 | 73,830 | 2,455 | (1,712) | 6,000 | 43,346 | 155,529 | 1,396 | 156,925 |
| Net profit for the year | - | - | - | - | - | 10,940 | 10,940 | 97 | 11,037 |
| Income (expenses) for the year recognised directly in equity | - | - | - | (377) | - | - | (377) | - | (377) |
| Total income (expense) for the year | - | - | - | (377) | - | 10,940 | 10,563 | 97 | 10,660 |
| Transfer to legal reserve | - | - | 717 | - | - | (717) | - | - | - |
| Dividends declared | - | - | - | - | - | (7,903) | (7,903) | - | (7,903) |
| Balance as of 30 June 2011 | 31,610 | 73,830 | 3,172 | (2,089) | 6,000 | 45,666 | 158,189 | 1,493 | 159,682 |

| <u>Company</u> | Share capital | Share premium | Legal reserve | Other reserves | Retained earnings (deficit) | Total |
|-------------------------------------|---------------|---------------|---------------|----------------|-----------------------------|----------------|
| Balance as of 1 January 2010 | 19,110 | 23,456 | 1,911 | 6,000 | 17,774 | 68,251 |
| Net profit for the year | - | - | - | - | 8,869 | 8,869 |
| Increase of the Share Capital | 12,500 | 50,374 | - | - | - | 62,874 |
| Transfer to legal reserve | - | - | 533 | - | (533) | - |
| Dividends declared | - | - | - | - | (2,688) | (2,688) |
| Balance as of 30 June 2010 | 31,610 | 73,830 | 2,444 | 6,000 | 23,422 | 137,306 |
| Balance as of 1 January 2011 | 31,610 | 73,830 | 2,444 | 6,000 | 29,604 | 143,488 |
| Net profit for the year | - | - | - | - | 7,534 | 7,534 |
| Transfer to legal reserve | - | - | 717 | - | (717) | - |
| Dividends declared | - | - | - | - | (7,903) | (7,903) |
| Balance as of 30 June 2011 | 31,610 | 73,830 | 3,161 | 6,000 | 28,518 | 143,119 |



Statements of cash flows

| | Group | | Company | |
|---|-----------------|-----------------|----------------|-----------------|
| | 2011 1st half | 2010 1st half | 2011 1st half | 2010 1st half |
| I. Cash flows from (to) operating activities | | | | |
| I.1. Net profit | 11,037 | 9,806 | 7,534 | 8,868 |
| Adjustments for non-cash items: | | | | |
| I.2. Income tax expenses | 2,016 | 1,629 | 1,329 | 1,484 |
| I.3. Depreciation and amortisation | 5,964 | 6,188 | 705 | 577 |
| I.4. Impairment and discounting of accounts receivable | 1,071 | 4,797 | - | - |
| I.5. Financial activity, net | 524 | 302 | (2,974) | (2,068) |
| I.6. (Gain) loss on disposal of property, plant and equipment | (7) | (227) | 3 | 8 |
| | 20,605 | 22,495 | 6,597 | 8,869 |
| Changes in working capital: | | | | |
| I.7. (Increase) decrease in inventories | (502) | (1,047) | (384) | (164) |
| I.8. (Increase) decrease in receivables and other current assets | (11,029) | (8,748) | 18,346 | 2,921 |
| I.9. (Increase) decrease in prepayments | 6,537 | 8,868 | (374) | (2,446) |
| I.10. Increase (decrease) in trade payables and payables to related parties | 997 | (8,283) | (11,454) | (9,262) |
| I.11. Income tax (paid) | (2,347) | (992) | (784) | (340) |
| I.12. Increase (decrease) in advances received and other current liabilities | 1,549 | 2,511 | 2,562 | 4,180 |
| Net cash flows from (to) operating activities | 15,810 | 14,804 | 14,509 | 3,758 |
| II. Cash flows (to) investing activities | | | | |
| II.1. (Acquisition) of non-current assets (except investments) | (561) | (2,409) | (133) | (700) |
| II.2. (Acquisition) of investments in subsidiaries and associates (net of cash acquired in the Group) | (5,745) | (55,968) | - | (55,575) |
| II.3. Interest received | 5 | 18 | 1 | 446 |
| II.4. Dividends received | - | - | 1,865 | 1,935 |
| II.5. Loans repaid (granted) | 1,000 | - | (6,318) | - |
| Net cash flows from (to) investing activities | (5,301) | (58,359) | (4,585) | (53,894) |
| III. Cash flows (to) from financing activities | | | | |
| III.1. Dividends (paid) | (7,903) | (2,494) | (7,903) | (2,494) |
| III.2. Contributions of the shareholders | - | 62,914 | - | 62,873 |
| III.3. Proceeds from loans | 1,210 | (2,791) | 2,840 | 3,958 |
| III.4. (Repayment) of loans and financial lease liabilities | (7,975) | (7,230) | (4,063) | (13,542) |
| III.5. Interest (paid) | (805) | (681) | (722) | (616) |
| Net cash flows from (to) financial activities | (15,473) | 49,718 | (9,848) | 50,179 |
| IV. Net increase (decrease) increase in cash and cash equivalents | (4,964) | 6,163 | 76 | 43 |
| V. Cash and cash equivalents at the beginning of the period | 17,435 | 5,510 | 296 | 425 |
| VI. Cash and cash equivalents at the end of the period | 12,471 | 11,673 | 372 | 468 |



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 City Service group is the market leader in facility management and integrated utility services in the Baltic States. It provides services in the following cities and regions: in the municipalities of Vilnius, Kaunas, Klaipėda, Šiauliai, Alytus, Utena, Marijampolė, Palanga, Trakai, Širvintos, Radviliškis, Neringa, Varėna, Kazlų Rūda, Vilkaviškis, Šilutė and Pagėgiai in Lithuania; in Riga and separate regions in Latvia; in St. Petersburg and Stavropol in the Russian Federation.

1.1. Activities

The Company provides facility management; maintenance and repair of engineering systems; management and renovation of energy resources; technical and energy audit of buildings; waste management and eco-business; maintenance of elevators; maintenance and cleaning of territories.

The most important buildings segment administered by the City Service group: are residential apartment buildings; commercial buildings; public buildings; industrial buildings. The total area of buildings under the management of the Group is 20.1 million sq. m. at present.

1.2. Share Capital of the Company

The share capital of the Company is LTL 31,610 thousand as of 30 June 2011. It is divided into 31,610 thousand ordinary shares with the nominal value of LTL 1 each. All shares of the Company are paid up.

The Company does not have any other classes of shares than ordinary shares mentioned above, there are no any restrictions of share rights or special control rights for the shareholders settled 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.

On 30 June 2011 all 31,610 thousand ordinary shares of the Company are included into the Official List of NASDAQ OMX Vilnius Stock Exchange (ISIN Code of the shares is [LT0000127375](#)). Trading Code of the shares on NASDAQ OMX Vilnius Stock Exchange is CTS1L.

1.3. Shareholders of the Company

On 30 June 2011 the total number of shareholders of the Company was 1982.

Company's shares distribution among shareholders as of 30 June 2011 was the following:

| | Number of shares held | Owned percentage of the share capital and votes, % |
|--|-----------------------|--|
| ICOR UAB | 20,038,895 | 63.39 % |
| “East Capital Asset Management“ AB | 3,167,722 | 10.02 % |
| Genesis Asset Managers, LLP | 1,644,183 | 5.2% |
| Other private and institutional shareholders | 6,759,200 | 21.39 % |
| Total | 31,610,000 | 100 % |



1.4. City Service Group

On 30 June 2011 the City Service AB group consists of City Service AB and the following subsidiaries (hereinafter referred to as „the Group“):

| Company | Country | Share of the stock held by the Group as of 30 June 2011 | Share of the stock held by the Group as of 31 Dec 2010 | Main activities |
|---|------------------------|---|--|---------------------------------------|
| UAB .A.S.A. Vilnius | Lithuania | 100% | - | Collection and removal of waste |
| 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 Ažuolyno 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, St. Petersburg | 100% | 100% | Administration of dwelling-houses |
| ЗАО Сити Сервис | Russia, St. Petersburg | 100% | 100% | Administration of dwelling-houses |
| ОАО Специализированное ремонтно-наладочное управление | Russia, St. Petersburg | 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 Fervėja | Lithuania | 100% | 100% | Dormant |
| UAB Saulės valda | Lithuania | 100% | 100% | Administration of dwelling-houses |
| UAB Eco holding | 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% | 100% | Administration of dwelling-houses |
| UAB Litmilma | Lithuania | 100% | 100% | Administration of dwelling-houses |
| UAB Economus | Lithuania | 49% | 49% | Administration of dwelling-houses |
| UAB Ecoservice | Lithuania | 100% | 100% | Collection and removal of waste |
| UAB Specialus autotransportas | Lithuania | 100% | 100% | Collection and removal of waste |
| UAB Trakų rajono komunalinių įmonių kombinatas | Lithuania | 99.71% | 99.71% | Collection and removal of waste |
| UAB Pagėgių savivaldybės komunalinis ūkis | Lithuania | 66% | 66% | Dormant |
| UAB Šiaulių liftas | Lithuania | 100% | 100% | Elevator installing & tech. support |
| UAB Baltijos liftai | Lithuania | 100% | 100% | Elevator installing & tech. support |
| UAB Baltijos pastatų valdymas | Lithuania | 100% | 100% | Administration of dwelling-houses |
| UAB Baltijos būsto priežiūra | Lithuania | 100% | 100% | Administration of dwelling-houses |
| UAB Skolos LT | Lithuania | 100% | 100% | Debt collection services |
| ООО Жилкомсервис № 3 Фрунзенского района | Russia, St. Petersburg | 80% | 80% | Administration of dwelling-houses |



| | | | | |
|---|------------------------|------|-----|-----------------------------------|
| ООО Жилкомсервис № 2 Невского района | Russia, St. Petersburg | 80% | 80% | Administration of dwelling-houses |
| ООО «Управляющая компания -1» | Russia, Stavropol | 76% | - | Administration of dwelling-houses |
| ООО «ПРОМИНТЕР - управление проектами» | Russia, Stavropol | 100% | - | Administration of dwelling-houses |
| ООО «Управляющая компания -2» | Russia, Stavropol | 76% | - | Administration of dwelling-houses |
| ООО «Управляющая компания -3» | Russia, Stavropol | 76% | - | Administration of dwelling-houses |
| ООО «Управляющая компания -4» | Russia, Stavropol | 76% | - | Administration of dwelling-houses |
| ООО «Управляющая компания -5» | Russia, Stavropol | 76% | - | Administration of dwelling-houses |
| ООО «УК -5» | Russia, Stavropol | 100% | - | Administration of dwelling-houses |
| ООО «Управляющая компания -6» (legal entity code 2635085674) | Russia, Stavropol | 76% | - | Administration of dwelling-houses |
| ООО «Управляющая компания -6» (legal entity code 2635105070) | Russia, Stavropol | 100% | - | Administration of dwelling-houses |
| ООО «Жилищная Управляющая компания № 6» | Russia, Stavropol | 100% | - | Administration of dwelling-houses |
| ООО «Объединенная управляющая компания – 7» | Russia, Stavropol | 100% | - | Administration of dwelling-houses |
| ООО «Обслуживающая управляющая компания-7» | Russia, Stavropol | 100% | - | Administration of dwelling-houses |
| ООО «Управляющая компания – 8» (legal entity code 2635105218) | Russia, Stavropol | 100% | - | Administration of dwelling-houses |
| ООО «Управляющая компания – 8» (legal entity code 2635085459) | Russia, Stavropol | 76% | - | Administration of dwelling-houses |
| ООО «Управляющая компания – 10» | Russia, Stavropol | 100% | - | Administration of dwelling-houses |
| ООО «Строительная компания «Город» | Russia, Stavropol | 100% | - | Administration of dwelling-houses |
| ООО«Городские системы» | Russia, Stavropol | 100% | - | Administration of dwelling-houses |

The Group's and the Company's investment in an associate as of 30 June 2011 included an investment in Būsto Administravimo Agentūra UAB (37% of the share capital), which was acquired on 7 November 2005, and in Marijampolės butų ūkis UAB (34% of the share capital), which was acquired on 16 May 2011. After the reporting period The Company has acquired another 49 % of Būsto Administravimo Agentūra UAB shares. Further information about the transaction is described below (see paragraph 14).

1.5. Company's Board

As of 30 June 2011, the Board of the Company comprises of the following persons:

| Name and surname | Position | Start of term | End of term |
|--------------------------|----------------|-----------------|-----------------|
| Andrius Janukonis | Board Chairman | October 6, 2009 | October 6, 2013 |
| Gintautas Jaugielavičius | Board Member | October 6, 2009 | October 6, 2013 |
| Darius Leščinskas | Board Member | October 6, 2009 | October 6, 2013 |
| Žilvinas Lapinskas | Board Member | April 30, 2010 | October 6, 2013 |

They do not control any shares of the Company.



1.5. Company's Board (cont'd)

Andrius Janukonis

Andrius Janukonis (born in 1971) is the Chairman of the Board of AB City Service (since 2009). He holds a Master's degree in Law. He works as a consultant for ICOR UAB and is the chairman of the board of the company (since 2004). Andrius Janukonis is a shareholder of ICOR UAB. Within the report term the Company has paid 200 thousands litas tantiemes to this Board Member for the work at the Company's Board in the year of 2010.

Gintautas Jaugielavičius

Gintautas Jaugielavičius (born in 1971) is a Member of the Board of AB City Service (since 2005). He holds a Bachelor's degree in Economics. At present, he works as a consultant for ICOR UAB and is a member of the board of the company (since 2004). Gintautas Jaugielavičius is a shareholder of ICOR UAB. Within the report term the Company has paid 200 thousands litas tantiemes to this Board Member for the work at the Company's Board in the year of 2010.

Darius Leščinskas

Darius Leščinskas (born in 1968) is a Member of the Board of AB City Service (since 2009). He holds a Master's degree in Law. At present, he works as a consultant for ICOR UAB and is a member of the board of the company (since 2004). Darius Leščinskas is a shareholder of ICOR UAB. Within the report term the Company has paid 200 thousands litas tantiemes to this Board Member for the work at the Company's Board in the year of 2010.

Žilvinas Lapinskas

Refer described below (note 1.6). Within the report term the Company has paid 200 thousands litas tantiemes to this Board Member for the work at the Company's Board in the year of 2010.

1.6. Company's Management

As of 30 June 2011 and as of date of submission of this report, the key managers of the Company and of the Group are as follows:

| Name and surname | Position within the Company | Start of employment |
|--------------------|---|---------------------|
| Žilvinas Lapinskas | General Manager, the Board member | March 1999 |
| Jonas Janukėnas | Financial and Administrative Director | May 2007 |
| Vytautas Turonis | Executive Manager for Lithuania | May 2004 |
| Tomas Augutavičius | Chairman of the Board of City Service group in Russia | June 2006 |
| Edvinas Paulauskas | Commercial Director | February 2005 |

They do not control any shares of the Company.



1.6. Company's Management (cont'd)

Žilvinas Lapinskas

Žilvinas Lapinskas (born in 1976) is the General Manager of AB City Service (since 2004). He completed business administration studies. He started working in the Company in 1999 and worked as the Commercial Manager (1999–2002) and the Facilities Management Department Head (2002–2004).

At present, the main task of the General Manager is the management of the expansion of the Group in Lithuania and abroad.

Jonas Janukėnas

Jonas Janukėnas (born in 1976) is the Financial and Administrative Manager of AB City Service (since 2007). He holds a Master's degree in Business Administration. Prior to coming to work at the Company, he worked as the Senior Auditor and Risk Management Consultant at the Vilnius division of Andersen (1998–2001) and the Financial Manager of UAB Litesko (2001–2007).

The Finance and Administrative Manager Jonas Janukėnas is responsible for the management of financial resources of the Group and for supervision of the administrative staff, IT projects implementation and Lean 6 Sigma project.

Vytautas Turonis

Vytautas Turonis (born in 1972) is the Executive Manager for Lithuania of AB City Service (since 2008). He holds a Bachelor's degree in International Business. Previously he worked as the Marketing Manager of UAB Specialus Autotransportas (2003–2004). He started to work in the Company as the Market Development Department Manager (2004–2008).

Vytautas Turonis is responsible for the Group's activities throughout Lithuania.

Tomas Augutavičius

Tomas Augutavičius (born 1973 m.) is the Chairman of the Board of City Service group in Russia (since 2009). He holds a Bachelor degree in technology. He started working in the Company as Head of Kaunas Department (2006 - 2009).

The Chairman of the Board of City Service group in Russia Tomas Augutavičius is responsible for activities of companies operating in Russia.

Edvinas Paulauskas

Edvinas Paulauskas (born in 1976) is the Commercial Manager of AB City Service (since 2008). He holds a Bachelor's degree in Environment Engineering. Edvinas Paulauskas started working in the Company in 2005 and worked as the Project Manager (2005-2006) and Executive Manager (2006-2008).

At present, the Commercial Manager Edvinas Paulauskas is responsible for the facility management projects of commercial and public establishments.



1.7. Activity and Segment Information

Information on main activity segments:

| | 2011 1st half | | | 2010 1st half | | |
|------------------|--|----------------------------|-------------------------|--|----------------------------|-------------------------|
| | Heating infrastructure renovation, extra works | Buildings' administration | | Heating infrastructure renovation, extra works | Buildings' administration | |
| | | Resale of utility services | Administration services | | Resale of utility services | Administration services |
| Revenue: Company | 2,315 | - | 54,816 | 9,149 | - | 49,898 |
| Revenue: Group | 2,315 | 106,306 | 159,469 | 9,149 | 117,622 | 136,931 |

Information on main geographical segments for the Group:

| | 2011 1st half | | 2010 1st half | |
|-------------------|---------------|------------|---------------|------------|
| | Baltic states | CIS States | Baltic states | CIS States |
| Revenue | 99,836 | 168,254 | 97,323 | 166,379 |
| Net profit (loss) | 8,987 | 2,050 | 9,064 | 742 |

Main activity indicators for the Group:

| | 2011 1st half | 2010 1st half | Change (%) |
|---|---------------|---------------|------------|
| Area of multi-flat apartment buildings under administration (million square meters) | 17.4 | 15.6 | 12% |
| Area of public. commercial building and a typical properties under administration (million square meters) | 2.7 | 2.6 | 4% |
| Number of employees | 3,292 | 3,328 | (1)% |
| Sales for the period* | 268,090 | 263,702 | 2% |
| Pardavimai (pagrindinė veikla)* | 161,784 | 146,080 | 11% |
| Gross margin* | 30.2% | 29.4% | 3% |
| EBITDA margin* | 12.1% | 11.4% | 6% |
| EBIT margin* | 8.4% | 7.2% | 17% |
| Net margin* | 6.8% | 6.7% | % |
| Number of shares (thousand) | 31,610 | 31,610 | - |
| Return on equity | 7.0% | 9.2% | (24)% |
| Return on assets | 3.2% | 3.5% | (8)% |
| Financial Net Debt to equity** | 12% | 18% | (36)% |

* Calculated by reducing sales for the resale of utility services.

** Interest bearing debt (net of cash balance) to Shareholders' equity.

2. Accounting Policies

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



3. Goodwill

| | <u>Group</u> |
|--|----------------------|
| Cost: | |
| Balance as of 1 January 2010 | 38,074 |
| Additions | 27,331 |
| Disposals | (1,948) |
| Exchange differences | 548 |
| Balance as of 31 December 2010 | <u>64,005</u> |
| Additions | 6,559 |
| Exchange differences | 9 |
| Balance as of 30 June 2011 | <u>70,573</u> |
| Impairment: | |
| Balance as of 1 January 2010 | 290 |
| Impairment for the year | - |
| Balance as of 31 December 2010 | <u>290</u> |
| Impairment for the year | - |
| Balance as of 30 June 2011 | <u>290</u> |
| Net book value as of 30 June 2011 | <u>70,283</u> |
| Net book value as of 31 December 2010 | <u>63,715</u> |

Acquisitions during the six months of the year 2011

During January – February 2011 the Company has acquired a group of private companies in the city of Stavropol, Russia. The group consists of 17 separate companies. The value of the contract is the RUB 68.5 million. The acquired companies manage approximately 2 million square meters of residential buildings.

On the 1st of February 2011 the Company's subsidiary „Eco holding“ UAB has acquired 100 % shares of .A.S.A. Vilnius UAB, legal entity code 300730461, which provides services of collection and removal of waste. The value of the contract is LTL 100 thousand.

On 16 of May 2011 the 34 % of "Marijampolės butų ūkis", UAB shares were acquired. "Marijampolės butų ūkis", UAB maintains services of administration of dwelling-houses in Marijampolė district. The value of the contract is LTL 563 thousand.

At the acquisition of these subsidiaries preliminary goodwill of LTL 6,559 thousand has been accounted for. The estimation of goodwill will be adjusted at the year-end by subtracting the intangible asset amount.

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

| | Group Companies in Stavropol | .A.S.A. Vilnius UAB |
|---|---|--------------------------------|
| Date of acquisition | 1 February, 2011 | 1 February, 2011 |
| Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group | (367) | 91 |
| Goodwill | 6,238 | - |
| Total purchase consideration | 5,871 | 91 |
| Cash acquired | 964 | 53 |
| Total purchase consideration, net of cash acquired | 4,907 | 38 |



4. Other Intangible Assets

Movement of other intangible assets of the Group during the six months of 2011 and 2010 is presented below:

| | <u>Group</u> | <u>Company</u> |
|---|----------------------|-------------------|
| Cost: | | |
| Balance as of 1 January 2010 | 57,991 | 392 |
| Additions arising from acquisitions of subsidiaries | 24,730 | - |
| Additions | 812 | 790 |
| Disposals of subsidiaries | (3,978) | - |
| Disposals | (2) | (2) |
| Exchange differences | 21 | - |
| Retirements | (106) | (24) |
| Balance as of 31 December 2010 | <u>79,468</u> | <u>1,156</u> |
| Additions arising from acquisitions of subsidiaries | 28 | - |
| Additions | 107 | 63 |
| Disposals | (141) | (1) |
| Exchange differences | - | - |
| Retirements | (85) | (15) |
| Reclassifications | 363 | - |
| Balance as of 30 June 2011 | <u>79,740</u> | <u>1,203</u> |
| Accumulated amortisation: | | |
| Balance as of 1 January 2010 | 3,097 | 355 |
| Charge for the year | (1) | 41 |
| Disposals | (106) | - |
| Retirements | (159) | (24) |
| Balance as of 31 December 2010 | <u>4,810</u> | <u>372</u> |
| Charge for the year | 1,590 | 58 |
| Disposals | (15) | (15) |
| Balance as of 30 June 2011 | <u>6,385</u> | <u>415</u> |
| Net book value as of 30 June 2011 | <u>73,355</u> | <u>788</u> |
| Net book value as of 31 December 2010 | <u>74,658</u> | <u>784</u> |

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



5. Property, Plant and Equipment

Movement of the property, plant and equipment during the six months of 2011 and 2010 can be specified as follows:

| Group | Other property, plant and equipment | | | | Total |
|---|-------------------------------------|---------------|-------------------------------------|--------------------------|---------------|
| | Buildings | Vehicles | Other property, plant and equipment | Construction in progress | |
| Cost: | | | | | |
| Balance as of 1 January 2010 | 22,653 | 6,263 | 3,673 | 544 | 33,133 |
| Additions arising from acquisitions of subsidiaries | 1,335 | 12,681 | 6,220 | 564 | 20,800 |
| Additions | - | 3,050 | 4,588 | 1,146 | 8,784 |
| Disposals | (367) | (672) | (166) | - | (1,205) |
| Exchange differences | - | 145 | 56 | - | 201 |
| Retirements | - | (227) | (3,393) | (687) | (4,307) |
| Balance as of 31 December 2010 | 23,621 | 21,240 | 10,978 | 1,567 | 57,406 |
| Additions arising from acquisitions of subsidiaries | 27 | 148 | 1,072 | - | 1,247 |
| Additions | - | 4,686 | 2,065 | 56 | 6,807 |
| Disposals | (587) | (272) | (204) | - | (1,063) |
| Exchange differences | - | (7) | (12) | 1 | (18) |
| Retirements | - | (193) | (784) | (636) | (1,613) |
| Reclassifications | 254 | - | - | (363) | (109) |
| Balance as of 30 June 2011 | 23,315 | 25,602 | 13,115 | 625 | 62,557 |
| Accumulated depreciation: | | | | | |
| Balance as of 1 January 2010 | 1,499 | 2,599 | 1,804 | - | 5,902 |
| Charge for the year | 1,127 | 3,270 | 3,465 | - | 7,862 |
| Disposals | (55) | (356) | (145) | - | (556) |
| Exchange differences | - | 39 | 37 | - | 76 |
| Retirements | - | (255) | (3,437) | - | (3,692) |
| Balance as of 31 December 2010 | 2,571 | 5,297 | 1,724 | - | 9,592 |
| Charge for the year | 550 | 1,931 | 1,885 | - | 4,366 |
| Disposals | (72) | (237) | (123) | - | (432) |
| Exchange differences | - | (2) | (1) | - | (3) |
| Retirements | - | (147) | (314) | - | (461) |
| Reclassifications | 59 | - | - | - | 59 |
| Balance as of 30 June 2011 | 3,108 | 6,842 | 3,171 | - | 13,121 |
| Net book value as of 30 June 2011 | 20,207 | 18,760 | 9,943 | 626 | 49,536 |
| Net book value as of 31 December 2010 | 21,050 | 15,943 | 9,254 | 1,567 | 47,814 |



6. Investment Property

Movement of the Groups's investment property during the six months of 2011 and 2010 is presented below:

| | Buildings |
|--|------------------|
| Cost: | |
| Balance as of 1 January 2010 | 730 |
| Balance as of 31 December 2010 | 730 |
| Reclassifications to property, plant and equipment | (254) |
| Balance as of 30 June 2011 | 476 |
| Accumulated depreciation: | |
| Balance as of 1 January 2010 | 121 |
| Charge for the year | 20 |
| Balance as of 31 December 2010 | 141 |
| Charge for the year | 6 |
| Reclassifications to property, plant and equipment | (59) |
| Balance as of 30 June 2011 | 88 |
| Net book value as of 30 June 2011 | 388 |
| Net book value as of 31 December 2010 | 589 |

Investment property includes part of office building in Vilnius and premises in Alytus owned by UAB 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 30 June 2011 is estimated by the management to approximately LTL 500 thousand.

As of 30 June 2011 investment property of the Group with a net book value of LTL 388 thousand was pledged to banks as collateral for the loans.

7. Investments to Subsidiaries

The Company's investments into subsidiaries as of 30 June 2011 and 31 December 2010 are as follows:

| | 30 June, 2011 | 31 December, 2010 |
|---|----------------------|--------------------------|
| Cost of investments at the beginning of the year | 127,774 | 45,419 |
| 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 |
| Acquisition of UAB Economus | - | 481 |
| Disposal of Atidumas UAB to Ūkvedys UAB | - | (3,413) |
| Legal compensation received for investment in UAB Ažuolyno valda* | - | (843) |
| Impairment of investment in TOB Kiev City Service | - | (87) |
| Cost of investments at the period end | 127,774 | 127,774 |

*After a litigation process in 2010 the Company received a compensation from Klaipėda city municipality for the acquisition of UAB Ažuolyno 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.



8. Borrowings

Borrowings of the Group and the Company as of 30 June 2011 and 31 December 2010 were as follows:

| Creditor | Currency of the loan | Amount of the loan (in currency of the loan) | Final repayment date | Group | | Company | |
|---|----------------------|--|----------------------|-------------------------------------|---|-------------------------------------|---|
| | | | | Balance as of 30 June 2011 (in LTL) | Balance as of 31 December 2010 (in LTL) | Balance as of 30 June 2011 (in LTL) | Balance as of 31 December 2010 (in LTL) |
| Current loans | | | | | | | |
| Swedbank, AB (overdraft) | EUR | 1,448 | 17.08.2012 | 4,582 | 5,000 | 4,583 | 5,000 |
| Swedbank, AB (overdraft) | LTL | 5,000 | 17.08.2012 | 1,368 | 4,465 | 1,368 | 4,465 |
| DnB NORD bankas, AB (UAB Ecoservice)* | EUR | 435 | 30.11.2012 | 899 | 1,388 | - | - |
| Group Account (eliminated in the consolidated group accounts)** | Unspecified | Unspecified | Unspecified | - | - | 6,536 | 4,953 |
| Current loan balance | | | | 6,849 | 10,853 | 12,487 | 14,418 |
| Non-current loans | | | | | | | |
| Swedbank, AB | EUR | 10,486 | 09.08.2015 | 29,091 | 27,775 | 29,091 | 27,775 |
| UAB Bionovus (UAB Ecoservice) | LTL | 2,177 | 31.12.2012 | 763 | 1,218 | - | - |
| AS UniCredit Bank (UAB .A.S.A. Vilnius) | EUR | 309 | 15.01.2013 | 1,067 | - | - | - |
| Less: current portion of non-current borrowings | | | | (7,116) | (7,116) | (7,116) | (7,116) |
| Non-current loan balance | | | | 23,805 | 21,877 | 21,975 | 20,659 |

* Due to loan agreement conditions, stating that the bank has the right to claim the loan amount at any time, the loan is classified as current loan.

** Based overdraft facility agreement signed on 25 August 2008 with the Company, its subsidiaries operating in Lithuania and with Swedbank, AB, the Group can utilise net cash balances of the Company and its subsidiaries operating in Lithuania as inter-group borrowings.

For the loan and overdraft facility the Company and its subsidiaries have pledged to the bank real estate and bank accounts of the Company and its subsidiaries in Lithuania.

9. Cost of Sales

| | Group | | Company | |
|---|----------------|----------------|---------------|---------------|
| | 2011 1st half | 2010 1st half | 2011 1st half | 2010 1st half |
| Services of subcontractors and materials used | 179,707 | 183,716 | 30,688 | 33,588 |
| Wages and salaries and social security | 33,985 | 32,770 | 10,814 | 9,446 |
| Cost of goods sold | 693 | 1,729 | 412 | 3 |
| Depreciation | 2,657 | 2,166 | - | - |
| Other | 2,112 | 421 | - | - |
| Total cost of sales | 219,154 | 220,802 | 41,914 | 43,037 |



10. General and Administrative Expenses

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2011 1st half | 2010 1st half | 2011 1st half | 2010 1st half |
| Wages and salaries and social security | 18,195 | 14,103 | 3,602 | 3,188 |
| Allowance for and write-off of receivables | 1,071 | 4,797 | - | - |
| Depreciation and amortisation | 3,307 | 4,017 | 706 | 577 |
| Commissions for collection of payments | 2,483 | 1,643 | 965 | 875 |
| Rent of premises and other assets | 1,366 | 1,223 | 516 | 566 |
| Consulting and similar expenses | 1,323 | 992 | 484 | 431 |
| Fuel expenses | 604 | 713 | 125 | 82 |
| Communication expenses | 626 | 664 | 128 | 120 |
| Advertising | 785 | 620 | 423 | 401 |
| Taxes other than income tax | 282 | 607 | 57 | 25 |
| Business trips and training | 470 | 548 | 349 | 449 |
| Utilities | 642 | 480 | 192 | 165 |
| Computer software maintenance | 486 | 378 | 20 | 21 |
| Charity and support | 302 | 303 | 237 | 256 |
| Transportation | 602 | 295 | 91 | 75 |
| Bank payments | 253 | 272 | 11 | 17 |
| Insurance | 286 | 222 | 86 | 67 |
| Representational costs | 301 | 183 | 245 | 118 |
| Other | 2,548 | 1,486 | 1,157 | 341 |
| Total general and administrative expenses | 35,932 | 33,546 | 9,394 | 7,774 |

11. Other Operating Income (expenses), net

| | Group | | Company | |
|---|---------------|---------------|---------------|---------------|
| | 2011 1st half | 2010 1st half | 2011 1st half | 2010 1st half |
| Income from rent | 318 | 141 | 235 | 21 |
| Gain on disposal of property, plant and equipment | (7) | 227 | 3 | 1 |
| Other income | 2,662 | 2,153 | 55 | 273 |
| Other expenses | (2,390) | (1,347) | (259) | (268) |
| Total other operating activity | 583 | 1,174 | 34 | 27 |



12. Finance Income and (expenses), net

| | Group | | Company | |
|---------------------------------|----------------|---------------|----------------|---------------|
| | 2011 1st half | 2010 1st half | 2011 1st half | 2010 1st half |
| Interest income | 312 | 37 | 842 | 758 |
| Dividend income | - | - | 2,947 | 1,935 |
| Foreign currency exchange gain | 549 | 1,648 | 2 | 46 |
| Other financial income | 164 | 33 | 86 | 1 |
| Total finance income | 1,025 | 1,718 | 3,877 | 2,740 |
| Interest (expenses) | (836) | (657) | (825) | (625) |
| Foreign currency exchange loss | (650) | (144) | (28) | (19) |
| Other financial (expenses) | (73) | (10) | (18) | (6) |
| Total finance (expenses) | (1,559) | (811) | (871) | (650) |
| Financial activity, net | (534) | 907 | (3,006) | 2,090 |

13. Related Party Transactions

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

- UAB Lag&d – the ultimate shareholder of the Company since 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 ir 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 during the first half of 2011 was sold for the net book value.

The sales price for the intercompany subsidiary 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 set-off against payables / receivables to / from a respective related party.



13. Related Party Transactions (cont'd)

2011 first half

| Group | Purchases | Sales | Receivables and prepayments | Loans granted | Payables (long and short-term) |
|--------------------------------|---------------|--------------|-----------------------------|---------------|--------------------------------|
| UAB ICOR | 1,322 | 17 | - | - | 663 |
| Subsidiaries of UAB ICOR | | | | | |
| AB Axis Industries | 3,003 | 548 | 52 | - | 948 |
| Other subsidiaries of UAB ICOR | 541 | 985 | 678 | - | 860 |
| Management of the Company | - | 24 | 43 | 774 | - |
| Shareholders of the Company | - | 2 | 24 | - | - |
| Other related parties | 12,182 | 3,132 | 1,309 | - | 4,074 |
| Total | 17,048 | 4,708 | 2,106 | 774 | 6,545 |

2011 first half

| Company | Purchases | Sales | Receivables and prepayments | Loans granted | Payables |
|---|---------------|---------------|-----------------------------|---------------|--------------|
| UAB ICOR | 837 | 17 | - | - | 409 |
| Subsidiaries of UAB ICOR: | | | | | |
| AB Axis industries | 3,001 | 535 | 50 | - | 751 |
| Other subsidiaries of UAB Rubicon Group | 27 | 807 | 562 | - | - |
| Subsidiaries of the Company | 4,130 | 12,267 | 36,294 | - | 1,234 |
| Management of the Company | - | 24 | 43 | 774 | - |
| Shareholders of the Company | - | 2 | 24 | - | - |
| Other related parties | 12,182 | 3,132 | 1,309 | - | 4,068 |
| Total | 20,177 | 16,784 | 38,282 | 774 | 6,462 |

14. Subsequent Events

On July 27 City Service AB has acquired 5,676 (49.92 %) shares of Būsto Administravimo Agentūra UAB. The shares were acquired after receipt of authorization from the Competition Council of the Republic of Lithuania under the share purchase agreement. The price of the share purchase transaction is LTL 689,500. Currently City Service AB owns 87.12% of Būsto Administravimo Agentūra UAB shares. Būsto Administravimo Agentūra UAB manages 220 thousand sq. m. of apartment buildings in Kaunas city (Lithuania).

