

# CITYSERVICE

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**CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED  
30 JUNE, 2016  
(UNAUDITED)**

**City Service SE**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS PERIOD ENDED 30 JUNE, 2016  
(UNAUDITED)**

|                                   |   |
|-----------------------------------|---|
| Beginning of the reporting period | 1 January 2016  |
| End of the reporting period       | 30 June 2016  |
| Business name                     | City Service SE   |
| Registration number               | 12827710  |
| Legal address                     | Narva mnt. 5, 10117 Tallinn, the Republic of<br>Estonia           |
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| Website                           | <a href="http://www.cityservice.eu">http://www.cityservice.eu</a> |
| Auditor                           | Ernst & Young Baltic AS   |

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## Declaration of the management

City Service SE Management Board member hereby confirms that to the best of his knowledge, the interim consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and the half-year management report gives a true and fair view of activity results, assets, liabilities, financial position, profit or loss and cash flow of City Service SE and the Group as well. To his knowledge, there are no concealed essential facts herein which may influence the value of the shares.

Member of the Board

 Jonas Janukėnas

31 August 2016

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|                                      | Notes | As of 30<br>June 2016 | As of 31<br>December 2015 |
|--------------------------------------|-------|-----------------------|---------------------------|
| <b>Assets</b>                        |       |                       |                           |
| <b>NON-CURRENT ASSETS</b>            |       |                       |                           |
| Goodwill                             | 3     | 12,849                | 9,391                     |
| Other intangible assets              | 4     | 18,740                | 19,045                    |
| Property, plant and equipment        | 5     | 17,966                | 18,575                    |
| Investment property                  |       | 455                   | 479                       |
| Investments into associates          |       | 238                   | 238                       |
| Non-current receivables              | 6     | 16,944                | 17,384                    |
| Deferred income tax asset            |       | 5,441                 | 5,155                     |
| <b>Total non-current assets</b>      |       | <b>72,633</b>         | <b>70,267</b>             |
| <b>CURRENT ASSETS</b>                |       |                       |                           |
| Inventories                          |       | 1,711                 | 1,510                     |
| Prepayments                          |       | 1,895                 | 1,495                     |
| Trade receivables                    | 6     | 36,696                | 40,823                    |
| Receivables from related parties     | 13    | 219                   | 106                       |
| Other receivables and current assets |       | 5,870                 | 5,160                     |
| Cash and cash equivalents            |       | 19,134                | 16,858                    |
| <b>Total current assets</b>          |       | <b>65,525</b>         | <b>65,952</b>             |
| <b>Total assets</b>                  |       | <b>138,158</b>        | <b>136,219</b>            |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)**

|   | Notes | As of 30<br>June 2016 | As of 31<br>December 2015 |
|---|-------|-----------------------|---------------------------|
| <b>Equity and liabilities</b>                               |       |                       |                           |
| <b>Equity attributable to equity holders of the Company</b> |       |                       |                           |
| Share capital   |       | 9,483                 | 9,483                     |
| Reserves and share premium                                  |       | 21,067                | 21,067                    |
| Other reserves  |       | 37                    | (226)                     |
| Retained earnings (deficit)                                 |       | 38,360                | 39,811                    |
|   |       | <b>68,947</b>         | <b>70,135</b>             |
| Non-controlling interests                                   |       | 348                   | 434                       |
| <b>TOTAL EQUITY</b>   |       | <b>69,295</b>         | <b>70,569</b>             |
| <b>Liabilities</b>  |       |                       |                           |
| <b>Non-current liabilities</b>                              |       |                       |                           |
| Non-current borrowings                                      | 7     | 15,057                | 13,055                    |
| Financial lease obligations                                 |       | 1,824                 | 1,661                     |
| Deferred income tax liabilities                             |       | 2,719                 | 2,755                     |
| Non-current payables  |       | 617                   | 857                       |
| <b>TOTAL NON-CURRENT LIABILITIES</b>                        |       | <b>20,217</b>         | <b>18,328</b>             |
| <b>Current liabilities</b>                                  |       |                       |                           |
| Current portion of non-current borrowings                   | 7     | 2,413                 | 3,738                     |
| Current portion of financial lease obligations              |       | 690                   | 1,067                     |
| Short-term loans  | 7     | 2,834                 | 2,739                     |
| Trade payables  |       | 15,208                | 15,717                    |
| Payables to related parties                                 | 13    | 994                   | 818                       |
| Advances received   |       | 9,170                 | 7,981                     |
| Other current liabilities                                   |       | 17,337                | 15,262                    |
| <b>TOTAL CURRENT LIABILITIES</b>                            |       | <b>48,646</b>         | <b>47,322</b>             |
| Total liabilities   |       | 68,863                | 65,650                    |
| <b>Total equity and liabilities</b>                         |       | <b>138,158</b>        | <b>136,219</b>            |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** (for the period 1 January – 30 June)

|   | Notes | 2016 1 <sup>st</sup> half | 2015 1 <sup>st</sup> half |
|---|-------|---------------------------|---------------------------|
| <b>Continued operations</b>                               |       |                           |                           |
| Sales   | 1.7   | 83,865                    | 83,739                    |
| Cost of sales   | 8     | (68,530)                  | (66,998)                  |
| <b>Gross profit (loss)</b>                                |       | <b>15,335</b>             | <b>16,741</b>             |
| General and administrative expenses                       | 9     | (13,231)                  | (14,303)                  |
| Other operating income, net                               | 10    | 327                       | 459                       |
| <b>Profit (loss) from operations</b>                      |       | <b>2,431</b>              | <b>2,897</b>              |
| Finance income  | 11    | 481                       | 2,349                     |
| Finance expenses  | 11    | (707)                     | (419)                     |
| Share profit of associates                                |       | -                         | 55                        |
| <b>Profit (loss) before tax</b>                           |       | <b>2,205</b>              | <b>4,882</b>              |
| Income tax  |       | (553)                     | (910)                     |
| <b>Net profit (loss) from continued operations</b>        |       | <b>1,652</b>              | <b>3,972</b>              |
| <b>Discontinued operations</b>                            |       |                           |                           |
| Net profit (loss) from discontinued operations            |       | -                         | (118)                     |
| <b>Net profit (loss)</b>                                  |       | <b>1,652</b>              | <b>3,854</b>              |
| <b>Other comprehensive income</b>                         |       |                           |                           |
| Exchange differences on translation of foreign operations |       | 233                       | 23                        |
| <b>Total comprehensive income</b>                         |       | <b>1,885</b>              | <b>3,877</b>              |
| <b>Attributable to:</b>                                   |       |                           |                           |
| The shareholders of the Company                           |       | 1,740                     | 3,893                     |
| Non-controlling interests                                 |       | (88)                      | (39)                      |
|   |       | <b>1,652</b>              | <b>3,854</b>              |
| <b>Total comprehensive income attributable to:</b>        |       |                           |                           |
| The shareholders of the Company                           |       | 1,973                     | 3,916                     |
| Non-controlling interests                                 |       | (88)                      | (39)                      |
|   |       | <b>1,885</b>              | <b>3,877</b>              |
| <b>Basic and diluted earnings per share (EUR)</b>         |       |                           |                           |
| From continued operations                                 |       | 0.06                      | 0.13                      |
| From discontinued operations                              |       | -                         | (0.00)                    |

**STATEMENTS OF COMPREHENSIVE INCOME** (for the period 1 April – 30 June)

|  | 2016 Q2      | 2015 Q2      |
|--|--------------|--------------|
| <b>Continued operations</b>                        |              |              |
| Sales  | 41,130       | 41,214       |
| Cost of sales                                      | (33,791)     | (32,414)     |
| <b>Gross profit (loss)</b>                         | <b>7,339</b> | <b>8,800</b> |
| General and administrative expenses                | (6,849)      | (8,240)      |
| Other operating income, net                        | 298          | 197          |
| <b>Profit (loss) from operations</b>               | <b>788</b>   | <b>757</b>   |
| Finance income                                     | 97           | 46           |
| Finance expenses                                   | (549)        | (162)        |
| <b>Profit (loss) before tax</b>                    | <b>336</b>   | <b>641</b>   |
| Income tax   | (114)        | (65)         |
| <b>Net profit (loss) from continued operations</b> | <b>222</b>   | <b>576</b>   |
| <b>Discontinued operations</b>                     |              |              |
| Net profit from discontinued operations            | -            | 61           |
| <b>Net profit</b>                                  | <b>222</b>   | <b>637</b>   |



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

|  | No-<br>tes | Share<br>capital | Share<br>premium | Foreign<br>currency<br>translation<br>reserve | Other<br>reserves | Retained<br>earnings | Discon-<br>tinued<br>operations | Total         | Non-<br>controlling<br>interest | Total         |
|--|------------|------------------|------------------|---|-------------------|----------------------|---------------------------------|---------------|---------------------------------|---------------|
| <b>Balance as of 1<br/>January 2015</b>                        |            | <b>9,155</b>     | <b>21,383</b>    | <b>(914)</b>                                  | <b>2,656</b>      | <b>32,671</b>        | <b>(343)</b>                    | <b>64,608</b> | <b>600</b>                      | <b>65,208</b> |
| Net profit   |            | -                | -                | -   | -                 | 3,893                | -                               | 3,893         | (39)                            | 3,854         |
| Other comprehensive<br>income                                  |            | -                | -                | 23  | -                 | -                    | -                               | 23            | -                               | 23            |
| Total comprehensive<br>income                                  |            | -                | -                | 23  | -                 | 3,893                | -                               | 3,916         | (39)                            | 3,877         |
| Dividends declared   | 12         | -                | -                | -   | -                 | (948)                | -                               | (948)         | -                               | (948)         |
| Effect of euro adoption<br>to share capital                    |            | 12               | -                | -   | -                 | (12)                 | -                               | -             | -                               | -             |
| Reserves of a disposal<br>group classified as<br>held for sale |            | -                | -                | (162)   | -                 | -                    | 162                             | -             | -                               | -             |
| <b>Balance as of 30<br/>June 2015</b>                          |            | <b>9,167</b>     | <b>21,383</b>    | <b>(1,053)</b>                                | <b>2,656</b>      | <b>35,604</b>        | <b>(181)</b>                    | <b>67,576</b> | <b>561</b>                      | <b>68,137</b> |
| <b>Balance as of 1<br/>January 2016</b>                        |            | <b>9,483</b>     | <b>21,067</b>    | <b>(2,882)</b>                                | <b>2,656</b>      | <b>39,811</b>        | <b>-</b>                        | <b>70,135</b> | <b>434</b>                      | <b>70,569</b> |
| Net profit   |            | -                | -                | -   | -                 | 1,740                | -                               | 1,740         | (88)                            | 1,652         |
| Other comprehensive<br>income                                  |            | -                | -                | 233   | -                 | -                    | -                               | 233           | -                               | 233           |
| Total comprehensive<br>income                                  |            | -                | -                | 233   | -                 | 1,740                | -                               | 1,973         | (88)                            | 1,885         |
| Dividends declared   | 12         | -                | -                | -   | -                 | (3,161)              | -                               | (3,161)       | -                               | (3,161)       |
| Acquisition of non-<br>controlling interest                    |            | -                | -                | -   | -                 | -                    | -                               | -             | 2                               | 2             |
| Transfer to legal<br>reserve                                   |            | -                | -                | -   | 30                | (30)                 | -                               | -             | -                               | -             |
| <b>Balance as of 30<br/>June 2016</b>                          |            | <b>9,483</b>     | <b>21,067</b>    | <b>(2,649)</b>                                | <b>2,686</b>      | <b>38,360</b>        | <b>-</b>                        | <b>68,947</b> | <b>348</b>                      | <b>69,295</b> |

## CONSOLIDATED STATEMENT OF CASH FLOWS

|   | Notes | 2016 1 <sup>st</sup> half | 2015 1 <sup>st</sup> half * |
|---|-------|---------------------------|-----------------------------|
| <b>Cash flows from (to) operating activities</b>  |       |                           |                             |
| Net profit from continued operations  |       | 1,652                     | 3,972                       |
| Net (loss) from discontinued operations   |       | -                         | (118)                       |
| <b>Adjustments for non-cash items:</b>  |       |                           |                             |
| Income tax expenses   |       | 553                       | 1,031                       |
| Depreciation and amortisation   | 4,5   | 2,113                     | 1,991                       |
| Impairment and discounting of accounts receivable   |       | 687                       | 856                         |
| Impairment of intangible assets   |       | -                         | (347)                       |
| (Gain) on disposal of property, plant and equipment                                       | 10    | (30)                      | (210)                       |
| (Gain) from sale of investments   |       | -                         | (1,435)                     |
| Other financial activity, net   |       | 245                       | (518)                       |
|   |       | <u>5,220</u>              | <u>5,222</u>                |
| <b>Changes in working capital:</b>  |       |                           |                             |
| (Increase) in inventories   |       | (160)                     | (357)                       |
| Decrease (increase) in receivables and other current assets                               |       | 3,672                     | (344)                       |
| (Increase) in prepayments   |       | (385)                     | (935)                       |
| (Decrease) in trade payables and payables to related parties                              |       | (1,015)                   | (4,647)                     |
| Income tax (paid)   |       | (1,068)                   | (1,264)                     |
| Increase in advances received and other current liabilities                               |       | 3,225                     | 2,098                       |
| <b>Net cash flows from (to) operating activities</b>                                      |       | <u>9,489</u>              | <u>(227)</u>                |
| <b>Cash flows from (to) investing activities</b>  |       |                           |                             |
| (Acquisition) of non-current assets (except investments)                                  | 4,5   | (885)                     | (1,280)                     |
| Proceeds from sale of non-current assets  |       | 52                        | 356                         |
| (Acquisition) of investments in subsidiaries (net of cash acquired in the Group)          |       | (3,476)                   | (1,169)                     |
| Disposal of investments in subsidiaries and associates                                    |       | -                         | 3,498                       |
| Dividends and interest received   |       | 423                       | 449                         |
| <b>Net cash flows from (to) investing activities</b>                                      |       | <u>(3,886)</u>            | <u>1,854</u>                |
| <b>Cash flows from (to) financing activities</b>  |       |                           |                             |
| Dividends (paid)  |       | (3,161)                   | (948)                       |
| Proceeds (repayment) of loans   |       | 774                       | (484)                       |
| (Repayment) of financial lease liabilities  |       | (712)                     | (530)                       |
| Interest (paid)   |       | (326)                     | (481)                       |
| <b>Net cash flows from (to) financing activities</b>                                      |       | <u>(3,425)</u>            | <u>(2,443)</u>              |
| <b>Net increase (decrease) in cash and cash equivalents</b>                               |       | <b>2,178</b>              | <b>(816)</b>                |
| <b>Foreign exchange difference</b>  |       | <b>98</b>                 | <b>118</b>                  |
| <b>Cash and cash equivalents at the beginning of the period (continued operations)</b>    |       | <b>16,858</b>             | <b>13,362</b>               |
| <b>Cash and cash equivalents at the beginning of the period (discontinued operations)</b> |       | <b>-</b>                  | <b>57</b>                   |
| <b>Cash and cash equivalents at the end of the period (continued operations)</b>          |       | <b>19,134</b>             | <b>12,650</b>               |
| <b>Cash and cash equivalents at the end of the period (discontinued operations)</b>       |       | <b>-</b>                  | <b>71</b>                   |

\* Group cash flows for 2015 comprise total consolidated Group, including discontinued operations.

## NOTES TO THE FINANCIAL STATEMENTS

### 1.

#### GENERAL INFORMATION

City Service SE (hereinafter – “the Company”) is a public limited liability company registered in the Republic of Estonia on 2 April 2015, which after conversion has taken over a public limited liability company City Service AS rights and liabilities.

The Company controls corporate group, engaged in provision of facility management and integrated utility services in Western, Central and Eastern Europe. The City Service group is the market leader in facility management and integrated utility services in the Baltic States. It provides services in whole Lithuania, Poland, Spain, Latvia, In the city of St. Petersburg in Russian Federation.

### 1.1.

#### ACTIVITIES

City Service group provides facility management; maintenance and repair of engineering systems; management and renovation of energy resources; technical and energy audit of buildings; maintenance and cleaning of territories and premises; marketplaces administration; security services.

The most important buildings segments, 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 41.5 million sq. m. at present.

During this year City Service group carried on implementing confirmed strategy and was further looking for growth opportunities in Central and Western Europe. Extensive negotiations with potential foreign companies regarding their acquisition, reorganization and implementation according to the Group's business model and standards were carried out.

The Group's areas of activity are relatively stable (core activities include: commercial and residential property administration and cleaning services) and tend not to fluctuate materially throughout the year unless significant acquisitions or divestments of certain subsidiaries occur during the reporting period.

### 1.2.

#### SHARE CAPITAL OF THE COMPANY

The share capital of the Company is EUR 9,483 thousand as of 30 June 2016. It is divided into 31,610 thousand ordinary shares with the nominal value of EUR 0.30 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.

As of 30 June 2016 all 31,610 thousand ordinary shares of the Company are included into the Parallel Market of Warsaw Stock Exchange (ISIN Code of the shares is EE3100126368). Trading Code of the shares on Warsaw Stock Exchange is CTS.

## 1.3.

**SHAREHOLDERS OF THE COMPANY**

On 30 June 2016 the total number of shareholders of the Company was 316.

Company's shares distribution among shareholders who have more than 5% shares of the Company as of 30 June 2016 was the following:

|  | <b>Number of shares held</b> | <b>Owned percentage of the share capital and votes, %</b> |
|--|------------------------------|---|
| ICOR UAB, legal entity code 300021944, address:<br>Konstitucijos av. 7, Vilnius, Lithuania | 26,813,293                   | 84.83 %   |
| Other private and institutional shareholders   | 4,796,707                    | 15.17 %   |
| <b>TOTAL</b>   | <b>31,610,000</b>            | <b>100 %</b>  |

**1.4.**
**CITY SERVICE GROUP**

On 30 June 2016 the City Service group consists of City Service SE and the following subsidiaries (hereinafter referred to as „the Group“):

| Company                          | Region    | Share of the stock held by the Group as of 30 June 2016 | Share of the stock held by the Group as of 30 June 2015 | Main activities  |
|----------------------------------|-----------|---|---|--|
| UAB Alytaus būstas               | Lithuania | 100%  | -   | Administration of dwelling-houses                          |
| UAB Alytaus namų valda           | Lithuania | 76%   | -   | Dormant  |
| UAB Antakalnio būstas            | Lithuania | 100%  | 100%  | Administration of dwelling-houses                          |
| UAB Apkaba                       | Lithuania | -   | 100%  | Administration of dwelling-houses                          |
| UAB Aukštaitijos būstas          | Lithuania | 100%  | 100%  | Administration of dwelling-houses                          |
| UAB Baltijos būsto priežiūra     | Lithuania | 100%  | 100%  | Dormant  |
| UAB Baltijos NT valdymas         | Lithuania | 100%  | 100%  | Real estate management                                     |
| UAB Baltijos transporto valdymas | Lithuania | 100%  | 100%  | Asset management   |
| UAB Baltijos turto valdymas      | Lithuania | 100%  | 100%  | Dormant  |
| UAB Dainavos būstas              | Lithuania | 100%  | 100%  | Administration of dwelling-houses                          |
| UAB Danės būstas                 | Lithuania | 100%  | 100%  | Administration of dwelling-houses                          |
| UAB Economus                     | Lithuania | 100%  | 100%  | Administration of buildings                                |
| UAB Justiniškių būstas           | Lithuania | 100%  | 100%  | Administration of dwelling-houses                          |
| UAB Jūros būstas                 | Lithuania | 100%  | 100%  | Administration of dwelling-houses                          |
| UAB Birštono būstas              | Lithuania | 100%  | 100%  | Dormant  |
| UAB Karoliniškių būstas          | Lithuania | 100%  | 100%  | Administration of dwelling-houses                          |
| UAB Karoliniškių turgus          | Lithuania | 100%  | 100%  | Marketplace administration services                        |
| UAB Kauno centro būstas          | Lithuania | 100%  | 99.33%  | Administration of dwelling-houses                          |
| UAB Konarskio turgelis           | Lithuania | 100%  | 100%  | Marketplace administration services                        |
| UAB Lazdynų butų ūkis            | Lithuania | 100%  | 100%  | Administration of dwelling-houses                          |
| UAB Lazdynų būstas               | Lithuania | 100%  | 100%  | Dormant  |
| UAB Mano aplinka                 | Lithuania | 100%  | 100%  | Maintenance and cleaning of territories and premises       |
| UAB Mano aplinka plus            | Lithuania | 100%  | 100%  | Maintenance and cleaning of territories and premises       |
| UAB Mano Būstas                  | Lithuania | 100%  | 100%  | Commercial real estate management and building maintenance |
| UAB Mano Sauga                   | Lithuania | 99.27%  | 99.27%  | Security services  |

|  |           |        |        |  |
|--|-----------|--------|--------|--|
| UAB Mano sauga LT                            | Lithuania | 100%   | 100%   | Security services  |
| UAB Namų priežiūros centras                  | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Naujamiesčio būstas                      | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Naujosios Vilnios turgavietė             | Lithuania | 100%   | -      | Marketplace administration services                        |
| UAB Nemuno būstas                            | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Nemuno būsto priežiūra                   | Lithuania | -      | 100%   | Dormant  |
| UAB Pastatų priežiūra                        | Lithuania | 100%   | 100%   | Building maintenance                                       |
| UAB Pašilaičių būstas                        | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Pempininkų būstas                        | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Pietinis būstas                          | Lithuania | 100%   | -      | Administration of dwelling-houses                          |
| UAB Radviliškio būstas                       | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Skolos LT                                | Lithuania | 100%   | 100%   | Debt collection services                                   |
| UAB Šiaulių būstas                           | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Šiaulių butų ūkis                        | Lithuania | -      | 100%   | Administration of dwelling-houses                          |
| UAB Šilutės būstas                           | Lithuania | 99.84% | 99.84% | Administration of dwelling-houses                          |
| UAB Vėtrungės būstas                         | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Vilkpėdės būstas                         | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Vilniaus turgus                          | Lithuania | 100%   | 100%   | Dormant  |
| UAB Vingio būstas                            | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Viršuliškių būstas                       | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Žardės būstas                            | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| UAB Žirmūnų būstas                           | Lithuania | 100%   | 100%   | Administration of dwelling-houses                          |
| Administraciones SantaPola S.L.              | Spain     | 100%   | 100%   | Administration of dwelling-houses                          |
| Administracion Urbana y Rural Chorro, S.L.U. | Spain     | 100%   | 100%   | Administration of dwelling-houses                          |
| Afimen administración de finques, S.L.U.     | Spain     | 100%   | 100%   | Administration of dwelling-houses                          |
| Concentra Servicios y Mantenimiento, S.A.    | Spain     | 100%   | 100%   | Commercial real estate management and building maintenance |
| Elche administracion de fincas, S.L.U.       | Spain     | 100%   | 100%   | Administration of dwelling-houses                          |
| SIA City Service                             | Latvia    | 100%   | 100%   | Dormant  |
| SIA Namu serviss APSE                        | Latvia    | 100%   | 100%   | Administration of dwelling-houses                          |
| SIA Riga City Service                        | Latvia    | 100%   | 100%   | Commercial real estate management and building maintenance |

|   |                |      |      |  |
|---|----------------|------|------|--|
| Atrium 21 sp. z o.o.                                | Poland         | 100% | -    | Administration of dwelling-houses                          |
| City Service Poland sp. z o.o.                      | Poland         | 100% | 100% | Dormant  |
| City Service Polska sp. z o.o.                      | Poland         | 100% | 100% | Country holding company                                    |
| City Service Grupa Techniczna sp. z o.o.            | Poland         | 100% | 100% | Building maintenance                                       |
| Concierge - Zarządzanie Nieruchomościami sp. z o.o. | Poland         | 100% | -    | Administration of dwelling-houses                          |
| Dom Best sp. z o. o.                                | Poland         | 100% | -    | Administration of dwelling-houses                          |
| EnergiaOK sp. z o.o.                                | Poland         | 100% | 100% | Sale of electricity  |
| Famix sp. z o.o.                                    | Poland         | 100% | -    | Administration of dwelling-houses                          |
| Gerente - Serwis Nieruchomości sp. z o.o.           | Poland         | 100% | -    | Commercial real estate management and building maintenance |
| Grupa Techniczna 24 sp. z o.o.                      | Poland         | 100% | -    | Dormant  |
| Home Rent sp. z o.o.                                | Poland         | 50%  | -    | Administration of dwelling-houses                          |
| Hoone - Usługi Budowlane sp. z o.o.                 | Poland         | 100% | -    | Construction and engineering                               |
| Parama Blue sp. z o.o.                              | Poland         | 100% | -    | Dormant  |
| Parama Group sp. z o.o.                             | Poland         | 100% | -    | Holding company  |
| Parama Red sp. z o.o.                               | Poland         | 100% | -    | Dormant  |
| Parama Yellow sp. z o.o.                            | Poland         | 100% | -    | Dormant  |
| Parama White sp. z o.o.                             | Poland         | 100% | -    | Dormant  |
| Progresline sp. z o.o.                              | Poland         | 100% | 100% | Administration of dwelling-houses                          |
| Santer Zarządzanie Nieruchomościami sp. z o.o.      | Poland         | 100% | -    | Administration of dwelling-houses                          |
| Skydas - Przeglądy Budowlane sp. z o.o.             | Poland         | 100% | -    | Construction and engineering                               |
| Zespół Zarządców Nieruchomości sp. z o.o.           | Poland         | 100% | 100% | Administration of dwelling-houses                          |
| ОАО Сити Сервис / ОАО City service                  | St. Petersburg | 100% | 100% | Administration of dwelling-houses                          |
| ЗАО Сити Сервис / ЗАО City service                  | St. Petersburg | 100% | 100% | Administration of dwelling-houses                          |
| ОАО Специализированное ремонтно-наладочное          | St. Petersburg | 100% | 100% | Construction and engineering                               |
| ООО МН Групп  | St. Petersburg | 100% | -    | Dormant  |
| ООО Жилкомсервис № 3 Фрунзенского района            | St. Petersburg | 80%  | 80%  | Administration of dwelling-houses                          |
| ООО Чистый дом                                      | St. Petersburg | 100% | 100% | Maintenance and cleaning of territories                    |

|                         |                   |      |     |                                     |
|-------------------------|-------------------|------|-----|-------------------------------------|
| ООО Подъемные механизмы | St.<br>Petersburg | 100% | 99% | Elevator installing & tech. support |
|-------------------------|-------------------|------|-----|-------------------------------------|

The Group's investment in an associate as of 30 June 2016 included an investment in Marijampolės butų ūkis UAB (34% of the share capital).

| Discontinued operations                                    | Region    | Share of the stock held by the Group as of 30 June 2016 | Share of the stock held by the Group as of 30 June 2015 | Main activities                   |
|--|-----------|---|---|-----------------------------------|
| ООО Управляющая компания -1                                | Stavropol | -   | 76%   | Administration of dwelling-houses |
| ООО ПРОМИНТЕР - управление проектами                       | Stavropol | -   | 100%  | Administration of dwelling-houses |
| ООО Управляющая компания -2                                | Stavropol | -   | 76%   | Administration of dwelling-houses |
| ООО Управляющая компания -3                                | Stavropol | -   | 76%   | Administration of dwelling-houses |
| ООО Управляющая компания -4                                | Stavropol | -   | 76%   | Administration of dwelling-houses |
| ООО Управляющая компания -5                                | Stavropol | -   | 76%   | Administration of dwelling-houses |
| ООО УК -5  | Stavropol | -   | 100%  | Administration of dwelling-houses |
| ООО Управляющая компания -6 (legal entity code 2635085674) | Stavropol | -   | 76%   | Administration of dwelling-houses |
| ООО Управляющая компания -6 (legal entity code 2635105070) | Stavropol | -   | 100%  | Administration of dwelling-houses |
| ООО Жилищная Управляющая компания № 6                      | Stavropol | -   | 100%  | Administration of dwelling-houses |
| ООО Управляющая компания – 8                               | Stavropol | -   | 100%  | Administration of dwelling-houses |



1.5.

**COMPANY'S SUPERVISORY BOARD**

As of 30 June 2016, the Supervisory Board of the Company comprises of the following persons:

| Name and surname         | Position                          | Start of term | End of term   |
|--------------------------|-----------------------------------|---------------|---------------|
| Andrius Janukonis        | Chairman of the Supervisory Board | April 8, 2015 | April 9, 2019 |
| Gintautas Jaugielavičius | Member of the Supervisory Board   | April 8, 2015 | April 9, 2019 |
| Artūras Gudelis          | Member of the Supervisory Board   | June 29, 2015 | April 9, 2019 |

The Supervisory Board members do not control any shares of the Company.



**Andrius Janukonis**

Andrius Janukonis (b. 1971) is the Chairman of the Supervisory Board of City Service SE (since 2009 until 2015 the Chairman of the Board). He holds a Master's degree in Law. He works as a consultant for ICOR UAB and is the chairman of the board of ICOR UAB (since 2004).



**Gintautas Jaugielavičius**

Gintautas Jaugielavičius (b. 1971) is a Member of the Supervisory Board of City Service SE (since 2005 until 2015 a Member of the Board). 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 ICOR UAB (since 2004).



**Artūras Gudelis**

Artūras Gudelis (b. 1977) is a Member of the Supervisory Board of City Service SE (since 2015). He holds Bachelor degree in economics and Master in business management.

1.6.

**GROUP'S MANAGEMENT**

As of 30 June 2016 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 |
|-----------------------|--|---------------------|
| Jonas Janukėnas       | A Member of the Management Board (CEO)                     | 2007                |
| Vytautas Turonis      | Executive Manager for Lithuania                            | 2004                |
| Edvinas Paulauskas    | Executive Manager  | 2005                |
| Tomas Kleiva          | Financial Director   | 2006                |
| Anna Górecka – Kolasa | Head of the Group companies, operating in Poland           | 2013                |
| Fernando López Abril  | General Manager of the Group company, operating in Spain   | 2013                |
| Vytautas Junevičius   | Chairman of the Board of group companies in St. Petersburg | 2006                |
| Jonas Šimkevičius     | Member of the Board of Group company, operating in Latvia  | 2005                |

They do not control any shares of the Company.

**Jonas Janukėnas**



Jonas Janukėnas (b. 1976) is a Member of the Board of City Service SE (since 2015) acting as a CEO of the Group. Since 2013 Mr Janukėnas was the General Manager, since 2007 - Financial and Administrative Manager. Mr Janukėnas is also the Chairman of the Board at Mano Būstas UAB (since July, 2012). He holds a Master's degree in Business Administration. Prior to coming to work at the Company, he worked as the Financial Manager of UAB Litesko (2001 – 2007) and Senior Auditor and Risk Management Consultant at the Vilnius division of Andersen (1998 – 2001).

At present, the main task of the Member of the Management Board is to head the Group and take charge of planning and coordination of important development projects in Poland, Spain, as well as other markets in Eastern and Western Europe.

**Vytautas Turonis**



Vytautas Turonis (b. 1972) is the General Manager at Mano Būstas and works as the Executive Manager for Lithuania at City Service SE. 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.

**Edvinas Paulauskas**



Edvinas Paulauskas (b. 1976) is the Executive Manager at City Service SE and Mano Būstas UAB. Previously he worked as the Commercial director (since 2008). Edvinas Paulauskas started working in the Company as the Project Manager (2005 – 2006). He holds a Bachelor's degree in Environment Engineering.

Edvinas Paulauskas is responsible for the Group's activities in the commercial and exploitation departments as well as in the innovation and energy efficiency chapter throughout Lithuania and foreign markets.

## 1.6.

**GROUP'S MANAGEMENT (cont'd)****Tomas Kleiva**

Tomas Kleiva (b. 1979) is the Financial Director of City Service SE (since 2016). Prior to that, T. Kleiva was Financial Director and Executive Manager of the Group's subsidiaries operating in St. Petersburg (2009 – 2016). He started to work in the Group as a Project Manager (2006 – 2009). T. Kleiva has a Master's degree in environmental engineering.

Tomas Kleiva is responsible for the activity of the Group's financial departments.

**Anna Górecka – Kolasa**

Anna Górecka - Kolasa (b. 1975) is the Head of the company City Service Grupa Techniczna sp. z o.o., operating in Poland. A. Górecka – Kolasa has been working for the Group since 2013, prior to that she held positions of Management and Control Director, Chief Analysis Specialist and Deputy Accountant General (2004 – 2013). A. Górecka-Kolasa has a higher education in the area of management and marketing.

A. Górecka-Kolasa is responsible for the Group's activities in Poland.

**Fernando López Abril**

Fernando López Abril (b. 1969) is Director General of the company Concentra Servicios y Mantenimiento. Previously (in 2010 – 2012) he held the position of the company's Business Development Director. Before joining the Group company, F. López Abril was employed as Commercial Director of the company AMS-ALDESA (2007 – 2010), worked as a regional manager for the company CESPА-FERROVIAL (2004 – 2007) and held position of Director of Technological Systems and Nuclear Services Department at the company BORG Service (1999 – 2004). F. López Abril holds the Master of Science degree in agricultural engineering.

F. López Abril is responsible for the Group's activities in Spain.

**Jonas Šimkevičius**

Jonas Šimkevičius (b. 1980) is a Member of the Board of the company Riga City Service operating in Latvia. Previously J. Šimkevičius worked for the company as a Project Manager (2005 – 2007) and before that he held different positions in the companies Limatika (2004 – 2005) and Ranga IV (2002 – 2004). J. Šimkevičius has a Bachelor's degree in constructions engineering.

J. Šimkevičius is responsible for the Group's activities in Latvia.

**Vytautas Junevičius**

Vytautas Junevičius (b. 1965) has been the Chairman of the Board for the City Service Group companies, operating in St. Petersburg, since 2014. Mr. Junevičius commenced his activities in the Group as the Head of Kaunas subsidiary (2007 – 2014). V. Junevičius has a Bachelor's degree in management.

V. Junevičius is responsible for the Group's activities in St. Petersburg.

1.7.

**ACTIVITY AND SEGMENT INFORMATION**

Information on main Group's geographical segments:

| 2016 1 <sup>st</sup> half        | Baltic states | St. Petersburg | Poland | Spain   | Stavropol, discontinued operations | Total         |
|----------------------------------|---------------|----------------|--------|---------|------------------------------------|---------------|
| Revenue:                         | 35,343        | 16,604         | 12,946 | 18,972  | -                                  | 83,865        |
| <b>Total revenue</b>             |               |                |        |         |                                    | <b>83,865</b> |
| Segment results                  | 4,148         | (196)*         | 81**   | (1,160) | -                                  | 2,873         |
| Unallocated expenses             |               |                |        |         |                                    | (442)         |
| <b>Profit from operations</b>    |               |                |        |         |                                    | <b>2,431</b>  |
| Net financial income             |               |                |        |         |                                    | (226)         |
| Profit before income tax         |               |                |        |         |                                    | 2,205         |
| Income tax expenses              |               |                |        |         |                                    | (553)         |
| <b>Net profit for the year</b>   |               |                |        |         |                                    | <b>1,652</b>  |
| <b>Other segment information</b> |               |                |        |         |                                    |               |
| Capital expenditure              | 758           | 11             | 480    | 188     | -                                  | <b>1,437</b>  |

\* Includes EUR 620 thousand negative effect of regulatory changes to resale of utilities.

\*\* Includes EUR 216 thousand costs related with acquisition of new subsidiaries as well as EUR 243 thousand loss arising from development of technical services activities.

| 2015 1 <sup>st</sup> half        | Baltic states | St. Petersburg | Poland | Spain    | Stavropol, discontinued operations | Total         |
|----------------------------------|---------------|----------------|--------|----------|------------------------------------|---------------|
| Revenue:                         | 32,449        | 17,382         | 12,929 | 20,979   | 7,881                              | 91,620        |
| <b>Total revenue</b>             |               |                |        |          |                                    | <b>91,620</b> |
| Segment results                  | 3,062         | 117            | 315*** | (99)**** | (344)                              | 3,051         |
| Unallocated expenses             |               |                |        |          |                                    | (498)         |
| <b>Profit from operations</b>    |               |                |        |          |                                    | <b>2,553</b>  |
| Net financial income             |               |                |        |          |                                    | 2,332         |
| Profit before income tax         |               |                |        |          |                                    | 4,885         |
| Income tax expenses              |               |                |        |          |                                    | (1,031)       |
| <b>Net profit for the year</b>   |               |                |        |          |                                    | <b>3,854</b>  |
| <b>Other segment information</b> |               |                |        |          |                                    |               |
| Capital expenditure              | 1,052         | 73             | 564    | 140      | -                                  | <b>1,829</b>  |

\*\*\* Includes EUR 196 thousand loss, arising from start of technical services activities.

\*\*\*\* Includes EUR 249 thousand redundancy costs.

1.7.

**ACTIVITY AND SEGMENT INFORMATION (cont'd)**

Information on main Group's geographical segments:

|                                    | Baltic states | St. Petersburg | Poland | Spain  | Stavropol, discontinued operations | Total  |
|------------------------------------|---------------|----------------|--------|--------|------------------------------------|--------|
| <b>Sales to external customers</b> |               |                |        |        |                                    |        |
| 2016 1 <sup>st</sup> half          | 35,343        | 16,604         | 12,946 | 18,972 | -                                  | 83,865 |
| 2015 1 <sup>st</sup> half          | 32,449        | 17,382         | 12,929 | 20,979 | 7,881                              | 91,620 |

|                                   | Baltic states | St. Petersburg | Poland | Spain  | Total |        |
|-----------------------------------|---------------|----------------|--------|--------|-------|--------|
| <b>Segment non-current assets</b> |               |                |        |        |       |        |
| As of 30 June 2016                |               | 46,610         | 2,811  | 16,563 | 6,649 | 72,633 |
| As of 30 June 2015                |               | 48,567         | 2,421  | 12,943 | 5,317 | 69,248 |

Main activity indicators for the Group (continued operations):

|  | 2016 1 <sup>st</sup> half | 2015 1 <sup>st</sup> half | Change (%) |
|--|---------------------------|---------------------------|------------|
| Area of residential apartment buildings under administration (million square meters)                     | 27.8                      | 24.3                      | 14.4%      |
| Area of public, commercial building and atypical properties under administration (million square meters) | 13.7                      | 10.6                      | 29.2%      |
| Number of employees  | 5,382                     | 5,452                     | (1.3%)     |
| Sales for the period   | 83,865                    | 83,739                    | 0.2%       |
| Sales (main activity)*   | 73,524                    | 72,563                    | 1.3%       |
| Gross margin*  | 20.9%                     | 23.1%                     | (9.7%)     |
| EBITDA margin*   | 6.2%                      | 6.7%                      | (7.7%)     |
| EBIT margin*   | 3.3%                      | 4.0%                      | (17.2%)    |
| Net margin*  | 2.2%                      | 3.5%***                   | (35.7%)    |
| Number of shares (thousand)  | 31,610                    | 31,610                    | 0.0%       |
| Return on equity   | 2.4%                      | 5.7%                      | (58.2%)    |
| Return on assets   | 1.2%                      | 2.8%                      | (57.3%)    |
| Financial Net Debt to equity**   | 1.7%                      | 12.4%                     | (86.4%)    |

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

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

\*\*\* Excluding result on sale of AWT Holding shares of EUR 1,435 thousand.

2.

**ACCOUNTING POLICIES**

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

In the Interim Financial Statements same accounting policies and methods of computation are followed as compared with the most recent annual financial statements.

Interim Financial Statements are prepared in compliance with International Accounting Standard (IAS) 34 Interim financial reporting.

These Interim Financial Statements were authorised for issue on 31 August 2016 by responsible persons listed in the confirmation, which is attached to the Interim Financial Statements.

3.

**GOODWILL**

**COST:**

|                                |        |
|--------------------------------|--------|
| Balance as of 1 January 2015   | 9,388  |
| Additions                      | 106    |
| Exchange differences           | (19)   |
| Balance as of 31 December 2015 | 9,475  |
| Acquisitions of subsidiaries   | 3,436  |
| Exchange differences           | 22     |
| Balance as of 30 June 2016     | 12,933 |

**IMPAIRMENT**

|                                |    |
|--------------------------------|----|
| Balance as of 1 January 2015   | 84 |
| Balance as of 31 December 2015 | 84 |
| Balance as of 30 June 2016     | 84 |

|  |               |
|--|---------------|
| <b>Net book value as of 30 June 2016</b>     | <b>12,849</b> |
| <b>Net book value as of 31 December 2015</b> | <b>9,391</b>  |

3.

**GOODWILL (cont'd)**

During reporting period the Company acquired Parama Group\* and Dom Best sp. z o.o. At the acquisition of these subsidiaries a provisional goodwill of EUR 3,436 thousand has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from vertical expansion of business. The fair values of the identifiable assets and liabilities of Parama Group\* and Dom Best sp. z o.o. at the date of acquisition were:

| Fair value of assets, liabilities and contingent liabilities of acquired subsidiaries | Parama Group* | Dom Best sp. z o. o. |
|---|---------------|----------------------|
| At the date of acquisition  | 1 April       | 2 June               |
| Intangible assets   | 19            | 3                    |
| Property, plant and equipment   | 7             | 6                    |
| Deferred tax asset  | 10            | -                    |
| Trade receivables   | 142           | 12                   |
| Other current assets  | 243           | 21                   |
| <b>Total assets</b>   | <b>421</b>    | <b>42</b>            |
| Trade payables  | 117           | -                    |
| Other current liabilities   | 26            | 29                   |
| <b>Total liabilities</b>  | <b>143</b>    | <b>29</b>            |
| <b>Total identifiable net assets at fair value</b>                                    | <b>278</b>    | <b>13</b>            |
| attributable to equity holders of the parent  | 276           | 13                   |
| attributable to non-controlling interests   | 2             | -                    |

| Purchase consideration  | Parama Group* | Dom Best sp. z o. o. |
|---|---------------|----------------------|
| At the date of acquisition  | 1 April       | 2 June               |
| Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group | 276           | 13                   |
| Non-controlling interests   | 2             | -                    |
| Goodwill  | 2,903         | 533                  |
| <b>Total purchase consideration</b>   | <b>3,181</b>  | <b>546</b>           |
| Cash acquired   | 232           | 19                   |
| <b>Total purchase consideration, net of cash acquired</b>                                       | <b>2,949</b>  | <b>527</b>           |

At the date of the acquisition, the fair value of the trade receivables was EUR 154 thousand. The gross amount of trade receivables was EUR 206 thousand. The difference between the fair value and the gross amount is allowance for doubtful trade receivables.

\* Parama Group owns these subsidiaries: Atrium 21 sp. z o.o., Concierge - Zarządzanie Nieruchomościami sp. z o.o., Gerente - Serwis Nieruchomości sp. z o.o., Home Rent sp. z o.o., Hoone - Usługi Budowlane sp. z o.o., Parama Blue sp. z o.o., Parama Red sp. z o.o., Parama Yellow sp. z o.o., Parama White sp. z o.o., Skydas - Przeglądy Budowlane sp. z o.o.

**Investments and other changes during the six months of the year 2016**

On 6 January 2016 implementing the tender offer, UAB ICOR acquired 5,877,675 shares of the Company. After the transaction, UAB ICOR owns 26,813,293 ordinary shares of the Company, which provides 84.83% of the authorized capital and voting rights.

On 9 February 2016 reorganization of UAB Žaidas was finished. Method of reorganisation was separation. After separation of property, rights and responsibilities, two new companies UAB Alytaus būstas and UAB Alytaus namų valda were established. After reorganization the name of UAB Žaidas was changed into UAB Kauno centro būstas.

On April 2016 the Company, through its Polish subsidiary, acquired the company Parama Group sp. z o.o. engaged in administration of residential and commercial property as well as technical services for the related properties. Parama Group is a market leader in Warsaw region.

On 1 April 2016 reorganization of the companies UAB Šiaulių namų valda and UAB Apkaba was completed. After the process of reorganization UAB Apkaba was incorporated into UAB Šiaulių namų valda with all the assets, rights and obligations. UAB Apkaba ceased operations and was deregistered. After reorganization UAB Šiaulių namų valda name was changed to UAB Pietinis būstas, director and other contact details did not change.

On 30 April 2016 the Company's shares were delisted from trading on AB Nasdaq Vilnius. The shares of the Company will continue to be listed and traded on the Warsaw Stock Exchange.

On 5 May 2016 reorganization of the companies UAB Žirmūnų būstas and UAB Nemuno būsto priežiūra was completed. After the process of reorganization UAB Nemuno būsto priežiūra was incorporated into UAB Žirmūnų būstas with all the assets, rights and obligations. UAB Nemuno būsto priežiūra ceased operations and was deregistered. After reorganization UAB Žirmūnų būstas director and other contact details did not change.

On 23 May 2016 the Ordinary General Meeting of the Shareholders of the Company has been held. The shareholders approved the set of consolidated annual financial statements of the Company for 2015, distributed the Company's profit for the year 2015 and decided to grant a right to the Company to acquire own shares.

On 2 June 2016 the Company, through its Polish subsidiary, acquired Dom Best sp. z o.o., which manages residential facilities in Poland.



4.

**OTHER INTANGIBLE ASSETS**

Movement of other intangible assets in 2016 1<sup>st</sup> half and 2015 is presented below:

**COST:**

|   |        |
|---|--------|
| Balance as of 1 January 2015                        | 19,501 |
| Additions arising from acquisitions of subsidiaries | 2,915  |
| Additions   | 654    |
| Disposals   | (1)    |
| Exchange differences                                | (265)  |
| Retirements   | (6)    |
| Reclassifications                                   | 161    |
| Balance as of 31 December 2015                      | 22,959 |
| Additions arising from acquisitions of subsidiaries | 21     |
| Additions   | 260    |
| Exchange differences                                | (79)   |
| Reclassifications                                   | 9      |
| Balance as of 30 June 2016                          | 23,170 |

**ACCUMULATED AMORTISATION:**

|                                |       |
|--------------------------------|-------|
| Balance as of 1 January 2015   | 2,898 |
| Charge for the year            | 1,089 |
| Exchange differences           | (67)  |
| Retirements                    | (6)   |
| Balance as of 31 December 2015 | 3,914 |
| Charge for the period          | 583   |
| Exchange differences           | (67)  |
| Balance as of 30 June 2016     | 4,430 |

**Net book value as of 30 June 2016** **18,740**

**Net book value as of 31 December 2015** **19,045**

5.

**PROPERTY, PLAND AND EQUIPMENT**

Movement of fixed assets in 2016 1<sup>st</sup> half and 2015 is presented below:

|   | Buildings    | Vehicles     | Other property, plant and equipment | Construction in progress* | Total         |
|---|--------------|--------------|-------------------------------------|---------------------------|---------------|
| <b>COST:</b>  |              |              |                                     |                           |               |
| Balance as of 1 January 2015                        | 10,647       | 5,620        | 8,993                               | 47                        | 25,307        |
| Additions arising from acquisitions of subsidiaries | 225          | 1            | 4                                   | -                         | 230           |
| Additions   | 261          | 1,454        | 1,454                               | 425                       | 3,594         |
| Disposals   | (1,787)      | (85)         | (52)                                | -                         | (1,924)       |
| Exchange differences                                | 28           | (99)         | (57)                                | -                         | (128)         |
| Retirements   | -            | (23)         | (78)                                | -                         | (101)         |
| Reclassifications                                   | 124          | (1)          | 149                                 | (433)                     | (161)         |
| Balance as of 31 December 2015                      | 9,498        | 6,867        | 10,413                              | 39                        | 26,817        |
| Additions arising from acquisitions of subsidiaries | -            | -            | 12                                  | -                         | 12            |
| Additions   | 56           | 419          | 528                                 | 174                       | 1,177         |
| Disposals   | (15)         | (59)         | (21)                                | -                         | (95)          |
| Exchange differences                                | (74)         | 27           | (204)                               | (2)                       | (253)         |
| Retirements   | -            | -            | (24)                                | -                         | (24)          |
| Reclassifications                                   | 2            | -            | 25                                  | (36)                      | (9)           |
| Balance as of 30 June 2016                          | 9,467        | 7,254        | 10,729                              | 175                       | 27,625        |
| <b>ACCUMULATED DEPRECIATION:</b>                    |              |              |                                     |                           |               |
| Balance as of 1 January 2015                        | 1,768        | 2,474        | 1,680                               | -                         | 5,922         |
| Charge for the year                                 | 448          | 1,106        | 1,438                               | -                         | 2,992         |
| Disposals   | (358)        | (56)         | (45)                                | -                         | (459)         |
| Exchange differences                                | 1            | (63)         | (65)                                | -                         | (127)         |
| Retirements   | -            | (15)         | (71)                                | -                         | (86)          |
| Balance as of 31 December 2015                      | 1,859        | 3,446        | 2,937                               | -                         | 8,242         |
| Charge for the period                               | 189          | 585          | 732                                 | -                         | 1,506         |
| Disposals   | (8)          | (56)         | (12)                                | -                         | (76)          |
| Exchange differences                                | -            | 31           | (22)                                | -                         | 9             |
| Retirements   | -            | -            | (22)                                | -                         | (22)          |
| Balance as of 30 June 2016                          | 2,040        | 4,006        | 3,613                               | -                         | 9,659         |
| <b>Net book value as of 30 June 2016</b>            | <b>7,427</b> | <b>3,248</b> | <b>7,116</b>                        | <b>175</b>                | <b>17,966</b> |
| <b>Net book value as of 31 December 2015</b>        | <b>7,639</b> | <b>3,421</b> | <b>7,476</b>                        | <b>39</b>                 | <b>18,575</b> |

\* Includes prepayments for tangible and intangible assets.

6.

**TRADE RECEIVABLES**

Trade receivables of the Group as of 30 June 2016 and 31 December 2015 were as follows:

|  | Balance<br>as of 30<br>June 2016 | Balance<br>as of 31<br>December 2015 |
|--|----------------------------------|--------------------------------------|
| Trade receivables, gross                       | 44,906                           | 47,675                               |
| Less: allowance for doubtful trade receivables | (8,210)                          | (6,852)                              |
| <b>Trade receivables, net</b>                  | <b>36,696</b>                    | <b>40,823</b>                        |

Trade receivables and other receivables generally have 30 - 90 days payment terms.

Non-current receivables mainly comprise of long-term part of receivables from public customers and long-term part of receivables for residential buildings' repair works performed.

7.

**BORROWINGS**

Borrowings of the Group and the Company as of 30 June 2016 and 31 December 2015 were as follows:

| Creditor                                   | Currency | Balance<br>as of 30<br>June 2016 | Balance<br>as of 31<br>December 2015 |
|--|----------|----------------------------------|--------------------------------------|
| <b>SHORT TERM LOANS</b>                    |          |                                  |                                      |
| Bank loans                                 | EUR      | 2,834                            | 2,681                                |
| Bank loans                                 | PLN      | -                                | 58                                   |
| <b>SHORT TERM LOANS BALANCE</b>            |          | <b>2,834</b>                     | <b>2,739</b>                         |
| <b>LONG TERM LOANS</b>                     |          |                                  |                                      |
| Bank loans                                 | EUR      | 17,470                           | 16,793                               |
| Minus: long term loans of the current year |          | (2,413)                          | (3,738)                              |
| <b>LONG TERM LOANS BALANCE</b>             |          | <b>15,057</b>                    | <b>13,055</b>                        |

For the loans and overdraft the Company and its subsidiaries have pledged to the bank real estate and bank accounts of the Company and its subsidiaries in Lithuania. Shares of UAB Mano Būstas are pledged to Nordea Bank as well.

8.

**COST OF SALES (continued operations)**

|   | 2016 1 <sup>st</sup> half | 2015 1 <sup>st</sup> half |
|---|---------------------------|---------------------------|
| Services of subcontractors and materials used | 38,713                    | 36,720                    |
| Wages and salaries and social security        | 29,235                    | 29,492                    |
| Depreciation                                  | 582                       | 591                       |
| Cost of goods sold                            | -                         | 195                       |
| <b>Total cost of sales</b>                    | <b>68,530</b>             | <b>66,998</b>             |

9.

**GENERAL AND ADMINISTRATIVE EXPENSES (continued operations)**

|  | 2016 1 <sup>st</sup> half | 2015 1 <sup>st</sup> half |
|--|---------------------------|---------------------------|
| Wages and salaries and social security                                   | 6,466                     | 7,007                     |
| Depreciation and amortisation  | 1,507                     | 1,373                     |
| Allowance for and write-off of receivables                               | 639                       | 839                       |
| Rent of premises and other assets  | 616                       | 426                       |
| Consulting and similar expenses  | 592                       | 583                       |
| Commissions for collection of payments                                   | 369                       | 325                       |
| Computer software maintenance  | 263                       | 260                       |
| Advertising  | 248                       | 272                       |
| Consulting and tax expenses related with acquisitions and reorganisation | 234                       | 117                       |
| Taxes other than income tax  | 222                       | 348                       |
| Transportation   | 180                       | 215                       |
| Insurance  | 179                       | 165                       |
| Fuel expenses  | 158                       | 258                       |
| Communication expenses   | 157                       | 155                       |
| Representational costs   | 138                       | 141                       |
| Business trips and training  | 129                       | 180                       |
| Utilities  | 125                       | 93                        |
| Bank payments  | 64                        | 85                        |
| Charity and support  | 33                        | 16                        |
| Other  | 912                       | 1,445                     |
| <b>Total general and administrative expenses</b>                         | <b>13,231</b>             | <b>14,303</b>             |

10.

**OTHER OPERATING INCOME (EXPENSES), NET (continued operations)**

|  | 2016 1 <sup>st</sup> half | 2015 1 <sup>st</sup> half |
|--|---------------------------|---------------------------|
| Income from rent   | 103                       | 87                        |
| Gain (loss) on disposal of property, plant and equipment | 30                        | 210                       |
| Depreciation of rented assets                            | (24)                      | -                         |
| Other income, net  | 218                       | 162                       |
| <b>Total other operating activity</b>                    | <b>327</b>                | <b>459</b>                |

11.

**FINANCE INCOME AND (EXPENSES), NET (continued operations)**

|                                  | 2016 1 <sup>st</sup> half | 2015 1 <sup>st</sup> half |
|----------------------------------|---------------------------|---------------------------|
| Interest income                  | 418                       | 563                       |
| Foreign currency exchange gain   | -                         | 337                       |
| Gain on sale of investments      | -                         | 1,435                     |
| Other financial income           | 63                        | 14                        |
| <b>Total finance income</b>      | <b>481</b>                | <b>2,349</b>              |
| Interest (expenses)              | (330)                     | (405)                     |
| Foreign currency exchange (loss) | (377)                     | -                         |
| Other financial (expenses)       | -                         | (14)                      |
| <b>Total finance (expenses)</b>  | <b>(707)</b>              | <b>(419)</b>              |
| <b>Financial activity, net</b>   | <b>(226)</b>              | <b>1,930</b>              |

12.

**DIVIDENDS PER SHARE**

|                                     | 2016 1 <sup>st</sup> half | 2015 1 <sup>st</sup> half |
|-------------------------------------|---------------------------|---------------------------|
| Approved dividends                  | 3,161                     | 948                       |
| Number of shares (in thousand)      | 31,610                    | 31,610                    |
| <b>Approved dividends per share</b> | <b>0.10</b>               | <b>0.03</b>               |

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 are considered the following:

- Global energy consulting OU (Estonia)– the ultimate shareholder of the Company since 2013;
- UAB Lag&d – controlled by the same ultimate parent;
- UAB ICOR - the shareholder of the Company;
- Subsidiaries of UAB ICOR (same ultimate controlling shareholder);
- Subsidiaries of City Service SE (for the list of the subsidiaries, see also Note 1);
- Mr J. Janukėnas, V. Turonis, E. Paulauskas, V. Junevičius, J. Šimkevičius, A. Górecka – Kolasa, F. López Abril, T. Kleiva (Management of the Group companies);

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 six months of 2016 were sold in accordance of arm's length principle.

The sales price for the intercompany subsidiary purchase and sale transactions are established by the management and shareholders of the UAB ICOR and/or Global energy consulting OU and City Service SE 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.

| 2016 1 <sup>st</sup> half       | Purchases  | Sales      | Receivables and prepayments | Payables (long and short-term) |
|---------------------------------|------------|------------|-----------------------------|--------------------------------|
| UAB ICOR                        | 257        | 5          | -                           | 760                            |
| Subsidiaries of UAB ICOR:       |            |            |                             |                                |
| AB Axis Industries              | 228        | 236        | 52                          | 145                            |
| Other subsidiaries of UAB Lag&d | 104        | 256        | 167                         | 89                             |
| <b>Total</b>                    | <b>589</b> | <b>497</b> | <b>219</b>                  | <b>994</b>                     |

14.

**SUBSEQUENT EVENTS**

On 1 August 2016 the Company, through its Lithuanian subsidiary, established two new companies UAB Šilalės būstas and UAB Neris būstas.

On 8 August 2016 the Company, through its Polish subsidiary, acquired company TED sp. z o.o., which manages residential facilities in Poland. At the moment of issuance of these financial statements Group's management was not able to obtain reliable financial information of the newly acquired company and evaluate fair value of net assets as at the acquisition.

On 8 August 2016 the Company, through its Lithuanian subsidiary, acquired company UAB Toirenta, which provides bio toilets rent and sewage disposal services in Lithuania. At the moment of issuance of these financial statements Group's management was not able to obtain reliable financial information of the newly acquired company and evaluate fair value of net assets as at the acquisition.



**City Service SE**

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# CITYSERVICE

In service of your property

## INTERIM CONSOLIDATED REPORT FOR THE SIX MONTHS OF 2016



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# CITY SERVICE SE

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## INTERIM CONSOLIDATED REPORT FOR THE SIX MONTHS OF 2016

|                                   |   |
|-----------------------------------|---|
| Beginning of the reporting period | 1 January 2016  |
| End of the reporting period       | 30 June 2016  |
| Business name                     | City Service SE   |
| Registration number               | 12827710  |
| Legal address                     | Narva mnt. 5, 10117 Tallinn,<br>the Republic of Estonia           |
| Telephone                         | +370 5 239 49 00  |
| Fax                               | +370 5 239 48 48  |
| E-mail                            | info@cityservice.eu   |
| Website                           | <a href="http://www.cityservice.eu">http://www.cityservice.eu</a> |
| Auditor                           | Ernst & Young Baltic AS   |

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# I. ABOUT THE COMPANY

## I.1. CITY SERVICE GROUP

City Service SE (hereinafter – “the Company”) is a public limited liability company registered in the Republic of Estonia.

The Company controls corporate group, engaged in provision of facility management and integrated utility services in Western, Central and Eastern Europe. The City Service group is the market leader in facil-

ity management and integrated utility services in the Baltic States. It provides services in whole Lithuania, Poland, Spain, Latvia, in St. Petersburg city in Russian Federation.

### THE GROUP COMPANIES' PRINCIPAL AREAS OF ACTIVITIES:



Apartment buildings maintenance



Commercial, industrial and public facility management



Territory cleaning and maintenance



Other activities

The Group (City service SE and its direct and indirect subsidiaries, hereinafter – “The Group“ ) companies perform their activities in strict observance of the applicable environment protection requirements.

At present the Group companies operate in Lithuania, Poland, St. Petersburg, Spain and Latvia. The total area of facilities, administered in the mentioned regions, amounts to 41.5 million sq. m.



## 1.2. STRUCTURE OF THE GROUP

| CITY SERVICE SE               |  |                                 |  |                                |  |   |  |
|-------------------------------|--|---------------------------------|--|--------------------------------|--|---|--|
| LATVIA                        | LITHUANIA                                |                                 |  |                                | POLAND   | ST. PETERSBURG  | SPAIN  |
| 100%<br>SIA City Service      | 100%<br>UAB Alytaus būstas               | 100%<br>UAB Economus            | 99.27%<br>UAB Mano Sauga                 | 100%<br>UAB Šiaulių būstas     | 100%<br>City Service Poland sp. z. o.o.                | 100%<br>ОАО Сити Сервис / ОАО City service                    | 100%<br>Administraciones SantaPola S.L.              |
| 100%<br>SIA Namu serviss APSE | 76%<br>UAB Alytaus namų valda            | 100%<br>UAB Justiniškių būstas  | 100%<br>UAB Mano sauga LT                | 99.84%<br>UAB Šilutės būstas   | 100%<br>City Service Polska sp. z o.o.                 | 100%<br>ЗАО Сити Сервис / ЗАО City service                    | 100%<br>Administracion Urbana y Rural Chorro, S.L.U. |
| 100%<br>SIA Riga City Service | 100%<br>UAB Antakalnio būstas            | 100%<br>UAB Jūros būstas        | 100%<br>UAB Namų priežiūros centras      | 100%<br>UAB Vėtrungės būstas   | 100%<br>City Service Grupa Techniczna sp. z o.o.       | 100%<br>ОАО Специализированное ремонтно-наладочное управление | 100%<br>Afimen administración de finques, S.L.U.     |
|                               | 100%<br>UAB Aukštaitijos būstas          | 100%<br>UAB Kauno centro būstas | 100%<br>UAB Naujamiesčio būstas          | 100%<br>UAB Vilkpėdės būstas   | 100%<br>Dom Best sp. z o. o.                           | 100%<br>ООО МН Групп  | 100%<br>Concentra Servicios y Mantenimiento, S.A.    |
|                               | 100%<br>UAB Baltijos būsto priežiūra     | 100%<br>UAB Karoliniškių būstas | 100%<br>UAB Naujosios Vilnios turgavietė | 100%<br>UAB Vilniaus turgus    | 100%<br>EnergiaOK sp. z o.o.                           | 80%<br>ООО Жилкомсервис № 3 Фрунзенского района               | 100%<br>Elche administracion de fincas, S.L.U.       |
|                               | 100%<br>UAB Baltijos NT valdymas         | 100%<br>UAB Karoliniškių turgus | 100%<br>UAB Nemuno būstas                | 100%<br>UAB Vingio būstas      | 100%<br>Grupa Techniczna 24 sp. z o.o.                 | 100%<br>ООО Чистый дом  |  |
|                               | 100%<br>UAB Baltijos pastatų valdymas    | 100%<br>UAB Konarskio turgelis  | 100%<br>UAB Pastatų priežiūra            | 100%<br>UAB Viršuliškių būstas | 100%<br>Famix sp. z o.o.                               | 100%<br>ООО Подъемные механизмы                               |  |
|                               | 100%<br>UAB Baltijos transporto valdymas | 100%<br>UAB Lazdynų butų ūkis   | 100%<br>UAB Pašilaičių būstas            | 100%<br>UAB Žardės būstas      | 100%<br>Parama Group sp z. o. o. *                     |   |  |
|                               | 100%<br>UAB Baltijos turto valdymas      | 100%<br>UAB Lazdynų būstas      | 100%<br>UAB Pempininkų būstas            | 100%<br>UAB Žirmūnų būstas     | 100%<br>Progresline sp. z o.o.                         |   |  |
|                               | 100%<br>UAB Birštono būstas              | 100%<br>UAB Mano aplinka        | 100%<br>UAB Pietinis būstas              |                                | 100%<br>SANTER Zarządzanie Nieruchomościami sp. z o.o. |   |  |
|                               | 100%<br>UAB Dainavos būstas              | 100%<br>UAB Mano aplinka plus   | 100%<br>UAB Radviliškio būstas           |                                | 100%<br>Zespół Zarządców Nieruchomości sp. z o.o.      |   |  |
|                               | 100%<br>UAB Danės būstas                 | 100%<br>UAB Mano Būstas         | 100%<br>UAB Skolos LT                    |                                |  |   |  |

\*List of companies is provided in the Consolidated interim financial statements for the six months period ended 30 June 2016, Note 3, page 23.

## 2. INTERIM MANAGEMENT REPORT

### 2.1. MAIN AREAS OF ACTIVITY

#### 2.1.1. APARTMENT BUILDINGS ADMINISTRATION

The Group companies provide apartment buildings administration services, i.e. perform all necessary activities in order to preserve collectively used objects and use them according to their purpose. The companies also perform continuous technical maintenance.

The companies undertake supporting the mechanical endurance of principal building structures, eliminating small defects, preventive actions and adjusting the commonly used engineering equipment, ensuring safe use, eliminating emergencies, preventive actions and adjusting heating and hot water supply systems and preparing for the heating season.

The Group provides apartment buildings administration and maintenance services in Lithuania, Poland, Latvia, Spain and the city of St. Petersburg.

**IN LITHUANIA** the Group companies increased the area of maintained buildings by signing new contracts with the building owners. During the first half-year the area of maintained apartment buildings increased by 20 thousand square meters. The largest expansion was performed in Vilnius. At present the total area of maintained buildings reaches 9.6 million sq. m.

9.6  
million m<sup>2</sup>

**IN POLAND** the Group acquired two companies, engaged in provision of apartment buildings maintenance services in Warsaw and Szczecin – Parama Group and Dom Best. The total area of the buildings, administered by these companies, is 1.9 million sq. m. After the acquisition the total area of the administered apartment buildings in Poland grew by approximately 20 percent and at present reaches 12.7 million square meters.

12.7  
million m<sup>2</sup>



Currently Group's management views residential buildings administration market in Poland as one of the primary markets to expand the operations via new acquisitions.

**IN SPAIN** active development was continued in the apartment buildings administration market in the first half of the year. The Group company Santa Pola started providing its services in Yecla and Guadalajara regions. After signing new contracts the total area of maintained apartment buildings increased by 220 thousand sq. m. and at present reaches 1.9 million sq. m.

1.9  
million m<sup>2</sup>

The Group expects to continue dynamic expansion in the residential buildings administration market in Spain via the new acquisitions as the Group's management views it as one of the primary expansion destination.

**IN LATVIA**, during the first half of the year, the total area under management increased by 8 thousand sq. m. Additionally, environment restoration projects were commenced for 10 buildings. Agreements are expected to be signed with 6 more buildings, the total area of which is 12 thousand sq. m. The Group company will continue to implement active expansion measures.

279  
thousand m<sup>2</sup>

At present the area of apartment buildings under management amounts to 279 thousand sq. m.

During the first half of 2016 subsidiaries operating **IN ST. PETERSBURG** maintained the same level of activity comparing with the year-end. The target for the second half of the year is to sign maintenance contracts with two new apartment buildings, after which the total area of maintained buildings is expected to grow by 20 thousand sq. m. At present area under management amounts to 3.3 million sq. m.

3.3  
million m<sup>2</sup>

THE CHANGE OF MAINTAINED APARTMENT BUILDINGS' AREAS THROUGHOUT THE GROUP COMPANIES, MILLION M<sup>2</sup>





## 2.1.2. COMMERCIAL FACILITY MANAGEMENT

The Group companies provide commercial facility management services, ensuring reliable functioning of buildings' systems and lower maintenance costs.

The companies undertake buildings' maintenance from the engineering equipment, management and saving of energy resources to cleaning and security of indoor facilities.

The Group companies provide commercial facility management services in Lithuania, Latvia, Poland and Spain.

**IN LITHUANIA** the range of customers was expanded – 32 contracts were signed. The total area of maintained facilities amounted to almost 3.5 million sq. m.

Complex facility management services were commenced to be provided to shopping and leisure centre Panorama, production facilities cleaning services - to Philip Morris Lietuva. Also the Group company started providing telecommunication cable ducts system inspection services for the telecommunication company TEO, building maintenance services – to newly built section of the shopping valley Nordika.

**IN SPAIN** the Group company started providing engineering systems maintenance services to The National Police Corps premises, located in Madrid region, the travel agency Agencia Española and the University of Alcalá. Complex facility management services were commenced to be provided to the electric utility company Iberdrola, located in Barcelona.

3.5  
million m<sup>2</sup>

6.4  
million m<sup>2</sup>



Currently, commercial property administration market experiences unfavorable conditions due to the fierce competition and inflexible labor regulations. Such reasons led to negative effect on operating result.

At present the area under management amounts to 6.4 million sq. m.

**IN LATVIA** during the first half of the year, the range of commercial segment customers was expanded. A new complex facility management and maintenance contract was signed with the sports clubs operator Lemon Gym. Engineering systems maintenance services were commenced to be provided to one of Latvia's largest concert halls - Lielais Dzintars in Liepaja.



Engineering systems maintenance services were commenced to be provided to the construction materials sales centre Depo Diy and two more shopping centres RIMI.

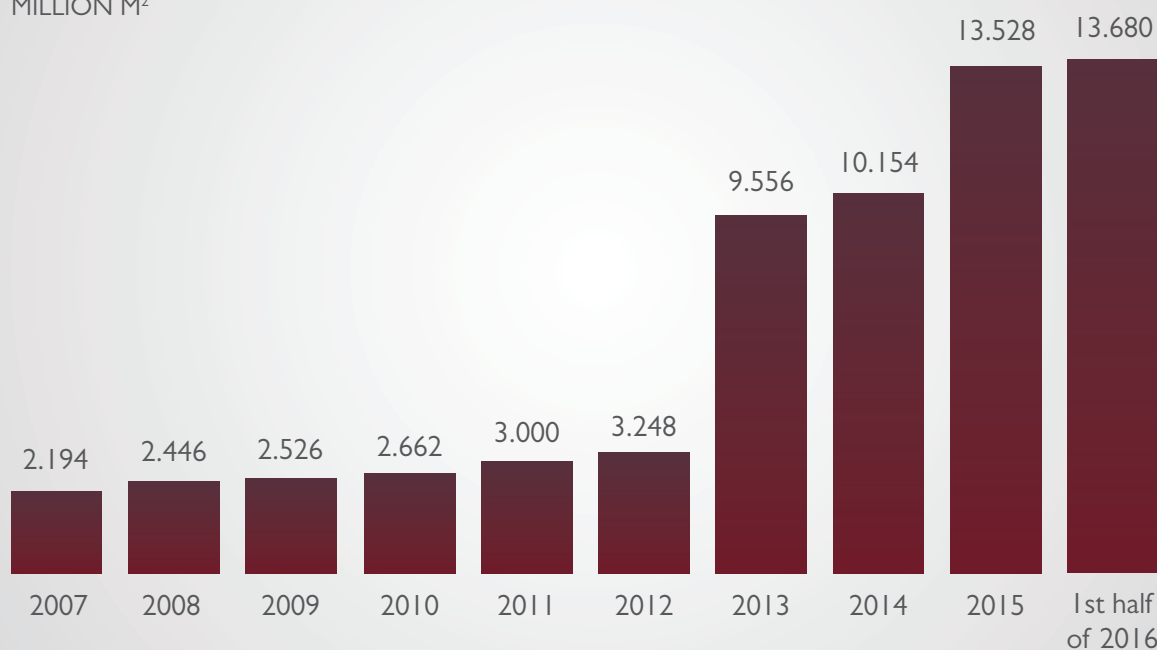
In 2016 the total area of maintained buildings reached almost 0.9 million sq. m.

**IN POLAND** the Group company continued to extend the range of its commercial segment as well as public sector customers. During the first half-year the company signed the contract with Victoria Business Centre and Galeria Manhattan and commenced maintaining the production facilities Łucznik.



The total area of maintained commercial objects reaches 2.9 million sq. m.

THE CHANGE OF COMMERCIAL, PUBLIC AND INDUSTRIAL FACILITIES' AREAS THROUGHOUT THE GROUP COMPANIES, MILLION M<sup>2</sup>





### 2.1.3. TERRITORIES MAINTENANCE AND CLEANING

The Group companies provide full range of territories maintenance and cleaning services: perform cleaning inside premises and outside the buildings, maintain private territories and public spaces in cities and towns. Furthermore, scope of services provided includes: removal of snow, sand and fallen leaves, grass cutting and other special purpose cleaning works. Cleaning and territories maintenance services are provided in Lithuania, Latvia, Spain and the city of St. Petersburg.

**IN LITHUANIA** the Group company provides cleaning and territories maintenance services in Vilnius, Kaunas, Klaipėda, Šiauliai, Biržai, Alytus, Šilutė, Rokiškis and Radviliškis. It ensures cleanliness both in apartment buildings and commercial facilities and also in public spaces in the cities and towns.

This year new contracts were signed with State Enterprise Vilniaus Pilių Direkcija, Public Enterprise Vilniaus Parkai and Lithuanian Academy of Music and Theatre.

In Rokiškis the Group company commenced maintaining the town's rain sewage and lighting systems.

The company continuously expands the range of its services and invests into procurement of new equipment – during the first half of 2016 different equipment was purchased for the amount of EUR 80 thousand.

**IN LATVIA** the Group companies provide cleaning and territories maintenance services to apartment buildings, shopping centres, offices and sports clubs.

**IN SPAIN** the Group company mostly provides inside premises cleaning services to commercial and state-owned facilities. The Group company concluded inside premises cleaning services contracts with National Police Corps regarding its premises in Navarro region and Social insurance institution in Cadiz region. Cleaning services were also commenced to be provided to the offices and shops of the publishing company Grupo Planeta.

Currently, premises cleaning market experiences unfavorable conditions due to the fierce competition and inflexible labor regulations. Such reasons led to negative effect on operating result.

**IN ST. PETERSBURG** the Group company provides territories maintenance and cleaning services to apartment buildings.

## 2.1.4. OTHER SERVICES

Apart from their principal activities, the Group companies in Lithuania, Poland, Latvia and the city of St. Petersburg provide the services of security, debt recovery and maintenance of children's playgrounds, engage in renovation of buildings, production and supply of thermal energy, installation of boiler rooms, retail trade of electric energy and provide the service of administering charges for utility services.

**IN LITHUANIA** the Group companies provide security services to 3,500 customers, performed renovation of 21 buildings and maintain 523 children's playgrounds.

The Group Company, operating **IN LATVIA**, provides assistance in preparation of documents for implementation of renovation projects for 33 buildings.

**IN POLAND** the Group companies engage in production and supply of thermal energy, installation of boiler rooms and retail of electric energy.

**IN ST. PETERSBURG** the Group company provides the service of administering the charges for utility services to 341 apartment buildings.





## 2.2. IMPROVING EFFICIENCY OF ACTIVITIES

The efficient business processes management methodology LEAN was continued to be implemented throughout the Group. Projects were implemented in all regions, where the Group executes its activities, first and foremost – in Lithuania, Spain and St. Petersburg.

**IN LITHUANIA** in the first half of the year most attention was dedicated to ensure the sustainability of results of implemented projects and dissemination of decisions, encouraging sharing and use of good practice throughout the Group. Periodical LEAN project days were organized, the employees were involved into the educational LEAN games and discussions of books in the Book Club. Employees of different levels were further involved into setting of targets, tuned with the Group's strategies, annual action plans were drawn and results follow-up indicators were set. The employees' involvement into the continuous development activities in Lithuania reached 11 per cent.

**IN ST. PETERSBURG** the optimization of departments performance was continued. It had positive impact on sales of additional services. All divisions and units introduced indicators and 100 per cent of top level management participated in the competence measurement process.

**IN SPAIN** Group companies continue to implement improvements in their activity processes. All the top level managers and majority of employees are involved in the processes. In 2016 significant

attention will be dedicated to increase employees' competences.

**IN POLAND** the activity optimization solutions are also continued to be implemented. Thanks to LEAN, the development plans are actively performed, all the top level managers and about 80 per cent of administration employees are involved in the continuous improvement activities. The region displays significant potential, therefore special attention will be dedicated for the improvement of efficiency.

**IN LATVIA** the LEAN methodology was developed through A3 projects, involving more and more employees into the processes.

The LEAN culture became one of the key competitive advantages for the Group therefore in the second half of 2016 the activity improvement processes will further be implemented in all of the Group companies.

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## 2.3. THE MOST SIGNIFICANT INVESTMENTS AND EVENTS

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### JANUARY

On 6 January 2016 implementing the tender offer, UAB ICOR acquired 5,877,675 shares of the Company. After the transaction, UAB ICOR owns 26,813,293 ordinary shares of the Company, which provides 84.83% of the authorized capital and voting rights.

### FEBRUARY

On 9 February 2016 reorganization of UAB Žaidas was finished. Method of reorganisation was separation. After separation of property, rights and responsibilities, two new companies UAB Alytaus būstas and UAB Alytaus namų valda were established. After reorganization the name of UAB Žaidas was changed into UAB Kauno centro būstas.

### APRIL

On April 2016 the Company, through its Polish subsidiary, acquired the company Parama Group sp. z o.o (consisting of 11 companies). Engaged in administration of residential and commercial property as well as technical services for the related properties. Parama Group is a residential buildings administration market leader in Warsaw region.

On 1 April 2016 reorganization of the companies UAB Šiaulių namų valda and UAB Apkaba was completed. After the process of reorganization UAB Apkaba was incorporated into UAB Šiaulių namų valda with all the assets, rights and obligations. UAB Apkaba ceased operations and was deregistered. After reorganization UAB Šiaulių namų valda name was changed to UAB Pietinis būstas, director and other contact details did not change.

On 30 April 2016 the Company's shares were delisted from trading on AB Nasdaq Vilnius. The shares of the Company will continue to be listed and traded on the Warsaw Stock Exchange.

### MAY

On 5 May 2016 reorganization of the companies UAB Žirmūnų būstas and UAB Nemuno būsto priežiūra was completed. After the process of reorganization UAB Nemuno būsto priežiūra was incorporated into UAB Žirmūnų būstas with all the assets, rights and obligations. UAB Nemuno būsto priežiūra ceased operations and was deregistered. After reorganization UAB Žirmūnų būstas director and other contact details did not change.

On 23 May 2016 the Ordinary General Meeting of the Shareholders of the Company has been held. The shareholders approved the set of consolidated annual financial statements of the Company for 2015, distributed the Company's profit for the year 2015 and decided to grant right to the Company to acquire own shares.

### JUNE

On 2 June 2016 the Company, through its Polish subsidiary, acquired Dom Best sp. z o.o., which manages residential facilities in Poland.

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## 2.4. THE MAIN RISKS AND AMBIGUITIES

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In 2016 the market was stable, prices and purchasing power did not decline, in comparison with 2015. Due to heavy competition in facility management market the Group had to concentrate on further efficiency of its activities. Building administration tariffs did not change significantly in a course of the year.

The risks remain similar to last year's: inflation, customers' ability to pay, competition-influenced stricter demands from commercial and residential clients, supply of qualified personnel in the market.

The scope of residential apartment building administration and maintenance services, the essential requirements for service providers, and the tariff calculation procedure are set and regulated in detail by the national and local authorities. Local authorities are empowered to set maximum tariffs for such services, together with the relevant inspectorates they control the proper implementation by service providers of the administration and maintenance requirements set out in legislation, and have a right to impose sanctions for failure to comply with the set requirements. Any claims concerning the services provided may be presented to the authorities or service providers by individual owners as well. Taking into account the aforementioned, additional risk factors in the field of apartment building administration and maintenance include any possible amendments to the enforced legislation, the frequency of adoption of such amendments, resolutions passed by central or local authorities and the results of controls carried out by various inspectorates and local authorities. Timely and correct indexation of the set maximum tariffs is also a risk factor which has an impact on the Group's activities in the field of residential apartment building administration and maintenance.

There were no material changes in the legal regulation of the area of administration and maintenance of apartment buildings in the first half of 2016, and neither there were any decisions providing for significant additional obligations for service providers; supervising institutions did not identify any major deficiencies

in the provision of the services or inconsistencies with the legislative requirements.

### **CREDIT RISK**

The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit. There are no individual customers exceeding 10% of segment sales.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Therefore, the 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, EURIBOR, EONIA and WIBOR, which create an interest rate risk. There are no financial instruments designated to manage the exposure to the interest rate risk outstanding as of 30 June 2016 and 2015.

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## 2.5. THE MAIN FINANCIAL RATIOS CONCERNING THE REPORTING PERIOD

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The main financial ratios concerning the reporting period are provided in the Consolidated interim financial statements for the six months period ended 30 June 2016, Note 1.7, page 21.

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## 2.6. SIGNIFICANT RELATED PARTY TRANSACTIONS

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Significant related party transactions are provided in the Consolidated interim financial statements for the six months period ended 30 June 2016, Note 13, page 30.