

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 2008
(not audited)

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

Balance sheet

	Group		Company	
	As of 30 June 2008	As of 31 December 2007	As of 30 June 2008	As of 31 December 2007
Assets				
Non-current assets				
Goodwill	17,228	11,686	-	-
Other intangible assets	806	765	101	118
Property, plant and equipment	18,241	14,336	2,403	2,366
Investments into subsidiaries	-	-	27,447	17,736
Investments into associates	220	220	220	220
Non-current financial assets receivables and prepayments	813	1,163	-	73
Deferred income tax asset	651	553	201	201
Total non-current assets	37,959	28,723	30,372	20,714
Current assets				
Inventories	3,198	1,649	2,157	1,218
Prepayments	4,368	5,356	1,653	4,774
Prepayment to related parties	-	171	-	171
Trade receivables	45,176	50,154	14,716	24,553
Receivables from related parties (including loans granted)	9,028	11,487	32,022	29,045
Other receivables and current assets	4,611	5,270	1,115	1,385
Cash and cash equivalents	9,859	20,082	1,950	14,551
Total current assets	76,240	94,169	53,613	75,697
Total assets	114,199	122,892	83,985	96,411



Balance sheet (cont'd)

	Group		Company	
	As of 30 June 2008	As of 31 December 2007	As of 30 June 2008	As of 31 December 2007
Equity and liabilities				
Equity attributable to equity holders of the Company				
Share capital	19,110	19,110	19,110	19,110
Reserves and share premium	24,517	24,517	24,506	24,506
Foreign currency translation	(64)	(54)	-	-
Retained earnings (deficit)	13,770	12,096	10,422	10,510
	57,333	55,669	54,038	54,126
Minority interests	260	240	-	-
Total equity	57,593	55,909	54,038	54,126
Liabilities				
Non-current liabilities				
Non-current borrowings and financial lease obligations	782	586	576	415
Deferred income tax liabilities	1,209	792	-	-
Non-current payables	148	112	-	-
Total non-current liabilities	2,139	1,490	576	415
Current liabilities				
Current portion of non-current borrowings and financial lease obligations, short term loans	4,334	703	4,216	554
Trade payables	26,781	31,590	8,611	12,951
Payables to related parties	7,833	7,294	9,234	9,142
Advances received	8,134	17,800	4,375	14,836
Other current liabilities	7,385	8,106	2,935	4,387
Total current liabilities	54,467	65,493	29,371	41,870
Total equity and liabilities	114,199	122,892	83,985	96,411



Income statement

	Group		Company	
	2008 IIQ	2007 IQ	2008 IIQ	2007 IQ
Sales	114,087	70,293	61,773	48,770
Cost of sales	(94,091)	(55,900)	(52,516)	(39,788)
Gross profit (loss)	19,996	14,393	9,257	8,982
General and administrative expenses	(14,377)	(8,917)	(7,563)	(5,053)
Other operating income (expenses)	(82)	150	239	301
Profit (loss) from operations	5,537	5,626	1,933	4,230
Income from financial and investment activities, net	(52)	64	1,440	47
Profit (loss) before tax	5,485	5,690	3,373	4,277
Income tax	(753)	(1,068)	(334)	(768)
Net profit (loss)	4,732	4,622	3,039	3,509
Attributable to:				
The shareholders of the Company	4,712	4,604	3,039	3,509
Minority interests	20	18	-	-
	4,732	4,622	3,039	3,509



Statement of changes in equity

Group	Share capital	Legal reserve	Share premium	Foreign currency translation	Retained earnings (deficit)	Total	Minority interest	Total
Balance as of 31 December 2006	10,500	1,061	-	(15)	19,309	30,855	615	31,470
Net profit for the year	-	-	-	-	11,015	11,015	36	11,051
Income (expenses) for the year recognised directly in equity	-	-	-	(39)	-	(39)	-	(39)
Increase in share capital from retained earnings	6,500	-	-	-	(6,500)	-	-	-
Increase in share capital by issuing shares publicly	2,110	-	25,215	-	-	27,325	-	27,325
Share issue transaction costs	-	-	(1,759)	-	-	(1,759)	-	(1,759)
Dividends declared	-	-	-	-	(12,074)	(12,074)	-	(12,074)
Acquisition of minority	-	-	-	-	346	346	(411)	(65)
Balance as of 31 December 2007	19,110	1,061	23,456	(54)	12,096	55,669	240	55,909
Net profit for the period	-	-	-	-	4,712	4,712	20	4,732
Dividends declared	-	-	-	-	(3,058)	(3,058)	-	(3,058)
Income (expenses) for the period recognised directly in equity	-	-	-	(10)	-	(10)	-	(10)
Balance as of 30 June 2008	19,110	1,061	23,456	(64)	13,750	57,313	260	57,573



Cash flow statement

	Group	
	2008 IIQ	2007 IIQ
I. Cash flows from (to) operating activities		
I.1. Net profit	4,732	4,622
Adjustments for non-cash items:		
I.2. Income tax expenses	753	1,068
I.3. Depreciation and amortisation	941	644
I.4. Impairment and discounting of accounts receivable	353	-
I.5. Goodwill impairment and negative goodwill recognized, net	-	-
I.6. Financial activity, net	52	64
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Changes in working capital:		
I.12. (Increase) in inventories	(1,484)	(3,257)
I.13. Decrease in receivables and other current assets	10,686	9,700
I.14. Decrease (increase) in prepayments	1,175	(6,625)
I.15. (Decrease) in trade payables and payables to related parties	(5,301)	(11,480)
I.16. Income tax (paid)	(687)	(1,440)
I.17. (Decrease) increase in advances received and other current liabilities	(12,975)	16,431
Net cash flows from (to) operating activities	(1,755)	9,727
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II. Cash flows (to) investing activities		
II.1. (Acquisition) of non-current assets (except investments)	(1,339)	(1,762)
II.2. (Acquisition) of investments in subsidiaries and associates (net of cash acquired in the Group)	(7,997)	(2,089)
II.3. Decrease in other financial assets	73	-
II.4. Dividend received	-	-
II.5. Interest received	140	125
Net cash flows (to) investing activities	(9,123)	(3,726)
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III. Cash flows (to) from financing activities		
III.1. Dividends (paid)	(3,058)	(1,500)
III.2. Proceeds from IPO, net of issuance cost	-	24,917
III.3. Proceeds from loans, net	3,756	(5,261)
III.4. Interest (paid)	(43)	(189)
Net cash flows from (to) financial activities	655	17,967
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IV. Net (decrease) increase in cash and cash equivalents	(10,223)	23,968
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V. Cash and cash equivalents at the beginning of the period	20,082	4,972
VI. Cash and cash equivalents at the end of the period	9,859	28,940



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

On 30 June 2008 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 2008	Share of the stock held by the Group as of 31 December 2007	Main activities
UAB Žaidas	Lithuania	99%	99%	Administration of dwelling-houses
UAB Vingio valdos	Lithuania	100%	100%	Administration of dwelling-houses
UAB Buitis be rūpesčių	Lithuania	100%	100%	Administration of dwelling-houses
UAB Sostinės Naujienos	Lithuania	100%	100%	Dormant
UAB Ažuolyno valda	Lithuania	100%	100%	Administration of dwelling-houses
UAB Marių valdos	Lithuania	100%	100%	Administration of dwelling-houses
UAB Pempininkų valdos	Lithuania	87.3%	87.3%	Administration of dwelling-houses
UAB Mūsų namų valdos	Lithuania	100%	100%	Administration of dwelling-houses
* UAB Namų priežiūros centras	Lithuania	100%	100%	Administration of dwelling-houses
** UAB Pašilaita	Lithuania	100%	100%	Administration of dwelling-houses
ОАО Сити Сервис	Russia	100%	100%	Administration of dwelling-houses
ЗАО Сити Сервис	Russia	100%	100%	Administration of dwelling-houses
ОАО „Спец РНУ“ (full name – ОАО Специализированное ремонтно-наладочное управление)	Russia	100%	100%	Construction and engineering
SIA Riga City Service	Latvia	100%	100%	Administration of dwelling-houses
ZAT Kiev City Service	Ukraine	100%	100%	Administration of dwelling-houses
UAB Sinsta	Lithuania	100%	100%	Dormant
UAB Fervėja	Lithuania	100%	100%	Dormant
UAB Atidumas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Ūkvedys	Lithuania	100%	100%	Administration of dwelling-houses
***UAB Šiaulių butų remonto tarnyba	Lithuania	100%	100%	Construction
UAB Lazdynų būstas	Lithuania	100%	-	Administration of dwelling-houses
UAB Šilutės butų ūkis	Lithuania	99.84%	19.82%	Administration of dwelling-houses

* UAB Namų priežiūros centras is owned 100% by UAB Sinsta

** UAB Pašilaita is owned 100% by UAB Namų priežiūros centras

*** UAB Šiaulių butų remonto tarnyba is owned 100% by UAB Atidumas

As it is indicated in the Group subsidiaries table, the Group has been enlarged by Lazdynų būstas UAB, company code 121449348, and Šilutės butų ūkis UAB, company code 177000697. The Company previously controlled 19.82 percent of UAB Šilutės butų ūkis shares which were acquired from the other shareholders in period from 27 February 2007 to 27 April 2007.

Lazdynų būstas UAB exercises administration of dwelling-houses in Lazdynai district, Vilnius, Lithuania. Šilutės butų ūkis UAB exercises administration of dwelling-houses in Šilutė town and region, Lithuania.

The Group's and the Company's investment in an associate as of 30 June 2007 included an investment in Būsto Administravimo Agentūra UAB (37% of share capital), which was acquired on 7 November 2005.

The Company in the previous financial statements and announcements has provided information on the litigation between the controlling shareholder of Būsto administravimo agentūra UAB and the Company. On the day of submission of these financial statements the dispute regarding acquisition of the said shares is settled in Company's favour.



The dispute was initiated by the main shareholder of the said company in order to contest the legality of acquisition of the shares. On the 11th of December, 2007, the Lithuanian Court of Appeals which had considered the dispute in appeal passed the decision favourable to the Company and rejected the demands of the main shareholder of the company. The controlling shareholder of Busto administravimo agentura UAB has appealed the Appeal Court decision to the High Court of Lithuania (delivered the cassation appeal, as it is settled in Lithuanian law). On 9 May 2008 The High Court of Lithuania decreed favourable to the Company the supreme and non-appealed decision under which the decision of the Appeal Court was left unchanged.

Structure of the Company share capital

The share capital of the Company is LTL 19,110 thousand as of 30 June 2008. It is divided into 19,110 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 2008 all 19.110.000 ordinary shares of the Company are included into Official List of Vilnius Stock Exchange (ISIN Code of the shares is LT0000127375). Trading Code of the shares on Vilnius Stock Exchange is CTS1L.

Activity and segment information

Information on main activity segments:

	2008 IIQ			2007IIQ		
	Heating infrastructure renovation	Buildings' administration	Resale of utility services	Heating infrastructure renovation	Buildings' administration	Resale of utility services
Pajamos: Bendrovė	22,147	-	39,626	18,787	-	29,983
Pajamos: Grupė	22,147	18,952	72,988	18,787	-	51,405

Information on main geographical segments for the Group:

	2008 IIQ		2007IIQ	
	Baltic states	CIS States	Baltic states	CIS States
Revenue	79,669	34,418	56,002	14,291
Net profit (loss)	3,249	1,483	4,181	441



Activity and segment information (cont'd)

Main activity indicators for the Group:

	2008 IIQ	2007 IIQ	Change (%)
Area of multi-flat apartment buildings under administration (million square meters)	8.9	6.7	33%
Area of public, commercial building and atypical properties under administration (million square meters)	2.2	2.0	10%
Number of employees	1,595	1,344	19%
Sales for the period	114,087	70,293	62%
Sales for the period*	95,135	70,293	35%
Gross margin*	21.0%	20.5%	2%
EBITDA margin*	6.8%	8.9%	-24%
EBIT margin*	5.8%	8.1%	-28%
Net margin*	5.0%	6.6%	-24%
Number of shares (thousand)	19,110	17,000	33%
Return on equity	8%	12%**	
Return on assets	4%	5%	
Financial Net Debt to equity***	N/A****	N/A****	

* Calculated by reducing sales for the resale of utility services

** Including prepayment for the share capital

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

**** As of 30 June 2008 and 31 December 2007 cash balance of the Group exceeded interest bearing debt.

2 Accounting policies

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

Interim report is prepared using the same principles as for annual consolidated report for 2007.

3 Prepayments and advances received

Prepayments as of 30 June 2008 for the Group and for the Company mainly comprise prepayments to subcontractors related with heat infrastructure renovation for an amount of LTL 953 thousand (LTL 4,774 thousand as of 31 December 2007).

Advances received as of 30 June 2008 for the Group and for the Company comprise advances received from clients for heat facility renovation projects in progress for and amount of LTL 4,616 thousand (LTL 14,813 thousand as of 31 December 2007).

4. Subsequent events

On 26 August 2008 Company concluded credit contract and overdraft facility contract with Hansabankas AB for the total amount of LTL 30,000 thousand. Expansion of the Group and other Company's investment projects shall be financed by the money received.

On 27 August 2008 Company acquired 100 % share stock of Vilko pėda UAB, company code 121480265. Vilko pėda UAB manages 310 thousand square meters of residential facilities in Vilnius, Lithuania.

