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CONSOLIDATED ANNUAL REPORT 2016

CITY SERVICE SE

CONSOLIDATED ANNUAL REPORT FOR 2016

Beginning of the reporting period	1 January 2016
End of the reporting period	31 December 2016
Business name	City Service SE
Registration number	12827710
Legal address	Narva mnt. 5, 10117 Tallinn, the Republic of Estonia
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E-mail	info@cityservice.eu
Website	http://www.cityservice.eu
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 consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and the 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 Tomas Kleiva

28 April 2017

I. CORPORATE PROFILE

1.1. CITY SERVICE CORPORATE GROUP

City Service SE is a holding company. City Service controls a group, engaged in provision of facility management and integrated utility services in Europe.

The Group companies engage in facility management process administration, engineering systems maintenance and repairs, energy resources management and renovation, buildings' technical and energetic auditing, territory cleaning as well as provision of security and debt administration services.

THE GROUP COMPANIES' PRINCIPAL AREAS OF ACTIVITIES:

Apartment buildings administration

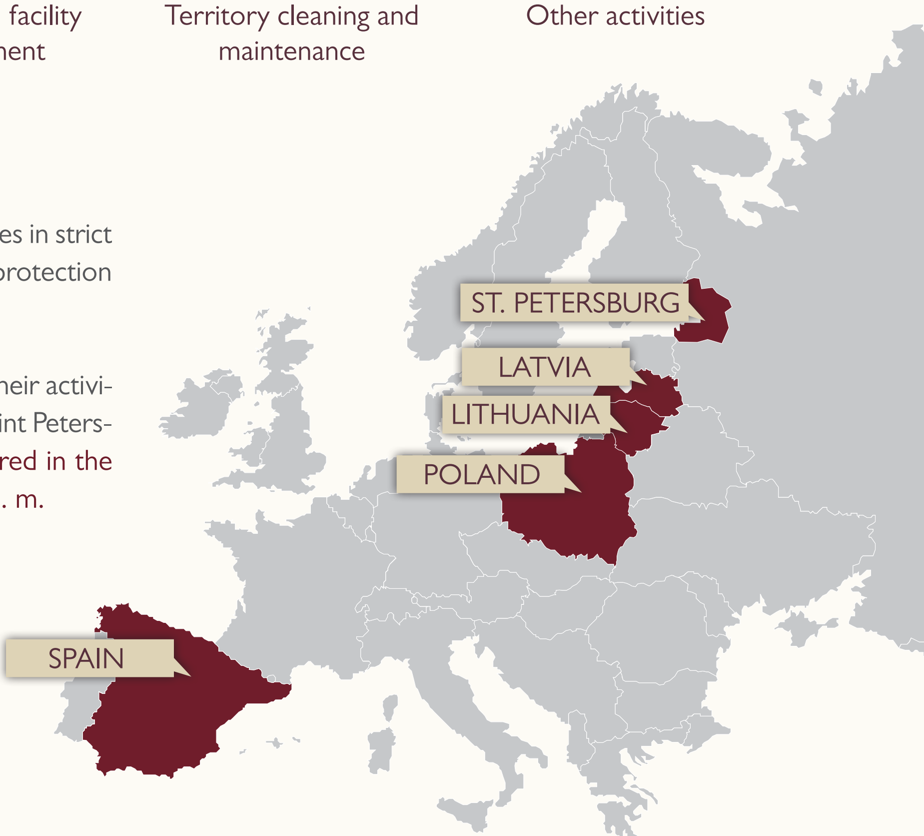
Commercial facility management

Territory cleaning and maintenance

Other activities

The Group companies perform their activities in strict observance of the applicable environment protection requirements.

At present the Group companies perform their activities in Lithuania, Poland, Spain, Latvia and Saint Petersburg. The total area of facilities, administered in the mentioned regions, reaches 41.7 million sq. m.



1.2. STRATEGY AND OBJECTIVES

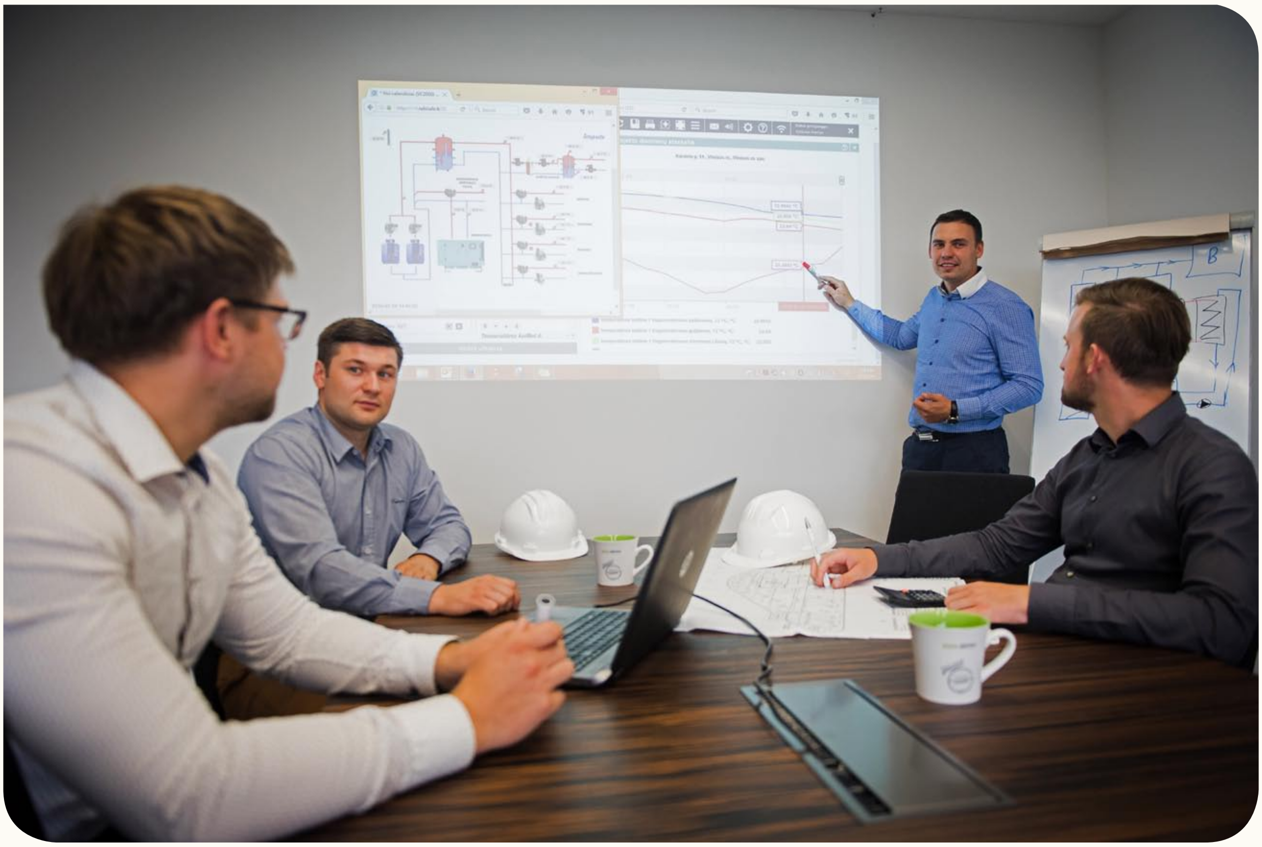
The long-term objective of the City Service Group is development on European markets focusing on integrated utility services.

The Corporate Group implements its development by acquiring promising private and state-owned companies. The acquired companies are reorganized and adjusted to the Group activity model and standards, thus gradually improving the service quality and enhancing profitability.

1.3. MISSION AND VISION

OUR VISION is securing the position of the European market leader and becoming the most innovative and efficient partner and friend to our consumers and attractive employer.

OUR MISSION – to create well-balanced living and working environment by providing comprehensive and innovative services.



1.4. STRUCTURE OF THE GROUP

CITY SERVICE SE

LATVIA	LITHUANIA				POLAND		ST. PETERSBURG	SPAIN
100% SIA CS	100% UAB Alytaus būstas	100% UAB Justiniškių būstas	100% UAB Mano Būsto Sauga	100% UAB Skolos LT	100% Atrium 21 sp. z o.o.	100% Parama Blue sp. z o.o.	100% ОАО Сити Сервис / OAO City service	100% Administraciones SantaPola S.L.
100% SIA City Service	76% UAB Alytaus namų valda	100% UAB Jūros būstas	100% UAB Mano Sauga	100% UAB Šiaulių būstas	100% City Service Poland sp. z. o.o.	100% Parama Group sp z o. o.	100% ЗАО Сити Сервис / ZAO City service	100% Administracion Urbana y Rural Chorro, S.L.U.
100% SIA Namu serviss APSE	100% UAB Antakalnio būstas	100% UAB Kauno centro būstas	100% UAB Mano sauga LT	100% UAB Šilalės butų ūkis	100% City Service Polska sp. z o.o.	100% Parama Red sp. z o.o.	100% ОАО СРНУ [6]	100% Afimen administración de finques, S.L.U.
100% SIA Namserviss	100% UAB Aukštaitijos būstas	100% UAB Karoliniškių būstas	100% UAB Namų priežiūros centras	100% UAB Šilalės būstas	100% City Service Grupa Techniczna sp. z o.o.	100% Parama Yellow sp. z o.o.	100% ООО МН Групп	100% Concentra Servicios y Mantenimiento, S.A.
100% SIA Latvijas Namsaimnieks	100% UAB Baltijos būsto priežiūra	100% UAB Karoliniškių turgus	100% UAB Naujamiesčio būstas	99.84% UAB Šilutės būstas	100% Concierge-ZN[1] sp. z o.o.	100% Parama White sp. z o.o.	80% ООО Жилком-сервис № 3 Фрунзенского района	100% Elche administracion de fincas, S.L.U.
100% SIA L-Namsaimnieks	100% UAB Baltijos NT valdymas	100% UAB Klaipėdos būstas LT	100% UAB Naujosios Vilnios turgavietė	100% UAB Toirenta	100% Dom Best sp. z o. o.	100% Progresline sp. z o.o.	100% ООО Чистый дом	100% Grupo Aresi de Inversiones (SPAIN) S.L.
	100% UAB Baltijos transporto valdymas	100% UAB Konarskio turgelis	100% UAB Nemuno būstas	100% UAB Vėtrungės būstas	100% EnergiaOK sp. z o.o.	100% SANTER ZN[3] sp. z o.o.	100% ООО Подъемные механизмы	
	100% UAB Baltijos turto valdymas	100% UAB Lazdynų butų ūkis	100% UAB Neries būstas	100% UAB Vilkpėdės būstas	100% Famix sp. z o.o.	100% Skydas - PB[4] sp. z o.o.		
	100% UAB Birštono būstas	100% UAB Lazdynų būstas	100% UAB Pastatų priežiūra	100% UAB Vilniaus turgus	100% Gerente - SN[2] sp. z o.o.	100% TED sp. z o.o		
	100% UAB Dainavos būstas	100% UAB Mano aplinka	100% UAB Pašilaičių būstas	100% UAB Viršuliškių būstas	100% Grupa Techniczna 24 sp. z o.o.	100% ZZN[5] sp. z o.o.		
	100% UAB Danės būstas	100% UAB Mano aplinka plius	100% UAB Pietinis būstas	100% UAB Žirmūnų būstas	50% Home Rent sp. z o.o.	100% ZZN Inwestycje sp. z o.o.		
	100% UAB Economus	100% UAB Mano Būstas	100% UAB Radviliškio būstas		100% Hoone - Usługi Budowlane sp. z o.o.			

The Group's investment in an associate as of 31 December 2016 included an investment in Marijampolės butų ūkis UAB (34% of the share capital).

[1] Concierge - Zarządzanie Nieruchomościami sp. z o.o.
[2] Gerente - Serwis nieruchomości sp. z o.o.
[3] SANTER Zarządzanie Nieruchomościami sp. z o.o.
[4] Skydas - Przeglądy Budowlane sp. z o.o.
[5] Zespół Zarządców Nieruchomości sp. z o.o.
[6] ОАО Специализи-рованное ремонтно-наладочное управление

1.5. STAFF

In 2016 the Group dedicated especially significant attention to training of its staff. The top and medium level managers participated in the training on efficient staff management, communicating change in the company, providing feedback, assessing their teams and finding successful management principles.

The Group's employees were provided the possibility to participate in the training, conducted by the Company's own instructors. The training is practice focused therefore the employees have the opportunity to use the received knowledge in their activities outright.

One of the Group's company now has its Internal Instructors Club. The instructors moderate the club by sharing their roles in each specific case.

One of the Group's company also launched its Knowledge Club, which presents different books to the employees. After the presentations discussions are held.

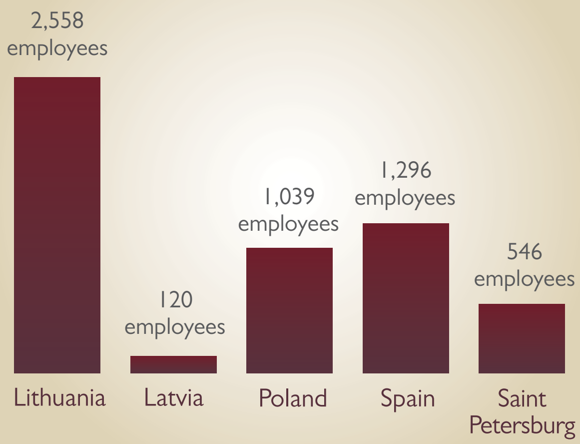
Another important project, which was commenced and implemented during the year, was the Career Academy. According to the agreed criteria the Company identified 73 employees, to whom the growth and development possibilities will be provided.

One of the Group's company participated in AON Hewitt's Best Employers' Survey for the 5th time.

In 2017 the Group will dedicate special attention to implementation of employees' involvement measures.

At present the Group companies have 2,558 employees in Lithuania, 120 in Latvia, 1,039 in Poland, 1,296 in Spain and 546 in Saint Petersburg, Russia.

NUMBER OF EMPLOYEES BY COUNTRY



2. 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 the activities, necessary in order to preserve the collectively used objects and use them according to their purpose and also perform continuous technical maintenance.

The companies take care of 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 Saint Petersburg.

IN LITHUANIA the Group companies increased the area of maintained buildings by signing new contracts with the building owners. The geography of activities also expanded – apartment buildings administration services were commenced to be provided in Šilalė. The Group companies continued dedicating significant attention to strengthening relations with the customers, quality control and development of virtual services. In 2017 the Group plans to commence providing apartment buildings administration services in other towns of Lithuania. At present the total area of maintained buildings reaches 9.75 million sq. m.

9.75

million m^2

IN POLAND the Group acquired three companies: Parama Group in Warsaw, TED in Gdynia and Dom Best in Szczecin. After the acquisition the maintained apartment buildings area increased by 2.2 million sq. m. The European Business institute awarded Zespół Zarządców Nieruchomości sp. z o.o., the largest Group company in Poland, for its dynamic growth. At present the total area of administered apartment buildings in Poland reaches 12.4 million sq. m.

12.4

million m^2

The Group company, operating **IN SPAIN**, established the holding company Grupo Aresi de Inversiones (SPAIN) S.L., for investing and management purposes, thus separating the respective activities from Concentra.

Active development of apartment buildings administration activities was continued in Alicante, Murcia and Madrid regions. During the year the Group acquired new client, which increased the area of maintained apartment buildings by 1.4 million sq. m., i.e. up to 3.1 million sq. m. The provided services package was also expanded – different real estate services were commenced to be provided.

In 2017 the Group will continue increasing its apartment buildings maintenance market share through organic development and signing new contracts. The Group plans expanding to Barcelona and Malaga and commencing its activities in the Northern part of Spain. The Group's target is to double the area of the administered apartment buildings till the end of 2017.

3.1
million m^2

IN LATVIA the Group strengthened its positions on the apartment buildings administration market. Two companies were acquired, providing maintenance services in Riga and Adazi. After the acquisition the total area of maintained apartment buildings grew up to 620 thousand sq. m.

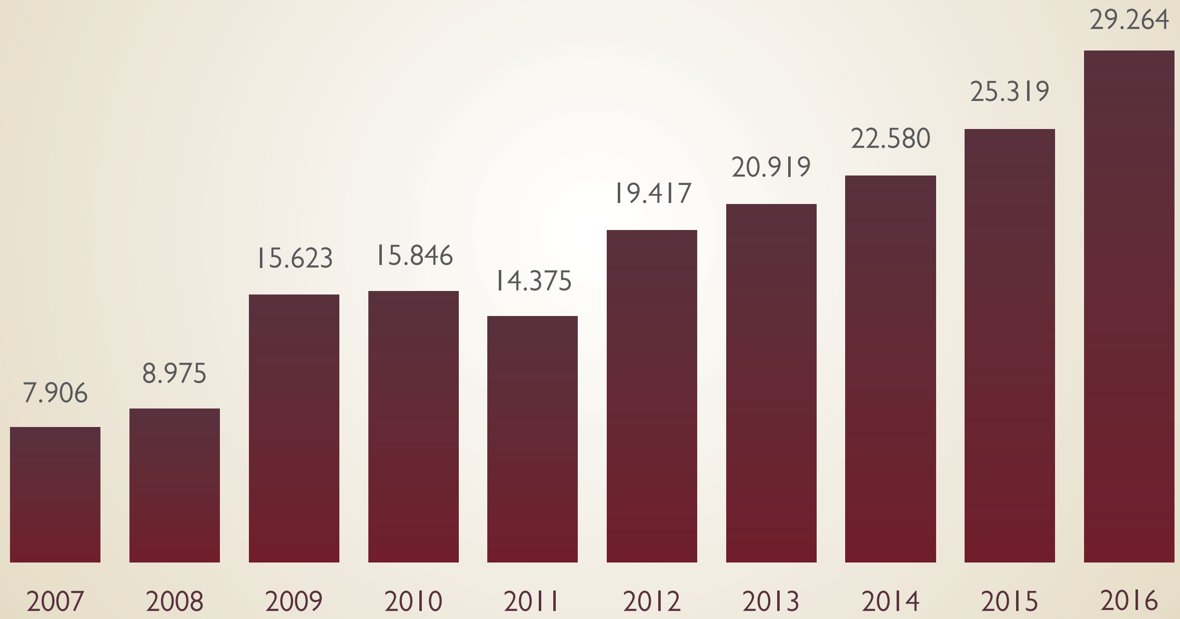
620
thousand m²

In 2017 the Group will attempt to increase the area of maintained buildings through new acquisitions and expand the geography of its activities in other cities of the country.

The Group companies, operating **IN SAINT PETERSBURG**, increased the total area of maintained apartment buildings by 14 thousand sq. m. The maintenance services contracts were signed with 23 apartment buildings. In 2017 the Group plans to increase the number of maintained apartment buildings through natural development. The total area of maintained apartment buildings grew up to 3.4 million sq. m.

3.4
million m²

THE CHANGE OF THE TOTAL AREA OF MAINTAINED APARTMENT BUILDINGS THROUGHOUT THE GROUP COMPANIES,
MILLION M²



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 take care of 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, Spain and Saint Petersburg.

IN LITHUANIA the range of customers was extended – 89 contracts were signed: 59 with new customers and 30 with existing ones.

3.94
million m^2

Commercial facility management services were commenced to be provided to Shopping and Leisure Centre Panorama and NT Valdos (more than 80 objects throughout Lithuania). After extending the contracts, maintenance services are further provided to Philip Morris Lietuva, Technopolis, Baltic Facility Management, Girteka and other VIP customers.

The Group company continued offering and applying the ESCO model to a part of its customers. The model was especially successfully implemented in Vilnius city's educational institutions – in schools and kindergartens, as well as commercial objects – Vichy water park and FL Technics. The ESCO model, widely used in well-developed world's and European countries, is based on the fact that the energy service provision company undertakes to ensure that the customer does not use more energy resources than foreseen under the contract. By using the ESCO model, the company saved about EUR 2.5 million to the serviced educational institutions and commercial objects throughout the year.

The total area of maintained facilities now reaches 3.94 million sq. m.

IN LATVIA the Group continued its expansion into the commercial segment. Engineering systems maintenance services were commenced to be provided to one of Latvia's largest concert halls - Lielais Dzintars in Liepaja. A new complex facility operation and maintenance contract was signed with the sports club Lemon Gym. Engineering systems maintenance services were also commenced to be provided to construction materials trade centre Depo Diy and two RIMI supermarkets.

932
thousand m^2

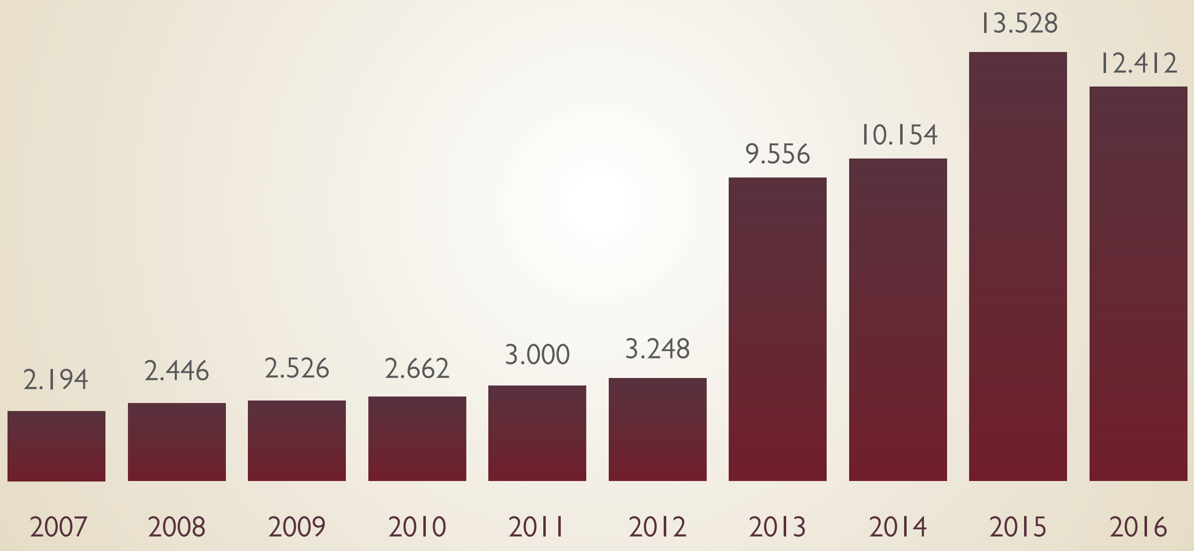
In 2016 the total area of maintained facilities reached 932 thousand sq. m.

IN POLAND the Group company continued its expansion into commercial segment. Facilities maintenance contracts were signed with the business centre Victoria, shopping centres Manhattan Gorzow Wielkopolski and Outlet Center, hotels Hampton by Hilton and Best Western.

3.2
million m^2

At present the total area of maintained commercial facilities reaches 3.2 million sq. m.

THE CHANGE OF COMMERCIAL, PUBLIC AND INDUSTRIAL FACILITIES' AREAS THROUGHOUT THE GROUP COMPANIES,
MILLION M^2



IN SAINT PETERSBURG, the Group company provides maintenance services to the animated cartoons studio Мельница and business centre Кадр. At present the company maintains a commercial facility area of almost 40 thousand sq. m.

40
thousand m^2

IN SPAIN the Group company performs maintenance of commercial and state-owned facilities. The total area of maintained facilities reaches 4.3 million sq. m. On 23 February 2017 a company providing such activity, Concentra Servicios y Mantenimiento S.A., has submitted a petition for bankruptcy to official institutions in Spain.

4.3
million m^2

2.1.3. TERRITORIES MAINTENANCE AND CLEANING

> The Group companies provide full range of territories maintenance and cleaning services: perform cleaning jobs inside premises and outside the buildings, maintain private territories and public spaces in cities and towns, take care of removing snow, sand and fallen leaves, cut grass, perform special cleaning works and provide hygiene materials. Cleaning and territories maintenance services are provided in Lithuania, Latvia, Spain and Saint Petersburg.

IN LITHUANIA the Group company provides cleaning and territories maintenance services in Vilnius, Kaunas, Klaipėda, Šiauliai, Biržai, Alytus, Šilutė and Radviliškis. In 2016 the Company also commenced providing services in Rokiškis and Panevėžys. The company takes care of cleanliness both in apartment buildings and commercial facilities and also public spaces in cities and towns. The company continuously expands the range of provided services and invests into procurement of new equipment – 170 thousand euro was invested into procurement of different equipment in 2016.

In 2016 the Group acquired the biotoilets and fencing rent company Toirenta UAB.

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

IN SPAIN the Group company mostly provides inside premises cleaning services to commercial and state owned facilities.

IN SAINT 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 also provide other services in Lithuania, Poland, Latvia and Saint Petersburg.

IN LITHUANIA the Group companies provide security services to 3,700 customers, performed renovation of 64 buildings and maintain 500 children's playgrounds. Additionally, during 2016 Lithuanian companies recovered debts to the customers' benefit, amounting to EUR 3.3 million.

The Group company, operating **IN LATVIA**, was the first in the country to prepare 9 new apartment buildings renovation projects according to the new programme.

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

IN SAINT PETERSBURG, the Group company provides utility charges administration services to 353 apartment buildings.

2.2. IMPROVING EFFICIENCY OF ACTIVITIES

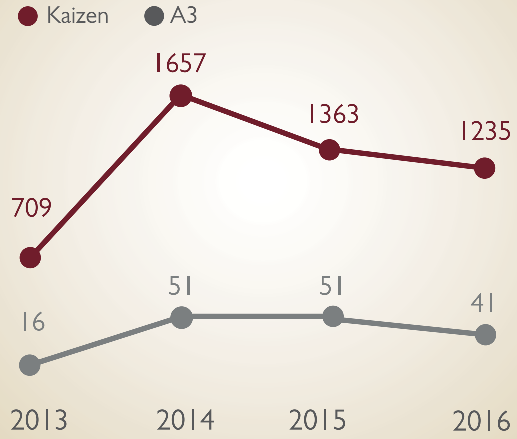
The efficient business processes management methodology LEAN was continued to be implemented throughout the Group. Projects were implemented in all regions, where the Group executes its activities.

IN LITHUANIA the LEAN group, in order to contribute to implementation of the Company's strategic goals, concentrated its activities on standardization and support of the good practice, reduction of its process costs, introduction and support of the 5S standard and dedicated special attention to the employees' development and education. The Company's projects were inventoried: non-performed projects were discontinued or recommenced. That resulted in a reduction of the number of involved employees, but provided a possibility to evaluate the employees' load and redistribute free resources.

10 per cent of the employees of the entire Group are involved in the continuous improvement activities, including 80 per cent of the top level management.

IN SAINT PETERSBURG all divisions and units have introduced the indicators and 100 per cent of top level managers participated in the competences measurement process. Upon successful implementation of Kaizen ideas, the subsidiary saved 100 thousand euros and 3,000 business hours during the year.

THE NUMBER OF PROJECTS IMPLEMENTED IN LITHUANIA



The LEAN culture became one of the key competitive advantages for the Group therefore in 2017 the activity improvement processes will further be implemented in all of the Group companies.

IN SPANISH GROUP companies the continuous improvement activity processes are being actively implemented. All the top level managers and 40 per cent of employees are involved in the processes. In 2017 significant attention will be dedicated to increasing all 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 continued to be dedicated to improvement of efficiency.

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

2.3. THE MOST SIGNIFICANT INVESTMENTS AND EVENTS

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

In 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 continued 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 a 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.

AUGUST

On 8 August 2016 the Company, through its Polish subsidiary, acquired company TED sp. z o.o., which manages residential facilities in Poland.

On 12 August 2016 the Company, through its Lithuanian subsidiary, acquired company UAB Toirenta, which provides bio toilets rent and sewage disposal services in Lithuania.

SEPTEMBER

On 13 September 2016 the Company, through its Lithuanian subsidiary, acquired company UAB Šilalės butų ūkis, which manages residential facilities in Šilalė.

OCTOBER

On 3 October 2016 the Company, through its Latvian subsidiary, acquired company SIA Latvijas Namsaimnieks (former SIA Latio Namsaimnieks), which manages 290 thousand sq. m. of residential facilities in Latvia. It also provides services to commercial objects, total 37 thousand sq. m.

On 26 October 2016 the Company, through its Spanish subsidiary, bought two customer portfolios which administer 367 thousand sq. m. and 450 thousand sq. m. residential facilities in Spain respectively.

On 27 October 2016 reorganization of the company UAB Mano Sauga was completed and established new company UAB Mano Būsto Sauga. After the process of reorganization UAB Mano Sauga activity was separated into public and private sectors. Activity in private sector with all the assets, rights and obligations was transfered to newly established UAB Mano Būsto Sauga. UAB Mano Sauga will continue to provide services in public sector.

NOVEMBER

On 9 November 2016 reorganization of the companies UAB Žardės būstas, UAB Pempininkų būstas and UAB Vingio būstas was completed. After the process of reorganization UAB Pempininkų būstas and UAB Vingio būstas was incorporated into UAB Žardės būstas with all the assets, rights and obligations. UAB Pempininkų būstas and UAB Vingio būstas ceased operations and were deregistered. After reorganization UAB Žardės būstas director and other contact details did not change.

On 14 November 2016 UAB Žardės būstas company title was changed into UAB Klaipėdos būstas LT.

On 28 November 2016 the Company, through its Latvian subsidiary, acquired company SIA L-Namsaimnieks (former SIA Latvijas Namsaimnieks), which manages manages 47 thousand sq. m. of residential facilities in Latvia.

DECEMBER

On 19 December 2016 the Extraordinary General Meeting of the Shareholders of the Company has been held. The shareholders have decided to elect Ernst & Young Baltic AS, company code 10877299, as the audit company which performed the Company's and the Company's set of consolidated financial statements audit for the year 2016 and shall evaluate Company's consolidated annual report. Shareholders also have decided payment conditions for the audit services.

LATEST EVENTS

JANUARY

On 24 Januaray 2017 the Company, through its Spanish subsidiary, acquired dormant company Vetell dos ibérica S.L. which manages facilities in Spain.

On 27 January 2017 the Company, through its Lithuanian subsidiary, acquired company UAB Visos apsaugos paslaugos.

On 30 January 2017 the Company, through its Spanish subsidiary, established two new companies Aresi Gestion Residencial, S.L. and Aresi Euroinmo, S.L.

FEBRUARY

On 23 February 2017 Concentra Servicios y Mantenimiento S.A., has submitted a petition for bankruptcy to official institutions in Spain, authorized to initiate the bankruptcy procedure. The decision to ask for initiation of bankruptcy of Concentra has been made after evaluation of commercial property administration and cleaning sector prospects in Spain.

On 23 February 2017 the Management Board Member Jonas Janukėnas, acting as CEO, left the Company, following petition for bankruptcy of Concentra. Financial director Tomas Kleiva acts as Member of the Board instead of J. Janukėnas until extraordinary meeting of shareholders of the company.

MARCH

On 16 March 2017 reorganization of the companies UAB Šilalės butų ūkis and UAB Šilalės būstas was completed. After the process of reorganization UAB Šilalės būstas was incorporated into UAB Šilalės butų ūkis with all the assets, rights and obligations. UAB Šilalės būstas ceased operations and was deregistered. After reorganization UAB Šilalės butų ūkis title was changed in to UAB Šilalės būstas, director and other contact details did not change.

APRIL

On 5 April 2017 City Service SE sold Grupa Techniczna Sp. z o.o., a company active in Poland. The company was founded in 2014 and provided technical maintenance services to residential facilities and commercial facilities, managed by City Service group. City Service SE will continue investments in Poland in residential facility management market.

2.4. KEY RISK ACTIVITY TYPES AND UNCERTAINTIES

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 activities. Building administration tariffs have not changed significantly in a course of the year. Improving customer climate and active sales led to rapid increase in additional services sales volume.

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 control the proper implementation by service providers of the administration and maintenance requirements set out in legislation, and 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 which provide for additional obligations of service providers, 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 other material changes in the legal regulation of the area of administration and maintenance of apartment buildings in 2016, and neither were there 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 (Notes 16 and 18 in the financial statements).

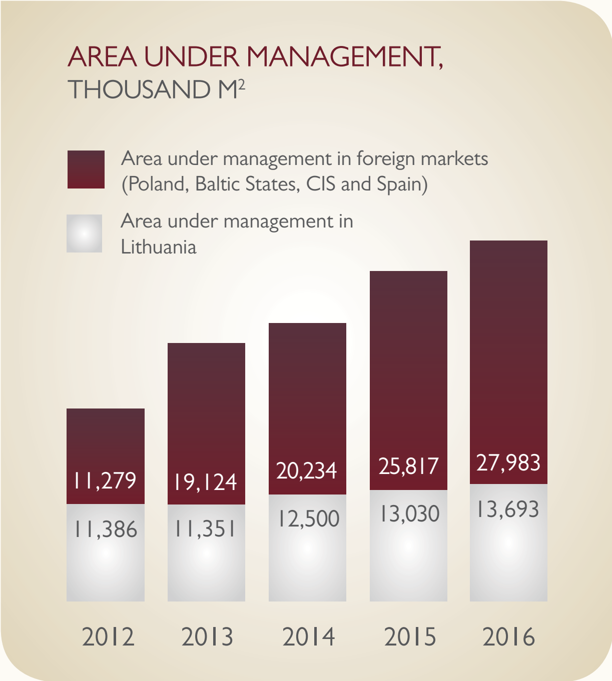
There are no financial instruments designated to manage the exposure to the interest rate risk outstanding as of 31 December 2016 and 2015.

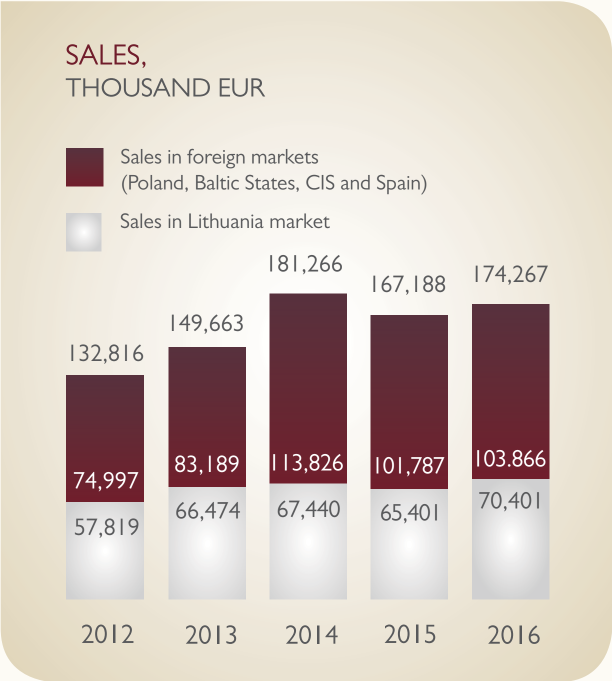
2.5. THE MAIN FINANCIAL RATIOS CONCERNING THE FINANCIAL YEAR

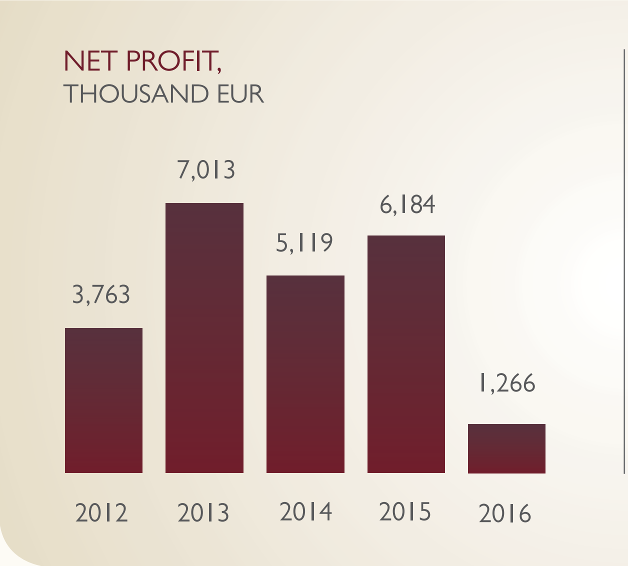
KEY FINANCIAL INDICATORS	2012	2013*	2014*	2015*	2016
Sales	132,816	149,663	181,266	167,188	174,267
Sales in Lithuania market	57,819	66,474	67,440	65,401	70,401
Sales in foreign markets (Poland, Baltic States, St. Petersburg and Spain)	74,997	83,189	113,826	101,787	103,866
Area under management in Lithuania (thousand sq. m)	11,386	11,351	12,500	13,030	13,693
Area under management in foreign markets (Poland, Baltic States, St. Petersburg and Spain)	11,279	19,124	20,234	25,817	27,983
GROSS PROFIT					
EBITDA	9,123**	13,331	12,314	10,012	9,679
EBITDA margin	6.87%	8.91%	6.79%	5.99%	5.55%
Operating profit (EBIT)	7,314	10,370	8,914	5,883	5,353
EBIT margin	5.51%	6.93%	4.92%	3.52%	3.07%
Earnings before tax (EBT)	5,156	8,674	6,932	7,537	5,527
EBT margin	3.88%	5.80%	3.82%	4.51%	3.17%
Net profit	3,763	7,013	5,119	6,184	1,266
Net profit in foreign markets (Poland, Latvia, St. Petersburg and Spain)	2,622	1,331	(831)	(783)	(354)
Net profit margin	2.83%	4.69%	2.82%	3.70%	0.73%
Profit per share (EUR)	0.14	0.23	0.20	0.26	0.04
Return on equity (ROE)	5%	12%	9%	11%	2%
Return on assets (ROA)	2%	5%	4%	6%	1%

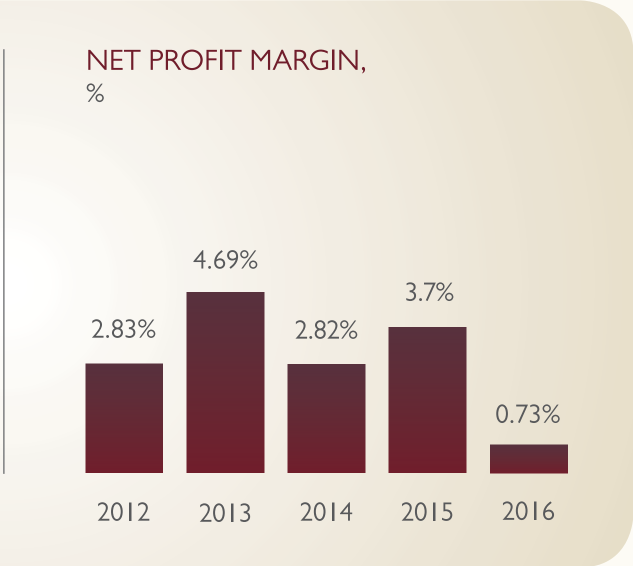
* Key financial data and ratios in 2013, 2014 and 2015, except return on equity and assets as well as profit per share, is presented excluding subsidiaries that were disposed in 2014 and 2015, i.e. Ecoservice UAB group and companies operating in the city of Stavropol. All amounts in key financial indicators are in EUR thousand unless otherwise stated.
** Before gain from bargain purchase and goodwill impairment.

HIGHLIGHTS


AREA UNDER MANAGEMENT,
THOUSAND M2
Area under management in foreign markets (Poland, Baltic States, CIS and Spain)
Area under management in Lithuania
11,279
11,386
19,124
11,351
20,234
12,500
25,817
13,030
27,983
13,693
2012
2013
2014
2015
2016


SALES,
THOUSAND EUR
Sales in foreign markets (Poland, Baltic States, CIS and Spain)
Sales in Lithuania market
132,816
74,997
57,819
149,663
83,189
66,474
181,266
113,826
67,440
167,188
101,787
65,401
174,267
103.866
70,401
2012
2013
2014
2015
2016


NET PROFIT,
THOUSAND EUR
3,763
7,013
5,119
6,184
1,266
2012
2013
2014
2015
2016


NET PROFIT MARGIN,
%
2.83%
4.69%
2.82%
3.7%
0.73%
2012
2013
2014
2015
2016

2.6. THE STRUCTURE OF THE COMPANY'S SHARE CAPITAL

The share capital of the Company is EUR 9,483 thousand as of 31 December 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.

On 31 December 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.

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 Statutes 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.

There are no shareholders with special control rights in the Company; the ordinary book-entry restarted shares grant equal rights to all the shareholders of the Company.

THE RIGHTS CONFERRED BY THE SHARES ARE AS FOLLOWS:

- to receive a portion of the Company's profit (dividends);
- to receive the Company's funds when the capital of the Company is reduced with a view to paying out the Company's funds to the shareholders;
- to receive shares without payment if the capital is increased from the shareholders' equity (bonus issue);
- to have a pre-emption right in acquiring the shares or convertible debentures issued by the Company, except in the case when the General Meeting decides to withdraw the pre-emption right for all the shareholders;
- to receive a part of the assets of the Company in liquidation;
- to attend General Meetings;
- to vote at General Meetings according to voting rights carried by their shares;
- to receive information on the activities of the Company from the Management Board at the General Meeting, unless this may cause significant damage to the interests of the Company;
- to demand the calling of a General Meeting, if this is demanded by shareholders whose shares represent at least one-twentieth of the share capital of the Company;
- to call a General Meeting, if the Management Board does not call a General Meeting within one month after receipt of such a demand by shareholders whose shares represent at least one-twentieth of the share capital of the Company;
- to demand at the General Meeting a resolution on conduct of a special audit on matters regarding the management or financial situation of the Company, if this is demanded by shareholders whose shares represent at least one-tenth of the share capital of the Company;
- other property and non-property rights set out in the Commercial Code.

2.7. THE SHAREHOLDERS OF THE COMPANY

On 31 December 2016 the total number of shareholders of the Company was 297.

Company's shares distribution among shareholders who have more than 5 % shares of the Company as of 31 December 2016 was the following:

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

2.8. RESTRICTIONS ON THE TRANSFER OF SECURITIES AND RESTRICTIONS ON VOTING RIGHTS

The major shareholder of the Company, UAB ICOR, has pledged the part of its shares, i.e. 17'396'275 pieces, which constitutes 55,03 % of the authorized capital of the Company to the bank. The right to transfer, pledge or dispose of the above mentioned shares otherwise has been restricted. All other property and non-property rights of UAB ICOR, as the shareholder, are free from any encumbrances or restrictions.

To the best knowledge of the Company and its management, the transfer of the shares was free from any restrictions, except for the above mentioned restriction on the transfer of the Company's shares in 2016.

To the best knowledge of the Company and its management, the voting rights were free from any other restrictions on the shares issued by the Company, except for those specified above in 2016.

To the best knowledge of the Company, all shareholders of the Company have the voting right in the General Meeting.

2.9. COMPANY'S SUPERVISORY BOARD, MANAGEMENT BOARD AND MANAGEMENT

2.9.1. COMPANY'S SUPERVISORY BOARD

The Supervisory Board is a collegial management body of the Company. The Supervisory Board shall consist of three (3) to five (5) members elected for a term of 4 (four) years by the General meeting in accordance with the procedure provided for by the Law on Companies of the Republic of Estonia. Only a natural person may be elected to serve on the Supervisory Board. There is no limitation on the number of terms of offices a member of the Supervisory Board may serve. The Supervisory Board shall elect its chairman from among its members. The General Meeting may remove from office the entire Supervisory Board or its individual members before the expiry of their term of office. A member of the Supervisory Board may resign from office prior to the expiry of his term of office by giving a written notice thereof to the Company.

The powers of the Supervisory Board shall cover consideration of the following issues and taking of the following decisions:

- to elect and remove from the office the members of the Management Board, set their remuneration, other terms of office (employment), approve Management Board regulations;
- to appoint and remove procurators;
- for the Company to become a founder or a member of other legal entities, to acquire, transfer or dissolve (liquidate) any such entities, as well as decisions to transfer or encumber any shares (parts, shares of stock) or rights assigned thereto held by the Company to other persons;
- to establish or terminate activities of affiliates or representative offices of the Company, approve their regulations;
- to transfer, lease or encumber immovables or registered movables of the balance value exceeding 1/20 (one-twentieth) of the Company's share capital (per each type of transaction);
- to make investments exceeding approved budget for the current financial year;
- to assume loans or debt obligations exceeding approved budget for the current financial year;
- to offer surety or guarantee of obligations of third parties for an amount in excess of 1/20 (one-twentieth) of the share capital of the Company;
- to acquire long-term assets at a price exceeding 1/20 (one-twentieth) of the Company's share capital;
- to engage the Company into new business activities or to discontinue any specific activity currently performed;
- to approve participation and (or) conclusion of peaceful settlement agreements in legal proceedings where the amount of claims made to or by the Company exceeds 1/5 (one fifth) of the share capital of the Company;
- to issue debentures of the Company or other forms of borrowing from any natural or legal persons (regardless of the amount);
- to conclude transactions between the Company and the management board members which are beyond the scope of everyday economic activities of the Company or exceed the market price;
- to determine which information will be considered the Company's commercial (industrial) secret and confidential information;
- to approve operating strategy, annual report, interim report, management structure of the Company, as well as positions of employees, positions to which employees are recruited by holding competitions;
- to determine the methods used by the Company to calculate the depreciation of tangible assets and the amortization of intangible assets.

The Supervisory Board shall analyze and evaluate documents submitted by the management board of the Company on:

- the implementation of the operating strategy of the Company;
- the organization of the activities of the Company;
- the financial status of the Company;
- the results of business activities, income and expenditure estimated, stocktaking
- data, and other accounting date of changes in the assets.

The Supervisory Board shall plan the activities of the Company, organize the Management of the Company and supervise the activities of the Management Board. The Supervisory Board also has the right to decide on other issues which are not assigned to the competence of the Management Board or the General Meeting of shareholders pursuant to law or the Statutes. The Supervisory Board analyses and assesses the Company's draft of its annual set of financial statements and draft of profit/loss appropriation and along with annual report shall submit them to the General Meeting.

As of 31 December 2016, the Supervisory Board of the Company comprise 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 (born in 1971) is the Chairman of the Supervisory Board of City Service SE (since 2009 till 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 the Company (since 2004).

GINTAUTAS JAUGIELAVIČIUS (born in 1971) is a Member of the Supervisory Board of City Service SE (since 2005 till 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 the Company (since 2004).

ARTŪRAS GUDELIS (born in 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.

2.9.2. COMPANY'S MANAGEMENT BOARD

The Management Board of the Company comprises of one (1) member who represents and directs the Company. The member of the Management Board is elected by Supervisory Board for a term of four (4) years. Supervisory Board has right to elect and remove from the office the member of the Management Board, set his remuneration, other terms of office (employment), approve Management Board regulations. A member of the Management Board may resign from office prior to the expiry of his term of office by giving a written notice.

Management Board member is authorized to represent the Company in all legal acts which do not fall within competence of other Management bodies.

Management Board member isn't authorized to issue or repurchase shares of the Company. Also there is no agreements between the Company and its Management Board or employees.

JONAS JANUKĖNAS (born in 1976) was a Member of the Board of City Service SE (2015 – 2017) and acted as a CEO of the Group. Since 2013 Mr Janukėnas was the General Manager, since 2007 – Financial and Administrative Manager. Mr Janukėnas was also the Chairman of the Board at UAB Mano Būstas (2012 – 2017). 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).

Jonas Janukėnas left the Group on 23 February 2017.

2.9.3. GROUP'S MANAGEMENT

As of 31 December 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
Vytautas Turonis	Executive Manager for Lithuania	2004
Edvinas Paulauskas	Executive Manager	2005
Tomas Kleiva	Financial Director (since 23 February 2017 – Member of the Management Board and acting CEO)	2006
Anna Górecka – Kolasa	Head of the Group companies, operating in Poland	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
Tomas Gulbinas	Head of the Group companies, operating in Spain (residential building administration)	2009

They do not control any shares of the Company.

VYTAUTAS TURONIS (born 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 (born 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 environmental 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.

TOMAS KLEIVA (born 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.

Since 23 February 2017 Tomas Kleiva acts as Member of the Board and acting CEO instead of J. Janukėnas until extraordinary meeting of shareholders of the company.

ANNA GÓRECKA - KOLASA (born 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 hold positions of Management and Control Director, Chief Analysis Specialist and Deputy Accountant General (2004–2013). A. Górecka-Kolasa has higher education in the area of management and marketing.

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

JONAS ŠIMKEVIČIUS (born 1980) is a member of the Board of the company SIA 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 the Bachelor's degree in constructions engineering.

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

VYTAUTAS JUNEVIČIUS (born 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. Peterburg.

TOMAS GULBINAS (born 1966) has been Chairman of the Board of Grupo Aresi De Inversiones S.L, operating in residential buildings administration segment in Spain, since 2016. Previously Mr. Gulbinas was responsible for Group's company, operating in Stavropol (2011 – 2015). He started to work in Group as Šiauliai region manager of City Service (2009 – 2011). Mr. Gulbinas has Bachelor's degree in electronics engineering.

T. Gulbinas is responsible for the Group's residential buildings administration activities in Spain.

2.10. DIVIDEND POLICY

The Company does not have an approved policy on dividend distributions and any restrictions thereon. Decision on distribution of dividends to shareholders is adopted by the General Meeting.

2.11. PROCEDURE OF AMENDMENT OF THE STATUTES OF THE COMPANY

The Statutes of the Company shall be amended in accordance with the procedure provided for by the Law on Companies of the Republic of Estonia and the Statutes of the Company. The Statutes of the Company may be amended only by the decision of the General Meeting, exceptions may occur under the Law on Companies of the Republic of Estonia. The resolution regarding amendment of the Statutes of the Company shall be taken in the General Meeting by at least 2/3 of all votes conferred by the shares of the shareholders present at the General Meeting. Following the decision taken by the General Meeting to amend the Statutes of the Company, the full text of the amended Statutes shall be drawn up and signed by the person authorized by the General Meeting. The amended Statutes shall become effective and may be used as the basis following registration of the amended Statutes with the Commercial register of the Republic of Estonia.

For the reporting period of 2016 and at the date of issuance of this Annual Report, the Company's Statutes are valid in wording registered in Estonian Commercial register on Register of Legal Entities. The relevant Statutes of the Company is available on its website at www.cityservice.eu.

2.12. MATERIAL AGREEMENTS CONCLUDED BY THE COMPANY WHICH MAY BE IMPORTANT AFTER CHANGE OF CONTROL OF THE COMPANY

There were no material agreements concluded by the Company which came into effect, were amended or terminated following a change of control of the Company during the reporting period.

2.13. AUDITING SYSTEM AND DESCRIPTION OF THE MAIN FEATURES OF INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF THE PREPARATION OF THE ANNUAL ACCOUNTS

The Company has the Audit Committee in place. The Regulations of the activity of the Audit Committee were approved by the Supervisory Board. Supervisory Board has removed Tomas Kleiva from Audit Committee since 23 February 2017 as Tomas Kleiva started to act as Member of the Board instead of J. Janukėnas.

According to the Regulations of the activity of the Audit Committee the main functions of this committee are as follows:

- to monitor and analyse processing of financial information, including to observe the process of the preparation of financial reports of the Company;
- to provide the Supervisory Board with recommendations regarding the selection and/or removal of an external audit company;
- to provide the Supervisory Board with recommendations regarding the selection and/or removal of the internal auditor;
- to observe the efficiency of the internal control systems, risk management and internal audit systems;
- to observe the process of carrying out an external audit;
- to observe how the external auditor or audit company follow the principles of independence and objectivity;
- to fulfil other functions specified in the legal acts of the Republic of Estonia, including to:
  - monitor and analyse efficiency of risk management and internal control;
  - monitor and analyse the process of auditing of annual accounts and consolidated accounts;
  - monitor and analyse independence of an audit firm and a sworn auditor representing an audit firm on the basis of law and compliance of the activities thereof with other requirements of the Auditors Activities Act of the Republic of Estonia (in Estonian: audiitortegevuse seadus);
  - make recommendations or proposals to the Supervisory Board regarding prevention or elimination of problems and inefficiencies in an organisation and compliance with laws and the good practice of professional activities;
- to immediately inform the Supervisory Board about the information presented to the Audit Committee by the audit company regarding any problem issues arisen during the audit especially in the event of the establishing of significant shortcomings of internal control related to financial reports.

Members of the Audit Committee shall be appointed by the Supervisory Board. The Audit Committee consists of 3 members, one of whom shall be independent and the other two members shall be appointed out of the non-overhead staff of the Administration of the Company or Subsidiaries of the Company. The internal auditor, a member of the Management Board of the Company or a procurator or a person performing an audit of the Company shall not be a member of the Audit Committee. At least two of the members of the Audit Committee shall be experts in accounting, finance or law. The criteria of independency and eligibility requirements to be appointed a member of the Audit Committee are determined in the Regulations of the activity of the Audit Committee.

The term of office of the Audit Committee shall be 4 (four) years. An uninterrupted term of office of a member of the Audit Committee shall be no longer than 12 years. A member of the Audit Committee shall have the right to resign upon submitting before 10 days written notice to the Supervisory Board. The Supervisory Board shall have the right to recall one or all the members of the Audit Committee should they fail to perform their functions and/or should they no longer conform to the requirements specified in the applicable legal acts or the Regulations of the activity of the Audit Committee.

The principal objective of the Audit Committee is to generate higher added value to the Company. With a view to achieving the set objective, the Audit Committee operates in accordance with the Regulations approved by the General Meeting of Shareholders of the Company. The Audit Committee follows in its activities the requirements of effective legal acts and seeks overall implementation of the recommendations of Corporate Governance Code, for the Companies Listed on Warsaw Stock Exchange.

The Audit Committee monitors the external audit firm of the Company at the performance of Company's Annual Report and the Annual set of the Financial Statements audit. The conclusions of the Audit Committee are presented to the Supervisory Board of the Company in accordance with the requirements of the Regulations of the Audit Committee.

MEMBERS OF THE AUDIT COMMITTEE OF THE COMPANY AS OF 31 DECEMBER 2016:

Mr. Tomas Kleiva - Finance director of the Company (since 23 February 2017 - acting Member of the Management Board)

Mr. Justinas Damašas – Finance director of Group companies operating in Lithuania

Mr. Saulius Leonavičius – independent member, does not work at the Company.

Audit Committee members do not control shares of the Company.

2.14. INFORMATION ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company observes applicable legislation, the rules of the Warsaw Stock Exchange, and the Best Practice for GPW Listed Companies 2016 (hereinafter also referred to as the "WSE Corporate Governance Code").

Especially, the Company intends to be as transparent as it is legally and practically possible using multilingual Company's website. However, due to, inter alia, differences between Polish and Estonian corporate law the Company does not comply with the following rules of the WSE Corporate Governance Code:

– Rule II.1.9a, according to which the Company should publish on its corporate website a record of the Shareholders' Meeting in audio or video format. Currently the Company does not comply with this rule. However, it does not rule out applying thereof in the future;

– Rule III.6, according to which at least two members of the Supervisory Board should be independent. Currently the Company does not comply with this rule. However, taking into consideration that following the Statutes of the Company the Supervisory Board is comprised of three to five members, depending on circumstances, the Company does not rule out proposing to the General Meeting to elect one or two independent members to the Supervisory Board in the future;

– Rule III.8, according to which annex I to the Commission Recommendation of 15 February 2005 on the role of non–executive or supervisory directors of listed companies and on the committees of the (supervisory) council should apply to the tasks and the operation of the committees of the Supervisory Board. As at the date of this Prospectus, the Supervisory Board has not formed any committee, however due to the limited number of the Supervisory Board members the entire Supervisory Board will act as the particular committee and it will aim to apply the rules indicated in the Commission Recommendation mentioned above;

– Rule IV 10, according to which the Company should enable its shareholders to participate in a General Meeting using electronic communication means through real-life broadcast of General Meetings and real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting. The Company does not enable participation in the General Meeting by using electronic communication means through real-life broadcast and real-time bilateral communication. However, the Company does not exclude that such means will be adopted in the future.

Furthermore, the Company does not comply with the following recommendations:

– Recommendation I.5, according to which the Company should have a remuneration policy and rules of defining the policy. The Company has not adopted such policy, since the Company's Group is developing and the number of employees and members of management do not justify implementation of a complex set of rules;

– Recommendation I.9, according to which a balanced proportion of women and men in management and supervisory functions should be ensured. Currently, there are no women in governing bodies of the Company. However, the Company does not exclude that this recommendation will be implemented in the future;

– Recommendation I.12, according to which the Company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a proxy, outside the venue of the General Meeting, using electronic communication means. Currently, the Company does not envisage possibility to enable its shareholders to exercise the voting right during a General Meeting outside the venue of the General Meeting, using electronic communication means. However, the Company does not exclude that relevant solutions will be introduced in the future

3. SOCIAL RESPONSIBILITY REPORT

3.1. OVERVIEW

In 2016 City Service Group companies, operating in Lithuania, Poland, Spain and Saint Petersburg, kept their activities integrated with the idea of social responsibility in order to create well-balanced living and working environment by providing comprehensive and innovative services.

The Group's social responsibility is developed in the areas of the market, relations with the personnel, public relations and environmental protection.

On the market, we reach for focused improvement of the customers' working and living environment, ensuring quick communication as well as timely and comprehensive provision of information. The customers' experience and evaluations are widely communicated through the Group's internal communication channels. Taking into consideration the continuously analyzed customers' needs, the Group develops focused activity plans and sets targets for its activities. The Group companies operate in accordance with the quality management system ISO 9001:2008 and undertake to reach for quality and customer satisfaction.

When developing its relations with the personnel, City Service reaches to involve its staff into the Group's activity processes, encourage open dialogue between different management levels and thus, increase the employees' motivation and involvement. The Group observes the principles of tolerance as regards age, gender, race, religion, origin and beliefs and ensures equal rights and opportunities for its personnel.

In the area of public relations, the Group develops, supports and improves the cooperation and partnership with communities, educational institutions and non-governmental organizations. The Group implements initiatives, intended for improving dwelling environment in apartment buildings, encouraging the strengthening neighbourly relations and responsible attitude towards commonly owned property, as well as strengthening community relations and socializing traditions.

In the area of environmental protection, the Group implements energy saving projects, encourages to spare natural resources, popularizes sorting of waste, contributes to the projects, reducing the contamination of nature and participates in initiatives, dedicated to educating the society.

3.2. MARKET

In 2016 the Group companies dedicated a lot of attention to the customer relations standard and the solutions of saving energy in residential buildings and commercial facilities.

CUSTOMER RELATIONS

The Group companies successfully continued the Customer Relations Management (CRM) projects. In 2016 the Group progressed from the implementation stage to the solution support stage. The employees already have skills of behaviour and communication with the customers, which gradually grow into a true CRM culture, helping to understand the customers and their needs and provide relevant services in due quality and in due time.

In order to accurately identify the customers' needs, the Group encourages continuous direct communication with the customer groups and separate persons with individual needs.

IN LITHUANIA, LATVIA, POLAND, SPAIN AND SAINT PETERSBURG the customers are reached through different communication channels, i.e. over the telephone, e-mail messages and newsletters, news boards, self-service portals, social networks, meetings and individual meetings.

IN LITHUANIA residents about accidents and planned works in their houses are informed by mass SMS and e-mail messages. There are plans to automate the sending of mass messages, in order for the customer to be aware of each phase of performing the order.

IN POLAND virtual customer service portals and the call centre are currently in development. At the end of 2016, the Group company, operating in Poland, had 40 000 active Internet users. The call centre serves 11 cities and receives more than 2200 calls and e-mail messages each month. The call centre's employees also participate in customer satisfaction surveys.

In order to accurately identify the customers' needs, the Group encourages continuous direct communication with the customer groups and separate persons with individual needs.

When communicating with the stakeholders, i.e. the personnel, customers, the public, institutions, partners, shareholders, investors and the media, the Group acts in accordance with the approved principles of communication and proper notification of consumers.

The Group observes the substantial laws of Lithuania, Latvia, Poland, Spain and Russia, regulating legal protection of personal data and acts in accordance with the strict policy, applicable for ensuring protection of customers' data.

ENERGY SAVING

IN LITHUANIA when implementing the energy saving investment projects, the Energy Saving Group (ESG) acts in accordance with the ESCO methodology, which was commenced to be applied in 2015. The methodology helps the customers to save energy and increase energetic efficiency.

After the commencement of application of the ESCO methodology, energy saving solutions were implemented in educational institutions of Vilnius, i.e. schools and kindergartens. Last year the methodology was also successfully used in the private sector.

In 2016 the ESG commenced performing orders, related with the EU Directive 20/20/20, according to which large business companies must perform energy saving audits at their facilities till 2020. The audits are related with the EU instruction to increase the energy efficiency by 1.5 per cent each year. During the audits the ESG assesses the condition of the equipment and systems, which use the energy, and provides recommendations as regards increasing the efficiency.

In 2016 cooperation with budget institutions was continued: by participating in public procurement tenders the Group achieved the possibility to implement energy saving solutions and perform the audits in line with the EU directive.

IN POLAND the Group Company Zespol Zarzadcow Nieruchomosci successfully implemented the thermal modernization programme, for which, as well as for encouraging the residents' integration, the company received the award of the "Administrator of the Year 2016".

IN SAINT PETERSBURG the Group companies continued successful implementation of energy saving projects in apartment buildings: modernized the lighting systems, replaced doors and windows in staircases and basements, automated boiled rooms, etc.

3.3. RELATIONS WITH THE PERSONNEL

The Group‘s companies pursue and invest into their employees personal growth, cooperation, joint results and success. In 2016 the Group's employees suggested different performance efficiency improvement solutions and applied them in practice, participated in training sessions, seminars, shared their good experiences and the best practices.

IMPROVING PERFORMANCE EFFICIENCY

IN LITHUANIA the Lean performance efficiency methodology was further developed for the purpose of involving the personnel in suggesting performance optimization ideas. In 2016 two Grand Lean days were organized, 30 new projects were commenced, 11 projects completed and 1,235 Kaizen ideas were implemented. Employees' motivation and information system problems are solved by implemented projects. Informal training sessions were commenced – the Internal Coaches Club and the Knowledge Club.

The Group companies, operating **IN SPAIN** and **IN SAINT PETERSBURG**, performed complex personnel training programmes, dedicating special attention to the performance efficiency methodology Lean. Significant attention was also dedicated to increasing of all employees' competences.

1,235

Kaizen ideas were implemented in Lithuania throughout 2016.

TRAINING AND SEMINARS

In 2016 **IN LITHUANIA** the Group employees were provided training courses on time planning, efficient customer communication, conflict resolution, stress management, emotional intellect, public speaking and management. More than 160 employees participated in the mentioned internal training courses. Training and seminars were also provided by the Working Safety, LEAN and IT divisions. Almost 400 employees deepened their knowledge and competence during the mentioned training sessions.

The employees also participate in the informal clubs and meetings, started in 2016. The Company now has the Internal Coaches Club and the Knowledge Club where the employees can share their knowledge and experience.

400

Lithuanian employees deepened their knowledge and competence during the training sessions.

IN LITHUANIA the “Rookies’ Day” is organized each 2-3 months. During the training, which takes full business day, the new employees get familiarized with the Group’s vision, mission, values, activities, Lean methodology, information systems, procurements, working safety and play the Group values’ team game. In 2016 155 employees participated in six “Rookies’ Days”.

IN POLAND the new training system was introduced for the employees of the Group company Atrium 21 in accordance with the held qualification and the time spent working for the company.

The Academy programme was launched for the new employees, which is the best way to acquire knowledge, necessary in order to perform their activities. The training sessions are conducted by more experienced co-workers. For those employed for a time period longer than several years, the Manager’s Academy is arranged.

STUDENTS PRACTICE

In 2016 students’ skills development and knowledge improvement practice was performed in the Group.

The Group companies continue cooperating with educational institutions: Vilnius Gediminas Technical University and Vilnius College of Technologies and Design in Lithuania and Riga Technical University in Latvia. 17 students improved their practical skills and acquired knowledge in Lithuania, 3 in Latvia and 10 in Poland.

HEALTH AND SAFETY AT WORK

2016 was the Year of Health and Safety at Work in Lithuania. During the year a lot of campaigns and initiatives were implemented, which attained significant attention and involvement by the employees.

In cooperation with the major cities' Public Health Bureaus the company held the following events: a lecture by a nutritionist, the employees' leg veins, feet and prostate examinations, body composition analysis and cancer prevention campaign. Taking into consideration the employees' needs, exercises at work, anti-stress relaxation and even laughing exercises were arranged in order to improve the working efficiency.

Working safety days are periodically arranged for the technical staff, during which the employees are reminded of the working safety rules and requirements. 46 health and safety at work days were arranged in 2016.

3.4. SOCIAL ACTIVITIES

> In 2016 the Group performed activities, aimed at strengthening the community traditions. In the area of social responsibility, the Group implemented initiatives, aimed at improving the dwelling environment in apartment buildings, encouraging neighbourly relations and responsible attitude towards the common property, as well as the Group companies' and employees' partnership with the society.

IN LITHUANIA more than 30 events were organized to apartment building residents in 2016: the Shrove Tuesday festivities, community events and Christmas tree lighting celebrations. Additionally, 5 contests were announced on different subjects, relating with apartment buildings and their yards. The total attendance of all events and contests reached almost 11 thousand participants, i.e. more than 6 per cent of all the apartment building customers, serviced by the Company.

11,000

Participants of all events and contests.

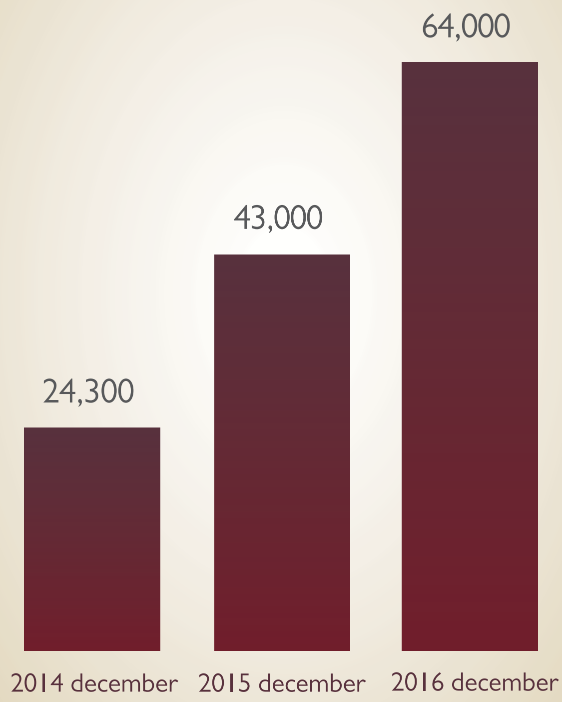
When organizing their initiatives in Lithuania the Group companies cooperated with communities of Karoliniškės, Žirmunai, Pašilaičiai, Perkūnkiemis, Naujamiestis, Lazdynai, Antakalnis, Justiniškės and Vilkpėdė in Vilnius, Dainava and Šilainiai in Kaunas, as well as Radviliškis, Šiauliai and Šilutė.

The virtual communities project "Neighbours Talk", implemented in Lithuania, grew during 2016. The information and news are shared by newsletters, on social networks and at newly implemented news portals – there are as much as 20 of them. The project is a success on Facebook, YouTube and Instagram. The total number of followers on Facebook reaches almost 64,000 (43,000 as of December 2015).

IN LATVIA the Group companies arranged the campaign "Let's get to know each other" and invited residents to get to know the companies' employees and performed works and treat themselves to some tea and cookies.

The employees of the Group companies, operating **IN POLAND**, participated in "The Noble Box" project, intended to assist poor families during the Christmas season.

NUMBER OF FOLLOWERS ON THE VIRTUAL COMMUNITIES PROJECT "NEIGHBOURS TALK"



3.5 ENVIRONMENTAL PROTECTION

In the area of environmental protection, the Group encouraged its employees to spare natural resources, popularized sorting of waste and contributed to the educational initiatives, reducing contamination.

The Group encourages its customers to refuse printed paper bills in order to spare the nature. **IN LITHUANIA** almost 33,500 customers receive their bills for the provided services by e-mail. This amounts to 20 per cent of the company's customers.

IN SAINT PETERSBURG the Group company contributed to the activities of charity organization LEPTA. The company encouraged residents to donate foodstuffs, hygiene appliances and clothes, which were later provided to the charity organization.

The employees of the Group companies, operating **IN LITHUANIA, LATVIA AND SAINT PETERSBURG**, voluntarily participated in cleaning campaigns and cleaned the environment on their activity territories.

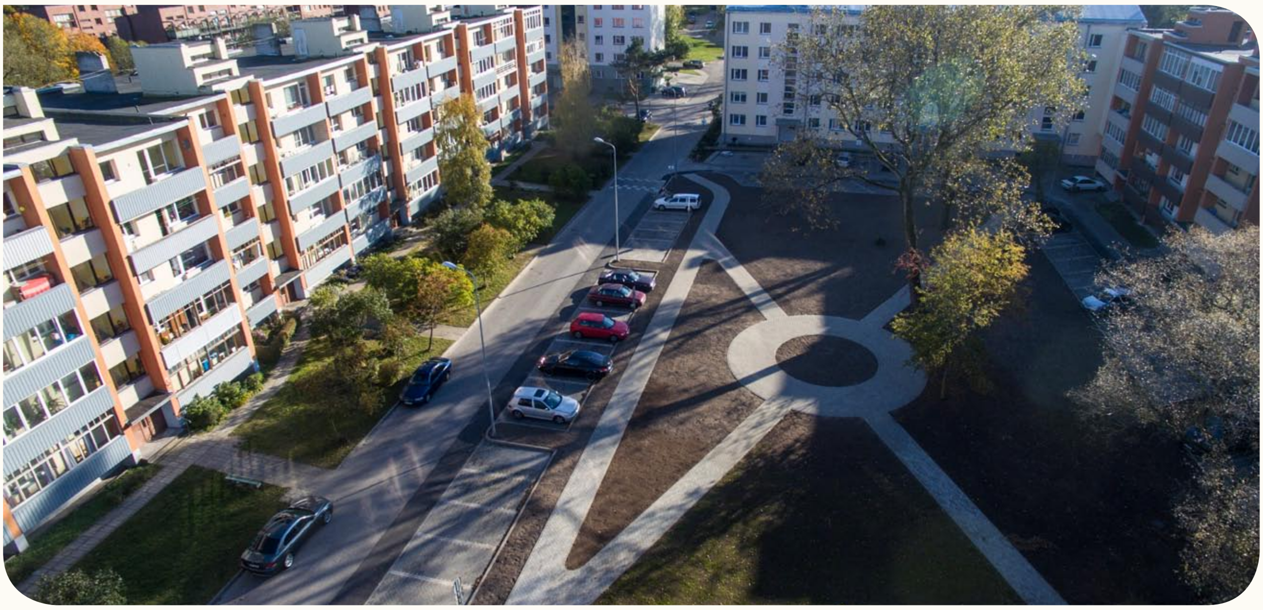
IN LATVIA the Group company contributed to the works of putting in order of the territory around 10 renovated apartment buildings. They cleaned yards, walkways, playgrounds and parking lots, which resulted both in the environment getting prettier, as well as in an increase of the value of the real estate.

In accordance with the laws of **POLAND**, the company sorts waste and, when performing repair works, leases special containers for waste, debris and chips.

Special waste sorting containers are installed in all the Group companies' offices.

33,500

customers in Lithuania receive their bills for the provided services by e-mail.



(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position

	Notes	As of 31 December 2016	As of 31 December 2015
ASSETS			
Non-current assets			
Goodwill	4	11,532	9,391
Other intangible assets	5	26,092	19,045
Property, plant and equipment	6	18,606	18,575
Investment property	7	160	479
Investment into associate	1	184	238
Non-current receivables	12	5,419	17,384
Deferred income tax asset	28	2,474	5,155
Total non-current assets		**64,467**	**70,267**
Current assets			
Inventories	10	1,607	1,510
Prepayments	11	1,125	1,495
Trade receivables	13	34,718	40,823
Receivables from related parties (including loans granted)	33	135	106
Other receivables		2,134	1,607
Prepaid income tax		599	526
Accrued income	13	2,878	3,027
Cash and cash equivalents	14	30,271	16,858
Total current assets		**73,467**	**65,952**
Total assets		**137,934**	**136,219**

(cont'd on the next page)

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

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position (cont'd)

	Notes	As of 31 December 2016	As of 31 December 2015
EQUITY AND LIABILITIES			
Equity			
Share capital	1	9,483	9,483
Share premium	15	21,067	21,067
Reserves	15, 2.2	263	(226)
Retained earnings		38,002	39,811
Equity attributable to equity holders of the parent		**68,815**	**70,135**
Non-controlling interests		317	434
Total equity		**69,132**	**70,569**
Liabilities			
Non-current liabilities			
Non-current borrowings	16	17,998	13,055
Financial lease obligations	18	2,027	1,661
Deferred income tax liability	28	3,815	2,755
Provisions for employee benefits	20	242	196
Provisions and other non-current payables	17	1,748	661
Total non-current liabilities		**25,830**	**18,328**
Current liabilities			
Current loans	16	334	2,739
Current portion of non-current borrowings	16	2,989	3,738
Current portion of financial lease obligations	18	998	1,067
Trade payables and payables to related parties	21, 33	18,400	16,535
Advances received	22	5,850	7,981
Income tax payable	28	584	566
Provisions for employee benefits	20	215	252
Other current liabilities	23	13,602	14,444
Total current liabilities		**42,972**	**47,322**
Total liabilities		**68,802**	**65,650**
Total equity and liabilities		**137,934**	**136,219**

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

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of comprehensive income

	Notes	2016	2015
Continuing operations			
Sales	3	174,267	167,188
Cost of sales	24	(141,636)	(132,603)
Gross profit		**32,631**	**34,585**
General and administrative expenses	25	(26,721)	(28,858)
Other operating income	26	1,567	2,057
Other operating expenses	26	(2,124)	(1,901)
Profit from operations		**5,353**	**5,883**
Finance income	27	1,497	3,139
Finance expenses	27	(1,269)	(1,552)
Share of profit (loss) of associates	1	(54)	67
Profit before tax		**5,527**	**7,537**
Income tax	28	(4,261)	(1,353)
Net profit from continued operations		**1,266**	**6,184**
Discontinued operations			
Net profit from discontinued operations	8	-	1,549
Net profit		**1,266**	**7,733**
Other comprehensive income that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		456	(223)
Total comprehensive income for the year, net of tax		**1,722**	**7,510**
Net profit attributable to:			
The shareholders of the Company		1,385	8,100
Non-controlling interests		(119)	(367)
		1,266	**7,733**
Total comprehensive income attributable to:			
The shareholders of the Company		1,841	7,877
Non-controlling interests		(119)	(367)
		1,722	**7,510**
Basic and diluted earnings per share (EUR)	29		
From continued operations		0.04	0.21
From discontinued operations		-	0.05

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

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Consolidated statement of changes in equity

Group	Notes	Share capital	Share premium	Foreign currency translation reserve	Other reserves	Retained earnings	Discon-tinued operations	Subtotal	Non-controlling interest	Total
		Attributable to equity holders of the parent								
Balance as of 1 January 2015		**9,155**	**21,383**	**(914)**	**2,656**	**32,671**	**(343)**	**64,608**	**600**	**65,208**
Net profit for the year		-	-	-	-	8,100	-	8,100	(367)	7,733
Other comprehensive income		-	-	(223)	-	-	-	(223)	-	(223)
Total comprehensive income		-	-	(223)	-	8,100	-	7,877	(367)	7,510
Dividends declared	30	-	-	-	-	(948)	-	(948)	-	(948)
Disposal of subsidiary	1	-	-	(1,745)	-	-	343	(1,402)	201	(1,201)
Increase in share capital		316	(316)	-	-	-	-	-	-	-
Effect of euro adoption to share capital		12	-	-	-	(12)	-	-	-	-
Balance as of 31 December 2015		**9,483**	**21,067**	**(2,882)**	**2,656**	**39,811**	**-**	**70,135**	**434**	**70,569**
Net profit for the year		-	-	-	-	1,385	-	1,385	(119)	1,266
Other comprehensive income		-	-	456	-	-	-	456	-	456
Total comprehensive income		-	-	456	-	1,385	-	1,841	(119)	1,722
Dividends declared	30	-	-	-	-	(3,161)	-	(3,161)	-	(3,161)
Acquisition of non-controlling interest	4	-	-	-	-	-	-	-	2	2
Transfer to legal reserve		-	-	-	33	(33)	-	-	-	-
Balance as of 31 December 2016		**9,483**	**21,067**	**(2,426)**	**2,689**	**38,002**	**-**	**68,815**	**317**	**69,132**

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

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(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of cash flows

	Notes	2016	2015*
Cash flows from (to) operating activities			
Net profit from continued operations		1,266	6,184
Net profit from discontinued operations		-	1,549
Adjusting items:			
Income tax expenses	8, 28	4,261	1,401
Depreciation and amortisation	5, 6, 7	4,326	4,155
Impairment and write-off of accounts receivable	8, 25	692	1,147
Loss on disposal of property, plant and equipment	8, 26	(10)	28
Provisions for potential obligations from guarantees provided for subsidiary Concentra customers	2.20	1,253	-
(Gain) loss from sale of investments	1	-	(3,712)
Interest (income)	8, 27	(786)	(1,282)
Interest expenses	8, 27	692	946
Result on remeasuring of assets and liabilities to liquidation value (subsidiary Concentra, Note 2.20)	2.20	(3,318)	-
Other financial activity result, net		363	65
Share of net profit (loss) of associate		54	(67)
		8,793	10,414
Changes in working capital:			
(Increase) decrease in inventories		(14)	(425)
Decrease (increase) in trade receivables, receivables from related parties, non-current receivables, other receivables and other current assets		16,347	(508)
Decrease (increase) in prepayments		279	(721)
Increase (decrease) in trade payables and payables to related parties		4,907	(1,876)
Income tax (paid)		(1,701)	(2,078)
(Decrease) increase in advances received and other current liabilities		(1,580)	2,634
Net cash flows from (to) operating activities		**27,031**	**7,440**

(cont'd on the next page)

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

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

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of cash flows (cont'd)

	Notes	2016	2015*
Cash flows from (to) investing activities			
(Acquisition) of non-current assets	5, 6, 7	(3,555)	(2,731)
Proceeds from sale of non-current assets		199	1,447
(Acquisition) of investments in subsidiaries and associates (net of cash acquired in the Group)	1, 4	(7,185)	(2,068)
Disposal of investments in subsidiaries and associates	1	-	3,535
Interest received		783	1,089
Dividends received		10	10
Net cash flows from (to) investing activities		**(9,748)**	**1,282**
Cash flows from (to) financing activities			
Dividends (paid)		(3,161)	(948)
Proceeds from loans		7,679	1,353
Financial lease (payments)		(1,213)	(1,121)
Loans (repaid)		(6,715)	(3,400)
Interest (paid)		(774)	(931)
Net cash flows from (to) financing activities		**(4,184)**	**(5,047)**
Net increase (decrease) in cash and cash equivalents		**13,099**	**3,675**
Foreign exchange difference		**314**	**(236)**
Cash and cash equivalents at the beginning of the year (continued operations)		**16,858**	**13,362**
Cash and cash equivalents at the beginning of the year (discontinued operations)		**-**	**57**
Cash and cash equivalents at the end of the year (continued operations)		**30,271**	**16,858**
Cash and cash equivalents at the end of the year (discontinued operations)		**-**	**-**
Supplemental information of cash flows:			
Non-cash investing activity:			
Property, plant and equipment acquisitions financed by finance leases		1,485	1,361
Non-cash acquisition of fixed assets		-	178

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

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

(all amounts are in EUR thousand unless otherwise stated)

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 in the course of reorganization has taken over a public limited liability company City Service AS rights and liabilities.

The Company controls corporate group, engaged in the 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 the whole Lithuania, Poland, Spain, Latvia, in St. Petersburg city in Russian Federation.

As of 31 December 2016 the number of employees of the Group was 5,559 (as of 31 December 2015 – 5,291).

As of 31 December 2016 and 2015 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.

As of 31 December 2016 and 2015 the shareholders of the Company were:

	2016		2015	
	Number of shares held	**Owned percentage of the share capital and votes, %**	**Number of shares held**	**Owned percentage of the share capital and votes, %**
UAB ICOR	26,813,293	84.83%	26,813,293	84.83%
Genesis Emerging Markets OPP FD LTD	-	-	1,605,183	5.08%
Other private and institutional shareholders	4,796,707	15.17%	3,191,524	10.09%
Total	**31,610,000**	**100 %**	**31,610,000**	**100 %**

The ultimate parent of the Company is Global energy consulting OÜ, a holding company registered in Estonia.

The parent of City Service SE, UAB ICOR, has pledged part of the Company's shares, i.e. 17,396,275 units, which constitutes 55.03% the authorized capital of the Company, to a bank. The right to transfer, pledge or dispose of the abovementioned shares otherwise has been restricted. All other property and non-property rights of UAB ICOR, as the shareholder, are free from any encumbrances or restrictions.

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

The share capital of the Company is EUR 9,483 thousand as of 31 December 2016 and 2015. It is divided into 31,610 thousand ordinary shares with the nominal value of EUR 0.30 each.

All shares of the Company are fully paid. The Company does not have any other classes of shares than ordinary shares mentioned above, there are no restrictions of share rights or special control rights for the shareholders set in the articles of association of the Company. No shares of the Company are held by itself or its subsidiaries. No convertible securities, exchangeable securities or securities with warrants are outstanding; likewise, there are no outstanding acquisition rights or undertakings to increase share capital as of 31 December 2016 and 2015.

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Structure of the Group

On 31 December the City Service SE group consists of the parent City Service SE and the following directly and indirectly controlled subsidiaries (hereinafter – the Group):

Company	Country	Share of the stock held by the Group as of 31 December 2016	Share of the stock held by the Group as of 31 December 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 Birštono būstas	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 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 Klaipėdos būstas LT	Lithuania	100%	100%	Administration of dwelling-houses
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 plius	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 Būsto Sauga	Lithuania	100%	-	Security services
UAB Mano Sauga	Lithuania	100%	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%	100%	Marketplace administration services
UAB Nemuno būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Nemuno būsto priežiūra	Lithuania	-	100%	Dormant
UAB Neries būstas	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%	Administration of dwelling-houses
UAB Pietinis būstas	Lithuania	100%	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 Šilalės butų ūkis	Lithuania	100%	-	Administration of dwelling-houses

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UAB Šilalės būstas	Lithuania	100%	-	Dormant
UAB Šiaulių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Šilutės būstas	Lithuania	99.84%	99.84%	Administration of dwelling-houses
UAB Toirenta	Lithuania	100%	-	Rental of bio toilets and sewage disposal services
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%	Administration of dwelling-houses
UAB Viršuliškių 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
Grupo Aresi de Inversiones (SPAIN) s. l.	Spain	100%	-	Holding company
SIA CS	Latvia	100%	100%	Dormant
SIA Namu serviss APSE	Latvia	100%	100%	Administration of dwelling-houses
SIA City Service	Latvia	100%	100%	Commercial real estate management and building maintenance
SIA Latvijas Namsaimnieks	Latvia	100%	-	Administration of dwelling-houses
SIA L-Namsaimnieks	Latvia	100%	-	Administration of dwelling-houses
SIA Namserviss	Latvia	100%	-	Dormant
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%	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%	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%	100%	Administration of dwelling-houses
Skydas - Przeglądy Budowlane sp. z o.o.	Poland	100%	-	Construction and engineering
TED sp. z o.o.	Poland	100%	-	Real estate management
Zespół Zarządców Nieruchomości sp. z o.o.	Poland	100%	100%	Administration of dwelling-houses
ZZN Inwestycje sp. z o. o.	Poland	100%	-	Dormant
OAO Сити Сервис / OAO City service	St. Petersburg	100%	100%	Administration of dwelling-houses

(all amounts are in EUR thousand unless otherwise stated)

ЗАО Сити Сервис / ZAO City service	St. Petersburg	100%	100%	Administration of dwelling-houses
ОАО Специализи-рованное ремонтно-наладочное управление	St. Petersburg	100%	100%	Construction and engineering
ООО МН Групп	St. Petersburg	100%	100%	Country holding company
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. Petersburg	100%	99%	Elevator installing & tech. support

* City Service SE controls Home Rent sp. z o.o. through its involvement with the investee and has the ability to affect the variable returns through its power over the investee.

1 General information (cont'd)

Changes in the Group in 2016

In 2016 the Group acquired several subsidiaries (acquisitions in more details are disclosed in Note 4):

- In 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 2 June 2016 the Company, through its Polish subsidiary, acquired Dom Best sp. z o.o., which manages residential facilities in Poland.
- On 8 August 2016 the Company, through its Polish subsidiary, acquired company TED sp. z o.o., which manages residential facilities in Poland.
- On 12 August 2016 the Company, through its Lithuanian subsidiary, acquired company UAB Toirenta, which provides bio toilets rent and sewage disposal services in Lithuania.
- On 13 September 2016 the Company, through its Lithuanian subsidiary, acquired company UAB Šilalės butų ūkis, which manages residential facilities in Šilalė.
- On 3 October 2016 the Company, through its Latvian subsidiary, acquired company SIA Latio Namsaimnieks (subsequently was renamed to SIA Latvijas Namsaimnieks), which manages 290 thousand sq. m. of residential facilities in Latvia. It also provides services to commercial objects, total 37 thousand sq. m.
- On 28 November 2016 the Company, through its Latvian subsidiary, acquired company SIA Latvijas Namsaimnieks (subsequently was renamed to SIA L-Namsaimnieks), which manages 47 thousand sq. m. of residential facilities in Latvia.

In addition, in 2016 there were several reorganizations (changes in the legal structure of the Group) performed as outlined below:

- 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 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 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 27 October 2016 reorganization of the company UAB Mano Sauga was completed and there was established a new company UAB Mano Būsto Sauga. After the process of reorganization UAB Mano Sauga activity was separated into public and private sectors. Activity in the private sector with all the assets, rights and obligations was transfered to a newly established UAB Mano Būsto Sauga. UAB Mano Sauga will continue to provide services in the public sector.
- On 9 November 2016 reorganization of the companies UAB Žardės būstas, UAB Pempininkų būstas and UAB Vingio būstas was completed. After the process of reorganization UAB Pempininkų būstas and UAB Vingio būstas was incorporated into UAB Žardės būstas with all the assets, rights and obligations. UAB Pempininkų būstas and UAB Vingio būstas ceased operations and were deregistered. After reorganization UAB Žardės būstas director and other contact details did not change. On 14 November 2016 UAB Žardės būstas company title was changed into UAB Klaipėdos būstas LT.
- At the end of 2016 the Group management made a decision that Concentra Servicios y Mantenimiento S.A., subsidiary of City Service SE, would file for bankruptcy in Spain (for more details see Note 2.20).

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Changes in the Group in 2015

On 3 August 2015 shares of group of companies active in Stavropol were sold. Value of the share sale – purchase agreement is RUB 4 million (EUR 55 thousand). Information about the disposed subsidiary is summarized below:

Date of disposal	**Group of companies in Stavropol 3 August, 2015**
Goodwill	-
Non-current assets other than goodwill	311
Current assets other than cash and cash equivalents	3,529
Cash and cash equivalents	60
Non-current and current liabilities	(5,560)
Total net assets disposed of	
attributable to equity holders of the parent	(1,459)
attributable to non-controlling interests	(201)
Currency translation reserve realized on sale	1,402
Total consideration received, all consisting of cash and cash equivalents	55

The Group recorded the net profit of EUR 2,301 thousand from the sale of shares of the subsidiary which includes impairment loss for amount of EUR 615 thousand from the Group's receivables from disposed subsidiaries in Stavropol at the date of disposal. Result from the sale was accounted in discontinued operations in 2015.

In 2015 the Group acquired several subsidiaries (acquisitions in more details are disclosed in Note 4):

- On 2 March 2015, the Company through a subsidiary has acquired three companies (Administracion Urbana y Rural Chorro S.L.U., Afimen administracion de finques, S.L.U., Elche administracion de fincas, S.L.U.), that manages residential facilities in Alicante province, in Spain. The companies were acquired for EUR 640 thousand.
- On 22 June 2015, the Company through a subsidiary acquired two companies (UAB Šiaulių namų valda, UAB Apkaba), that manages 209 thousand sq. m. of residential facilities in Šiauliai. The companies were acquired for EUR 619 thousand.
- On 1 September 2015 Company through a subsidiary operating in Poland acquired Famix sp. z o.o., which manages residential facilities in Poland.
- On 2 September 2015 Company through a subsidiary operating in Poland acquired Santer Zarządzanie Nieruchomościami sp. z o.o., which manages residential facilities in Poland.
- On 16 November 2015 the Company through a subsidiary acquired UAB Naujosios Vilnios turgavietė which operates in marketplace administration area. The company was acquired for EUR 290 thousand.
- On 12 December 2015 the Company through a subsidiary operating in Russia acquired OOO MH Групп - a dormant company which is planned to be used to structure Group's activities in Russia.
- On 21 December 2015 the Company through a subsidiary operating in Poland established Grupa Techniczna 24 sp. z o.o.

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Changes in the Group in 2015 (cont'd)

In addition, in 2015 there were several reorganizations (changes in the legal structure of the Group) performed as outlined below:

- On 5 January 2015, City Service Grupa Techniczna sp. z o.o. after the process of reorganization was incorporated into the company Interbud Max sp. z o.o. and after this the name of Interbud Max sp. z o.o. was changed to City Service Grupa Techniczna sp. z o.o.
- On 16 April 2015 reorganization of the companies UAB Šiaulių būstas and UAB Šiaulių butų ūkis was completed. After the process of reorganization UAB Šiaulių butų ūkis was incorporated into UAB Šiaulių būstas with all the assets, rights and obligations. UAB Šiaulių butų ūkis ceased its operations and was deregistered. Director and contact details of UAB Šiaulių būstas did not change.
- On 10 August 2015 the cross-border merger of AB City Service and City Service AS (former name – City Service EU AS) was completed. Following the completion of the merger AB City Service was merged into City Service AS, which has taken over all assets, rights and liabilities of AB City Service. AB City Service was dissolved without going into liquidation and City Service AS continued the activities and is the legal successor of AB City Service, i.e. the company resulting from the merger.
- On 27 October 2015 conversion of City Service AS into a European public limited liability company (Societas Europaea, SE) was completed. The legal form of the Company was changed into a SE, the name of the converted company became City Service SE, which by operation of law took over all the assets, rights and liabilities of the Company.

Investment into associates

The Group's investments in associates as of 31 December 2016 and 2015 included an investment in Marijampolės butų ūkis UAB (34% of the share capital), which was acquired on 16 May 2011 and which activity is administration of dwelling-houses.

On 12 February 2015, AWT Holding UAB shares transfer transaction was completed for EUR 3,496 thousand. The share purchase agreement between the Company and BaltCap investment funds (BaltCap Private Equity Fund II L.P. and BaltCap Private Equity Fund II SCSp) was concluded on 23 December 2014. After closing, the sole shareholder of AWT Holding UAB, which controls Ecoservice group companies, is BaltCap and the Company has no shares or management rights in waste management companies in Lithuania. Gain on financial income was reported under finance income (Note 27).

The Group accounted for the associates' results attributable to the Group amounting to respectively EUR (44) thousand and EUR 67 thousand in the statement of comprehensive income for the year ended 31 December 2016 and 2015. In 2016 the Group received EUR 10 thousand dividends from associates (in 2015 – EUR 10 thousand).

Summarized financial information of associates as of 31 December (unaudited):

	UAB Marijampolės butų ūkis 2015	**UAB Marijampolės butų ūkis 2016**
Non-current assets	113	97
Current assets	524	661
Non-current liabilities	(82)	(42)
Current liabilities	(222)	(543)
Net assets	333	173
Revenue	1,006	982
Net profit (loss)	38	(129)
Group's carrying amount of the investment	**238**	**184**

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2 Accounting policies

2.1. Basis of preparation

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

The Company's management authorised these financial statements on 28 April 2017. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

Financial statements of the Group have been prepared on a historical cost basis, except for net assets of the subsidiary Concentra, which are carried at estimated liquidation values as disclosed futher in Note 2.20.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2016:

- **Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative***
  The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. The implementation of this amendment had no impact on the financial statements of the Group.

- **Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization***
  The amendment is effective for annual periods beginning on or after 1 January 2016 and provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment had no impact on the financial statements of the Group.

- **Amendments to IAS 16 *Property, Plant & Equipment* and IAS 41 *Agriculture: Bearer Plants***
  The amendment is effective for annual periods beginning on or after 1 January 2016. Bearer plants are now within the scope of IAS 16 Property, Plant and Equipment and are subject to all of the requirements therein. The Group had no transactions in scope of this amendment.

- **Amendments to IAS 19 *Employee Benefits***
  The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. These amendments have no impact as the Group has no such defined benefit obligations.

- **Amendments to IAS 27 *Equity method in separate financial statements***
  The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The implementation of this amendment had no impact on the financial statements of the Group or Parent company financial information presented in Note 36.

- **Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations***
  The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group had no transactions in scope of this amendment.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

- **Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the consolidation exception***
  The amendments address three issues arising in practice in the application of the investment entities consolidation exception. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Finally, the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. No impact as no investment entities are in the Group.

- The IASB has issued the **Annual Improvements to IFRSs 2010 – 2012 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Company's financial statements:
  - IFRS 2 *Share-based Payment*;
  - IFRS 3 *Business Combinations*;
  - IFRS 8 *Operating Segments*;
  - IFRS 13 *Fair value Measurement;*
  - IAS 16 *Property, Plant and Equipment*;
  - IAS 24 *Related Party Disclosures;*
  - IAS 38 *Intangible Assets.*

- The IASB has issued the **Annual Improvements to IFRSs 2012 – 2014 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements:
  - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
  - IFRS 7 *Financial Instruments: Disclosures*;
  - IAS 19 *Employee Benefits*;
  - IAS 34 *Interim Financial Reporting.*

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 for the financial year beginning as of 1 January 2018 and is currently assessing the impacts of its adoption on the consolidated financial statements. Based on preliminary assessment made by the Management, implementation of the standard is expect to have limited or no impact because the Group has only the type of financial instruments for which classification and measurement is not expected to change, mainly trade receivables and payables and bank loans taken. More detailed assessment will be made in 2017.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2018)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Currently, it is expected that changes in the total amount of revenue to be recognized for a customer contract, as well as timing of revenue recognition, will be minimal. Based on the preliminary analyses performed, the Group does not expect significant impacts on its Consolidated Financial Statements as the Group does not have long-term contracts with multi-element arrangements, no take-or-pay agreements, no sales incentives are provided, no contract costs are generally incurred or upfront payments made, contract modifications are rare etc. Detailed analysis on implementation of the standard will be made in 2017.

IFRS 15: *Revenue from Contracts with Customers (Clarifications)* (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Detailed analysis on implementation of IFRS 15 and its clarifications will be made in 2017.

IFRS 16 *Leases* (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. Detailed analysis on implementation of IFRS 16 will be made in 2017 and 2018.

Amendments to IAS 7 *Statement of Cash Flows: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Group but may result in changes in disclosures.

Amendments to IAS 12 *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Group has not yet evaluated the impact of the implementation of this standard.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

IFRS 2: *Classification and Measurement of Share based Payment Transactions (Amendments)* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes

The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Group has no share based payment transactions thus these amendments have no impact.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. These amendments have no impact as the Group has no such financial instruments.

Amendments to IAS 40: Transfers to Investment Property (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group has not yet evaluated the impact of the implementation of this standard.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group has not yet evaluated the impact of the implementation of this standard.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of these amendments.

- ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.
- ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

The Group plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

2.2. Measurement and presentation currency

The amounts shown in these financial statements are presented in the local currency of the Republic of Estonia, Euro (EUR), rounded to EUR thousand, unless otherwise stated. Due to rounding the amounts presented in the financial statement notes may not reconcile by insignificant amounts.

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

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

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

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

2.3. Principles of consolidation

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

Subsidiary is an entity directly or indirectly controlled by the Company. The Company controls an entity when it can or has a right to receive a variable returns from this relation and it can have impact on these returns due to the power to govern the entity to which the investment is made.

2 Accounting policies (cont'd)

2.3. Principles of consolidation (cont'd)

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

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

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

Upon loss of control over subsidiary, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of subsidiary upon loss of control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

<u>Business combinations</u>

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

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

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

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

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

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

2 Accounting policies (cont'd)

2.4. Investments in subsidiaries and associates (the Company)

Investments in subsidiaries and associates in the Company's separate financial statements (Note 36) are carried at cost, less impairment.

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

2.5. Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that the sale will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of comprehensive income. Additional disclosures are provided in Note 8. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

2.6. Intangible assets other than goodwill

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

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

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

Customer relationships	10 – 40 years
Other intangible assets	3 – 10 years

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

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

The Group does not have any intangible assets with infinite useful life other than goodwill.

(all amounts are in EUR thousand unless otherwise stated)

2 Accounting policies (cont'd)

2.7. Property, plant and equipment and investment property

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

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

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

Buildings (including investment property)	20 – 62.5 years
Vehicles	4 – 10 years
Other property, plant and equipment	3 – 6 years

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

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

Construction in progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are ready for intended use.

Investment property at initial recognition is accounted for at acquisition cost including transaction costs. Subsequent to initial recognition all investment property is accounted for at cost less accumulated depreciation and accumulated impairment losses.

Maintenance expenses of investment property are charged to profit and loss during the financial period in which they are incurred.

A transfer to/from investment property is performed when there is clear indication of changes in property use.

2.8. Financial assets

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

<u>Financial assets at fair value through profit or loss</u>

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

The Group does not have any financial instruments at fair value through profit or loss as of 31 December 2016 and 2015.

<u>Held-to-maturity investments</u>

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. The Group does not have any held-to-maturity investments as of 31 December 2016 and 2015.

2 Accounting policies (cont'd)

2.8. Financial assets (cont'd)

Loans and receivables

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

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with unrealized gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in profit or loss. Interest earned whilst holding available-for-sale financial assets is reported as interest incoming using effective interest rate method. The Group does not have any available-for-sale financial assets as of 31 December 2016 and 2015.

2.9. Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2 Accounting policies (cont'd)

Valuations are performed by the management at each reporting date. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of asset or liability and the level of the fair value hierarchy as explained above.

2.10. Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

2.11. Inventories

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

2.12. Cash and cash equivalents

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

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

Restricted cash balances comprise balances of cash and cash equivalents which are restricted as to withdrawal under the terms of certain borrowings, long-term agreements, court orders and other. Restricted cash balances are excluded from cash and cash equivalents in the consolidated statement of cash flows.

Restricted cash is presented as current and non-current accounts receivable in the statement of financial position as of 31 December 2015 and 2016.

2 Accounting policies (cont'd)

2.13. Borrowings

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

There were no borrowing costs matching the capitalisation criteria in 2016 and 2015.

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

2.14. Financial and operating leases

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

Financial lease

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

The depreciation is accounted for financial lease. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets cannot be depreciated over the period longer than lease term, unless the Group, according to the lease contract, gets transferred their ownership after the lease term is over.

Operating lease

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

2.15. Provision for employee benefits

According to the requirements of Lithuanian Labour Code, each employee leaving company at the age of retirement is entitled to a one-off payment in the amount of 2 month salary. According to the requirements of Polish law, each employee leaving the Group at the age of retirement is entitled to a one-off payment in the amount of 1 month salary.

Current year cost of employee benefits is recognised as incurred in the statement of comprehensive income. The past service costs are recognised as an expense as incurred in profit or loss. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in the statement of comprehensive income as incurred.

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

2 Accounting policies (cont'd)

2.16. Provisions

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

2.17. Income tax

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

The standard income tax rate in Lithuania was 15% in 2016 and 2015, Income tax rate in 2016 and 2015 in Russia, Latvia and Poland was 20%, 15% and 19% respectively. In Spain income tax rate in 2015 was 28% and starting from 01.01.2016 – 25%.

In accordance with the effective Estonian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2016 was 20/80 of the amount distributed as the net dividend (20/80 in 2015). As the object of taxation is dividends, not profit, there are no differences between the carrying amounts and tax bases of assets and liabilities which could give rise to deferred tax assets or liabilities. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared.

As at 31 December 2016, the Group's retained earnings amounted to EUR 38,002 thousand. From 1 January 2015, income tax upon the payment of dividends is 20/80 on the net dividends paid out, except from certain dividends received from foreign subsidiaries and permanent establishments that can be distributed to the shareholders tax free. As a result, no additional income tax liability would arise upon the payment of all the retained earnings as net dividends.

Tax losses in Lithuania can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the company changes its activities due to which these losses incurred except when the company does not continue its activities due to reasons which do not depend on company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. Tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum 70%.

Comparatively, tax losses in Russia can be carried forward for ten years and in Poland for five years, but value of the deduction may not exceed 50% of the taxable income earned during the reporting year. In Spain tax losses can be carried forward for indefinite period, but value of the deduction may not exceed 70% of the taxable income earned during the reporting year.

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

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

2.18. Revenue recognition

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

2 Accounting policies (cont'd)

2.18. Revenue recognition (cont'd)

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

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

Revenue from services is recognised when services are rendered.

Dividend income from subsidiaries is recognised in the Company's separate financial statements (Note 36) when the dividends are declared by the subsidiary.

Interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. It is included in finance income or expenses in the statement of comprehensive income.

2.19. Impairment of assets

<u>Financial assets</u>

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

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

<u>Other assets (excluding goodwill)</u>

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

2.20. Use of judgements and estimates in the preparation of financial statements

The preparation of financial statements in conformity with IFRS as adopted by EU requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation (Note 2.7 and Note 6), amortization (Note 2.6 and Note 5), percentage of completion evaluation for customer specific contracts (Note 2.18), provision for employee benefits (Note 2.15 and Note 20), impairment evaluation of goodwill, including allocation of Group assets to cash generating units (Note 2.3 and Note 4), other assets (Note 2.19, Note 5, Note 10, Note 11 and Note 12), assets held for sale and discontinued operations (Note 2.5, Note 8), liquidation values of net assets of subsidiary filing for bankruptcy as disclosed further in this note and contingencies related to foreign and local subsidiaries (Note 32). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

At the date of preparing these financial statements, the underlying assumptions and estimates were not subject to a significant risk that from today's point of view it is likely that the carrying amounts of assets and liabilities will have to be adjusted significantly in the subsequent fiscal year, except for the items described below.

Estimated useful life of customer relationships intangible assets, which are accounted for under other intangible assets and their acquisition value amounts to EUR 27,294 thousand as of 31 December 2016 and EUR 20,599 thousand as of 31 December 2015 (Note 5). The management amortises these customer relationship intangible assets over the estimated validity period of existing contracts, which is 10-40 years.

2 Accounting policies (cont'd)

2.20. Use of judgements and estimates in the preparation of financial statements (cont'd)

The management estimated the expected validity term of customer relationships based on the current development of the operations, i.e. already concluded contracts as well as current rate of terminated contracts, which is insignificant. Should the circumstances change in the future, the estimate may need to be revised and the size of such revision cannot be reasonably estimated at the date of these financial statements. The net book value of these intangible assets of the Group amount to EUR 23,690 thousand as of 31 December 2016 and EUR 17,595 thousand as of 31 December 2015 (see Note 5)

In addition, deferred tax asset recognized from tax loss carry forward - significant judgment exists that forecasted results will be achieved and tax losses will be utilized in the foreseeable future. The management estimated what part of the deferred tax asset will be utilized based on the best knowledge of the operations and results of the Group companies as at 31 December 2015 and 2016 (see Note 28). As disclosed in Note 28, EUR 2,120 thousand of the deferred income tax asset related to accumulated tax loss carry forward was written-off in 2016 as the subsidiary Concentra initiated filing for bankruptcy as disclosed further.

There is also significant judgmental area on the recoverability and presentation of the accounts receivable from public customers. These amounts are disclosed as current and non-current receivables based on the agreed schedules, court decisions or management judgment as of 31 December 2015 and 2016 (Note 12). Based on the management judgment the trade receivables from public customers are past due but not impaired. Respective receivables are carried at amortised costs using effective interest rate.

In addition, as disclosed in Note 13 as of 31 December 2016 the Group has EUR 1,648 thousand (EUR 2,494 thousand as of 31 December 2015) overdue more than a year current receivables from trade customers (public and private) which, based on the assessment of the management, were not impaired. This management judgment is based on the analysis of individual material overdue balances as well as analysis of general collection periods in a respective country.

During the financial year ended 31 December 2015 the Group's management implemented allowance estimate change for companies operating in Lithuania based on the update on debt collection trends. Positive impact for the financial year ended 31 December 2015 was EUR 0.67 million (decrease in expenses). Impact for subsequent periods was not estimated as it was impractical.

In 2016, the Group reclassified funds managed on the trust right, associated with Lithuanian subsidiaries, to off-balance sheet following the regulations of Government of Lithuania. The Group's management reassessed that the cash accounted in separate bank accounts and held on the trust right should no longer be presented in the Group's consolidated financial statements as cash and cash equivalents and advances received respectively as it is no longer meeting the recognition criteria.

The Group nets inflows and outflows of administered utilities turnovers, associated with residential houses administration activity in Latvia, as the Group's companies engaged in such activity primarily act as agent in respect of utilities provision for its clients.

2 Accounting policies (cont'd)

2.20. Use of judgements and estimates in the preparation of financial statements (cont'd)

At the end of 2016 the Group management made a decision that Concentra Servicios y Mantenimiento S.A., subsidiary of City Service SE, would file for bankruptcy in Spain and on 23 February 2017 Concentra Servicios y Mantenimiento S.A. has submitted a petition for bankruptcy to official institutions in Spain, authorized to initiate the bankruptcy procedure. The court's decision regarding assigning bankruptcy administrator is expected to be announced at the beginning of May, 2017. When preparing these financial statements the management of the Group concluded that as of 31 December 2016 the bankruptcy of this subsidiary was imminent taking into account the subsidiary's results of operations (recurring losses and worsening results) and inability of the subsidiary to meet its obligations as they fall due and continue as a going concern without financial support of the Parent and the Parent's management decision taken in 2016 to discontinue providing such financial support. The Group still controlled Concentra Servicios y Mantenimiento S.A. as of 31 December 2016 and continued to consolidate it in the financial statements for the year ended 31 December 2016 as until the bankruptcy administrator is appointed by the court, the Group retains the ability to govern operations and make decisions in the subsidiary, however the management concluded that the going concern basis of accounting for the net assets of this subsidiary in the 2016 consolidated financial statements is not appropriate. Considering limited available IFRS guidance and specific facts and circumstances the management assessed that the net realizable value (liquidation value) of accounting for these assets and liabilities is the most appropriate, whereas the recorded amount is based on the best estimate of the assets available to satisfy the obligation and the excess of liabilities over estimated liquidation value of the assets are derecognized in the consolidated financial statements as other Group entities have neither legal nor constructive obligation to satisfy such excess liabilities, except for certain limited specific guarantees issued, for which provisions have been estimated and recorded as disclosed in Note 17 in more detail. The table below summarizes the effect of this management estimate on the consolidated financial statements for the year ended 31 December 2016:

	Book value as of 31 December 2016, EUR thousand	Estimated liquidation value included in the Group's 2016 consolidated financial statements, EUR thousand
Intangible assets	289	-
Property plant and equipment	564	154
Deferred tax asset	4,098	-
Receivables	7,341	4,573
Other assets	2,448	1,740
Liabilities	(13,978)	(6,485)

Note 3, Note 5, Note 6, Note 13, Note 17, Note 23, Note 25 and Note 28 provide further information on estimated liquidation values of the subsidiary assets and liabilities included in the consolidated financial statements as of December 2016. Total excess of liabilities over estimated liquidation value of the assets of the subsidiary of EUR 3,318 thousand was de-recognized in the consolidated financial statements (Note 25) and additional provisions of EUR 1,253 thousand was recorded for Parent company guarantees issued in relation to the obligations of this subsidiary (Note 17, not included in the liabilities in the table above).

2.21. Contingencies

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

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

2.22. Subsequent events

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

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information

For management purposes, the Group is organized into business units based on services provided and have one main reportable segment as follows:

- Buildings' administration

Segment of Buildings' administration includes services of administration and maintenance of commercial and residential buildings. The segment also includes services of maintenance of engineering systems to educational institutions. The segment information is presented as analysed by chief operating decision maker of the Group (the Board), i.e. allocated to Baltic states, St. Petersburg, Poland and Spain.

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

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

Transfer prices between operating segments are based on the prices set by the management, which management considers to be similar to transactions with third parties.

Operating Segments

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

Year ended 31 December 2016	**Buildings' administration**				
	Baltic states	**St. Petersburg**	**Poland**	**Spain**	**Total**
Revenue	74,211	34,439	26,794	38,823	174,267
Total revenue					**174,267**
Segment results	2,811	526	(1,091)	3,812[1]	6,058
Unallocated expenses					(705)[2]
Profit from operations					**5,353**
Net financial income					174[3]
Profit / (loss) before income tax					5,527
Income tax expenses					(4,261)[3]
Net profit for the year					**1,266**
Other segment information					
Capital expenditure	1,971	74	1,432	1,563	**5,040**

[1]Includes operating loss for the year of commercial property administration activity amounting to EUR 3,375 thousand as well as the positive effect of write-off of liabilities exceeding total assets at liquidation value available to satisfy claims of the creditors (see note 2.20) of EUR 3,318 thousand.
[2]Unallocated expenses include general and administrative expenses (EUR 705 thousand) identifiable as costs managed on a group basis.
[3]Financing of the Group and income taxes are managed on a group basis and are not allocated to operating segments.

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information (cont'd)

Year ended 31 December 2015	**Buildings' administration**					
	Baltic states	**St. Petersburg**	**Poland**	**Spain**	**Stavropol, discontinued operations**	**Total**
Revenue	68,400	32,447	24,918	41,423	7,650	174,838[4]
Total revenue						**174,838**
Segment results	7,516	609	(247)	(1,054)	(667)	6,157
Unallocated expenses						(941)[5]
Profit from operations						**5,216**
Net financial income						3,918[5]
Profit / (loss) before income tax						9,134
Income tax expenses						(1,401)[6]
Net profit for the year						**7,733**
Other segment information						
Capital expenditure	2,299	125	1,492	332	-	**4,248**

[4]Total revenue presented including discontinued operations.
[5]Unallocated expenses include general and administrative expenses (EUR 941 thousand) identifiable as costs managed on a group basis.
[6]Financing of the Group and income taxes are managed on a group basis and are not allocated to operating segments.

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information (cont'd)

Geographical information

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

2016	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Revenue					
Sales to external customers	38,823	26,794	74,211	34,439	174,267
Segment revenue	**38,823**	**26,794**	**74,211**	**34,439**	**174,267**

2015	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Revenue					
Sales to external customers	41,423	24,918	68,400	32,447	167,188
Segment revenue	**41,423**	**24,918**	**68,400**	**32,447**	**167,188**

The major part of sales in the Baltic States comprises sales in Lithuania.

As of 31 December 2016	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Non-current assets					
Segment assets	3,190	17,244	41,416	2,617	64,467
Total non-current assets	**3,190**	**17,244**	**41,416**	**2,617**	**64,467**

As of 31 December 2015	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Non-current assets					
Segment assets	6,602	12,740	48,553	2,372	70,267
Total non-current assets	**6,602**	**12,740**	**48,553**	**2,372**	**70,267**

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

There are no individual customers exceeding 10% of segment sales as of 31 December 2016 and 2015.

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill

	Group
Cost:	
Balance as of 1 January 2015	9,388
Additions	106
Exchange differences	(19)
Balance as of 31 December 2015	9,475
Additions	2,053
Exchange differences	88
Balance as of 31 December 2016	11,616
Impairment:	
Balance as of 31 December 2015	84
Balance as of 31 December 2016	84
Net book value as of 31 December 2016	**11,532**
Net book value as of 31 December 2015	**9,391**

Acquisitions during 2016

As described in Note 1, during 2016 the Group acquired the following entities:

Name of entity acquired	Acquisition cost	Notes
Parama Group sp. z o.o.	PLN 13.5 million (EUR 3.2 million)	All paid in cash
Dom Best sp. z o.o.	PLN 2.4 million (EUR 546 thousand)	All paid in cash
TED sp. z o.o.	PLN 900 thousand (EUR 210 thousand)	All paid in cash
UAB Toirenta	EUR 378 thousand	All paid in cash
UAB Šilalės butų ūkis	EUR 202 thousand	All paid in cash
SIA Latvijas Namsaimnieks (also owns SIA Namserviss)	EUR 3.1 million	All paid in cash
SIA L-Namsaimnieks	EUR 210 thousand	All paid in cash

At the acquisition of these subsidiaries a provisional goodwill of EUR 2.1 million has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from horizontal expansion of business.

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

Acquisitions during 2015

As described in Note 1, during 2015 the Group acquired the following entities:

Name of entity acquired	Acquisition cost	Notes
UAB Apkaba	EUR 291 thousand	All paid in cash
UAB Šiaulių namų valda	EUR 328 thousand	All paid in cash
Administracion Urbana y Rural Chorro S.L.U., Afimen administracion de finques, S.L.U., Elche administracion de fincas, S.L.U.	EUR 640 thousand	EUR 340 thousand paid in cash, EUR 300 thousand accounted as contingent payment
Famix sp. z o.o.	PLN 3.1 million (EUR 724 thousand)	All paid in cash
Santer Zarządzanie Nieruchomościami sp. z o.o.	PLN 2.2 million (516 thousand)	All paid in cash
UAB Naujosios Vilnios turgavietė	EUR 290 thousand	All paid in cash

At the acquisition of these subsidiaries a finalized goodwill (provisional goodwill, calculated in 2015, remained the same and no adjustments were required in 2016) of EUR 106 thousand has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from vertical expansion of business.

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

The provisional fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2016 were as follows:

Fair value of assets, liabilities and contingent liabilities	**Parama Group***	**Dom Best**	**TED**	**Toirenta**	**Šilalės butų ūkis**	**Latvijas Namsaim-nieks****	**L-Namsaim-nieks**
Date of acquisition	**1 April**	**2 June**	**8 August**	**12 August**	**13 September**	**3 October**	**28 November**
Intangible assets	2,519	575	201	169	232	2,789	179
Property, plant and equipment***	7	6	5	152	-	137	12
Other non-current assets	-	-	-	7	-	3	557
Deferred tax asset	10	-	-	5	-	80	-
Trade receivables	142	12	25	60	27	388	123
Other current assets	230	19	47	6	156	261	49
Total assets	**2,908**	**612**	**278**	**399**	**415**	**3,658**	**920**
Long-term liabilities	-	-	-	-	-	-	572
Current portion of long-term liabilities	-	-	-	21	-	10	68
Deferred tax liability	475	109	38	25	35	414	27
Trade payables	117	-	21	36	59	396	41
Other current liabilities	26	29	27	65	121	517	132
Total liabilities	**618**	**138**	**86**	**147**	**215**	**1,337**	**840**
Total identifiable net assets at fair value	**2,290**	**474**	**192**	**252**	**200**	**2,321**	**80**
attributable to equity holders of the parent	2,288	474	192	252	200	2,321	80
attributable to non-controlling interests	2	-	-	-	-	-	-

* 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.
** SIA Latvijas Namsaimnieks also owns SIA Namserviss.
*** Including investment property.

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

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

Book value	**Parama Group***	**Dom Best**	**TED**	**Toirenta**	**Šilalės butų ūkis**	**Latvijas Namsaim-nieks****	**L-Namsaim-nieks**
Date of acquisition	**1 April**	**2 June**	**8 August**	**12 August**	**13 September**	**3 October**	**28 November**
Intangible assets	19	3	-	-	-	34	-
Property, plant and equipment***	7	6	5	152	-	137	12
Other non-current assets	-	-	-	7	-	3	616
Deferred tax asset	-	-	-	5	-	-	-
Trade receivables	194	12	25	60	27	640	116
Other current assets	243	20	47	7	155	296	50
Total assets	**463**	**41**	**77**	**231**	**182**	**1,110**	**794**
Long-term liabilities	-	-	-	-	-	-	631
Current portion of long-term liabilities	-	-	-	21	-	10	9
Deferred tax liability	-	-	-	-	-	1	-
Trade payables	117	-	21	36	59	213	41
Other current liabilities	26	29	27	31	121	386	132
Total liabilities	**143**	**29**	**48**	**88**	**180**	**610**	**813**

* 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.
** SIA Latvijas Namsaimnieks also owns SIA Namserviss.
*** Including investment property.

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

The differences between the amounts paid and the provisional fair values of assets acquired, liabilities and contingent liabilities assumed on the acquisitions of 2016 were as follows:

	Parama Group	**Dom Best**	**TED**	**Toirenta**	**Šilalės butų ūkis**	**Latvijas Namsaim-nieks**	**L-Namsaim-nieks**
Date of acquisition	**1 April**	**2 June**	**8 August**	**12 August**	**13 September**	**3 October**	**28 November**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	2,288	474	192	252	200	2,321	80
Non-controlling interests	2	-	-	-	-	-	-
Goodwill	891	72	18	126	2	814	130
Total purchase consideration	**3,181**	**546**	**210**	**378**	**202**	**3,135**	**210**
Cash acquired	232	19	45	5	155	192	29
Total purchase consideration, net of cash acquired	**2,949**	**527**	**165**	**373**	**47**	**2,943**	**181**

	Parama Group	**Dom Best**	**TED**	**Toirenta**	**Šilalės butų ūkis**	**Latvijas Namsaim-nieks**	**L-Namsaim-nieks**
Date of acquisition	**1 April**	**2 June**	**8 August**	**12 August**	**13 September**	**3 October**	**28 November**
Profit (loss) incurred since acquisition date to 31 December 2016	172	11	(26)	(30)	9	37	5
Total revenue since acquisition date to 31 December 2016	2,579	203	162	149	42	691	37
Total revenue for the year 2016 (unaudited)	3,321	347	459	404	230	2,949	389
Total net result for the year 2016 (unaudited)	199	59	(27)	(7)	20	407	17

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

The fair values (provisional values, calculated in 2015, remained the same and no adjustments were required in 2016) of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2015 were as follows:

Fair value of assets, liabilities and contingent liabilities	**UAB Apkaba**	**UAB Šiaulių namų valda**	**Chorro, Afimen, Elche S.L.U.**	**Famix sp. z o.o.**	**Santer sp. z o.o.**	**UAB Naujosios Vilnios turgavietė**
Date of acquisition	**22 June**	**22 June**	**2 March**	**1 September**	**2 September**	**16 November**
Intangible assets	332	366	890	837	359	115
Property, plant and equipment	-	-	-	-	3	225
Deferred tax asset	3	3	-	-	-	-
Trade receivables	35	65	24	17	25	14
Other current assets	54	53	-	38	276	3
Total assets	**424**	**487**	**914**	**892**	**663**	**357**
Long-term liabilities	-	-	-	-	-	25
Deferred tax liability	50	55	222	159	67	17
Trade payables	16	24	20	14	7	34
Other current liabilities	80	100	61	20	75	8
Total liabilities	**146**	**179**	**303**	**193**	**149**	**84**
Total identifiable net assets at fair value	**278**	**308**	**611**	**699**	**514**	**273**
attributable to equity holders of the parent	278	308	611	699	514	273

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

Book value	**UAB Apkaba**	**UAB Šiaulių namų valda**	**Chorro, Afimen, Elche S.L.U.**	**Famix sp. z o.o.**	**Santer sp. z o.o.**	**UAB Naujosios Vilnios turgavietė**
Date of acquisition	**22 June**	**22 June**	**2 March**	**1 September**	**2 September**	**16 November**
Intangible assets	-	-	-	-	6	-
Property, plant and equipment	-	-	7	-	13	225
Other non-current assets	-	-	-	31	-	-
Deferred tax asset	-	-	-	-	-	-
Trade receivables	53	85	38	33	25	14
Other current assets	54	53	-	38	276	3
Total assets	**107**	**138**	**45**	**102**	**320**	**242**
Long-term liabilities	-	-	-	-	-	25
Deferred tax liability	-	-	-	-	-	-
Trade payables	16	24	20	14	7	34
Other current liabilities	80	100	61	20	75	8
Total liabilities	**96**	**124**	**81**	**34**	**82**	**67**

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

The differences between the amounts paid and the fair values (provisional values, calculated in 2015, remained the same and no adjustments were required in 2016) of assets acquired, liabilities and contingent liabilities assumed on the acquisitions of 2015 were as follows:

	UAB Apkaba	UAB Šiaulių namų valda	Chorro, Afimen, Elche S.L.U.	Famix sp. z o.o.	Santer sp. z o.o.	UAB Naujosios Vilnios turgavietė
Date of acquisition	**22 June**	**22 June**	**2 March**	**1 September**	**2 September**	**16 November**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	278	308	611	699	514	273
Non-controlling interests	-	-	-	-	-	-
Goodwill	13	20	29	25	2	17
Total purchase consideration	**291**	**328**	**640**	**724**	**516**	**290**
Cash acquired	54	52	-	37	272	6
Total purchase consideration, net of cash acquired	**237**	**276**	**640**	**687**	**244**	**284**

	UAB Apkaba	UAB Šiaulių namų valda	Chorro, Afimen, Elche S.L.U.	Famix sp. z o.o.	Santer sp. z o.o.	UAB Naujosios Vilnios turgavietė
Date of acquisition	**22 June**	**22 June**	**2 March**	**1 September**	**2 September**	**16 November**
Profit (loss) incurred since acquisition date to 31 December 2015	17	19	(92)	15	-	(1)
Total revenue since acquisition date to 31 December 2015	112	161	526	216	101	10
Total revenue for the year 2015 (unaudited)	230	348	612	665	317	121
Total net result for the year 2015 (unaudited)	11	22	(107)	39	32	27

<u>Disposals in 2015</u>

During 2015 the Group disposed subsidiaries that operated in the city of Stavropol. More detailed information is presented in Note 1.

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

For the purpose of impairment evaluation, the goodwill as of 31 December 2016 and 2015 was allocated to the following CGU:

Cash generating unit	Carrying value of allocated goodwill as of 31 December 2016	Carrying value of allocated goodwill as of 31 December 2015
Subsidiaries operating in Lithuania	9,011	8,800
Subsidiaries operating in Latvia	1,002	46
Subsidiaries operating in Poland	1,091	129
Subsidiaries operating in St. Petersburg	399	387
Subsidiary operating in Madrid (Spain)	-	-
Subsidiaries operating in Alicante (Spain)	29	29
	11,532	**9,391**

The recoverable amount of each cash generating unit as of 31 December 2016 and 2015 was determined based on the value in use calculation using cash flow projections based on the five-year financial forecasts prepared by the management. Both goodwill and customer relationships intangible assets for each CGU unit were included in the carrying value tested. Significant assumptions used for the assessment of the value in use in 2016 and 2015 are described further.

The forecasted revenues for CGU involved in administration of dwelling houses were estimated based on the area of the dwelling-houses administered as of 31 December 2016 and 2015 assuming that the area administered will remain the same in the future years and the growth in revenue will be derived from a service fee increase, which was forecasted to be in line with the estimated inflation rate. The costs were projected based on the actual cost level taking into account estimated inflation. Cash flows beyond the five-year period were extrapolated using 2% growth rate (2% in 2015) that reflects the best estimate of the management based on the current situation in the respective industry. The pre-tax discount rate used by the management was estimated for each individual cash generating unit as a weighted average cost of capital for that particular cash generating unit and is equal to 13% for cash generating units located in Lithuania, Latvia and Poland (13% in 2015), 12% for cash generating units in Madrid and Alicante (12% in 2015) and 22% for cash generating unit in St. Petersburg (22% was used in 2015).

In the opinion of the Group's management, the most important and most change-like assumptions are the level of capital expenditures and discount rate. Based on management's estimations, a reasonable change in these assumptions would not result in any impairment as of 31 December 2016 and 2015. At the moment of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used.

(all amounts are in EUR thousand unless otherwise stated)

5 Other intangible assets

Movement of other intangible assets in 2016 and 2015 is presented below:

	Other intangible assets
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	6,664
Additions	1,759
Exchange differences	21
Retirements	(73)
Reclassifications	9
Balance as of 31 December 2016	31,339
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 year	1,130
Impairment	289
Exchange differences	(13)
Retirements	(73)
Balance as of 31 December 2016	5,247
Net book value as of 31 December 2016	**26,092**
Net book value as of 31 December 2015	**19,045**

5 Other intangible assets (cont'd)

The main part of other intangible assets consists of customer relationship intangible assets, which are amortised during the period of 10-40 years. As of 31 December 2016 net book value of such intangible assets constituted EUR 23,690 thousand (EUR 17,595 thousand as of 31 December 2015).

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

The Group performed impairment test for customer relationships intangible assets as of 31 December 2016 and 2015. Significant assumptions used for the assessment of the recoverable value are presented in Note 4. All accounted impairment of intangible assets is associated with written down intangible assets to liquidation value of the subsidiary Concentra (see Note 2.20 for more details).

Part of the other intangible assets of the Group with the acquisition value of EUR 282 thousand as of 31 December 2016 was fully amortised but still in use (EUR 336 thousand of the Group as of 31 December 2015).

(all amounts are in EUR thousand unless otherwise stated)

6 Property, plant and equipment

Movement of property, plant and equipment in 2016 and 2015 is presented below:

	Buildings	Vehicles	Other property, plant and equipment	Construct-ion in progress	Total
Cost:					
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	3	18	245	-	266
Additions	334	1,030	1,381	536	3,281
Disposals	(63)	(148)	(15)	-	(226)
Exchange differences	(62)	122	(127)	(5)	(72)
Retirements	-	-	(257)	-	(257)
Reclassifications	449	47	(3)	(88)	405
Balance as of 31 December 2016	10,159	7,936	11,637	482	30,214
Accumulated depreciation:					
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 year	391	1,182	1,575	-	3,148
Impairment	-	-	410	-	410
Disposals	(14)	(135)	(4)	-	(153)
Exchange differences	-	103	(3)	-	100
Retirements	-	-	(225)	-	(225)
Reclassifications	87	20	(21)	-	86
Balance as of 31 December 2016	2,323	4,616	4,669	-	11,608
Net book value as of 31 December 2016	**7,836**	**3,320**	**6,968**	**482**	**18,606**
Net book value as of 31 December 2015	**7,639**	**3,421**	**7,476**	**39**	**18,575**

6 Property, plant and equipment (cont'd)

The depreciation charge of the Group's property, plant and equipment for the year 2016 amounts to EUR 3,148 thousand (EUR 2,992 thousand in the year 2015). Amount of EUR 1,990 thousand for the year 2016 (EUR 1,659 thousand for the year 2015) have been included into general and administrative expenses in the Group's statement of comprehensive income. The remaining depreciation expenses of property, plant and equipment have been included into the cost of sales.

Property, plant and equipment with an acquisition cost of EUR 5,820 thousand was fully depreciated as of 31 December 2016 (EUR 4,352 thousand as of 31 December 2015), but were still in active use.

As of 31 December 2016 buildings of the Group with a net book value of EUR 4,673 thousand (EUR 3,504 thousand as of 31 December 2015) were pledged to banks as collateral for the loans (Note 16).

Impairment of property, plant and equipment accounted in these financial statements is associated with written down tangible assets to liquidation value of the subsidiary Concentra (see Note 2.20 for more details).

(all amounts are in EUR thousand unless otherwise stated)

7 Investment property

Movement of the Group's investment property during 2016 and 2015 is presented below:

	Buildings
Cost:	
Balance as of 1 January 2015	629
Balance as of 31 December 2015	629
Additions arising from acquisition of subsidiaries	53
Reclassifications to property, plant and equipment	(411)
Balance as of 31 December 2016	271
Accumulated depreciation:	
Balance as of 1 January 2015	102
Charge for the year	48
Balance as of 31 December 2015	150
Charge for the year	48
Reclassifications to property, plant and equipment	(87)
Balance as of 31 December 2016	111
Net book value as of 31 December 2016	**160**
Net book value as of 31 December 2015	**479**

Investment property consist of office and warehouse buildings in Vilnius and premises in Alytus (Lithuania) that are leased out by UAB Baltijos NT valdymas and UAB Karoliniškių būstas to other entities outside the Group. The expenses related to investment property comprising of depreciation charge are included under the other operating expenses caption in the statement of comprehensive income.

The fair value of investment property as of 31 December 2016 is estimated by the management to be approximately EUR 178 thousand (EUR 553 thousand as of 31 December 2015) (3rd level). The fair value of investment property as of 31 December 2016 and as of 31 December 2015 was estimated by management using market price per square meter of similar premises in similar locations identified by independent property valuators.

As of 31 December 2016 investment property of the Group with a net book value of EUR 160 thousand was pledged to banks as collateral for the loans (EUR 479 thousand as of 31 December 2015) (Note 16).

(all amounts are in EUR thousand unless otherwise stated)

8 Discontinued operations

As of 31 December 2014 companies operating in the city of Stavropol, were classified as assets held for sale. The Group's management decided to perform active measures to dispose the subsidiaries, operating in Stavropol due to economic risks associated with the resale of utilities. Sale transaction was concluded on 3 August 2015 (Note 1).

The result of discontinued operations is as follows (2015 result comprises of subsidiaries that operated in the city of Stavropol):

	2015
Sales	7,650
Cost of sales	(7,288)
Gross profit	**362**
General and administrative expenses	(948)
Other operating income	109
Other operating expenses	(190)
Profit from operations	**(667)**
Finance income	-
Finance expenses	(37)
Result on disposal of subsidiaries attributable to discontinued operations (Note 1)	2,301
Profit before taxes	**1,597**
Income tax	(48)
Net profit	**1,549**

All income tax expenses presented in the disclosure are attributable to discontinued operations. Gain on sale of discontinued operation is non-taxable item.

The net cash flows incurred are as follows:

	2015
Net cash flows from operating activities	45
Net cash flows from investing activities	78
Net cash flows from financing activities	-
Net increase (decrease) in cash flows	**123**

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(all amounts are in EUR thousand unless otherwise stated)

9 Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

Name	Region of incorporation and operation	2016	2015
ООО Жилкомсервис № 3 Фрунзенского района	St. Petersburg	80%	80%

	As of 2016 December 31	As of 2015 December 31
Summarised statement of financial position		
Inventories, trade receivables and cash	3,881	2,486
Property, plant and equipment and other non-current assets	2,205	2,295
Deferred income tax, net	(423)	(436)
Current liabilities	(4,280)	(2,296)
Total equity	**1,383**	**2,049**
Attributable to:		
Equity holders of parent	1,106	1,639
Non-controlling interest	277	410

	2016	2015
Summarised statement of profit or loss		
Sales	13,670	13,621
Cost of sales	(10,442)	(10,348)
General and administrative expenses	(915)	(1,107)
Other activity (net)	(2,991)	(2,345)
Financial activity (net)	18	26
Profit (loss) before tax	**(660)**	**(153)**
Income tax	8	(45)
Profit (loss) for the year	**(652)**	**(198)**
Attributable to non-controlling interests	(130)	(40)

Summarised cash flow information

	2016	2015
Net cash flows from operating activities	311	(80)
Net cash flows from investing activities	(2)	(29)
Net cash flows from financing activities	-	-
Net increase (decrease) in cash flows	**309**	**(109)**

(all amounts are in EUR thousand unless otherwise stated)

10 Inventories

	Group	
	As of 31 December 2016	**As of 31 December 2015**
Raw and auxiliary materials	1,347	1,311
Goods for resale	7	35
Other	289	190
	1,643	1,536
Less: net realizable value allowance	(36)	(26)
	1,607	1,510

Change in allowance for inventories for the year 2016 and 2015 has been included into general and administrative expenses.

11 Prepayments

Prepayments of the Group amount to EUR 1,125 thousand as of 31 December 2016 (EUR 1,495 thousand as of 31 December 2015) and mainly include prepayments to suppliers and subcontractors.

12 Non-current receivables

Non-current receivables mainly comprise of long-term part of receivables for residential buildings' repair works performed amounting to EUR 3,188 thousand as of 31 December 2016 (EUR 2,461 thousand as of 31 December 2015).

As of 31 December 2015 non-current receivables mainly comprised of long-term part of receivables from public customers amounting to EUR 12,754 thousand (as of 31 December 2016 long-term part of receivables from public customers primarily decreased due to the early repayments).

(all amounts are in EUR thousand unless otherwise stated)

13 Trade receivables

	Group	
	As of 31 December 2016	**As of 31 December 2015**
Trade receivables, gross	46,593	47,675
Less: allowance for doubtful trade receivables	(9,107)	(6,852)
Less: remeasurement of trade receivables to liquidation value (subsidiary Concentra, see Note 2.20)	(2,768)	-
	34,718	40,823

Change in allowance for doubtful trade receivables for the year 2016 and 2015 has been included into general and administrative expenses.

Both trade receivables and other receivables are generally non-interest bearing and are usually collectible on 30 - 90 days terms.

Trade receivable balance includes receivables from public clients which are paid in accordance to the schedule (Note 2.20).

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

	Individually impaired	**Collectively impaired**	**Total**
Balance as of 1 January 2015	**1,198**	**5,350**	**6,548**
Charge for the year	231	689	920
Exchange differences	(51)	(498)	(549)
Reversed during the year	-	(61)	(61)
Written off during the year	-	(6)	(6)
Balance as of 31 December 2015	**1,378**	**5,474**	**6,852**
Charge for the year	194	904	1,098
Remeasurement of trade receivables to liquidation value (subsidiary Concentra, see Note 2.20)	1,630	1,138	2,768
Exchange differences	78	1,198	1,276
Reversed during the year	-	(55)	(55)
Written off during the year	(46)	(18)	(64)
Balance as of 31 December 2016	**3,234**	**8,641**	**11,875**

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

		Trade receivables past due but not impaired					
	Trade receivables neither past due nor impaired	**Less than 30 days**	**30 – 60 days**	**60 – 90 days**	**90 – 360 days**	**More than 360 days**	**Total**
2015	29,483	3,392	1,868	999	2,587	2,494	**40,823**
2016	24,701	3,465	2,234	1,247	1,423	1,648	**34,718**

As of 31 December 2016 outstanding balance of accrued income accounted at the Group's statement of financial position related to customer specific projects amounted to EUR 433 thousand (EUR 327 thousand in 2015). Sales and costs, recognised in the statement of comprehensive income from customer specific projects in 2016 amounted to EUR 541 thousand and EUR (515) thousand respectively (EUR 714 thousand and EUR (680) thousand respectively in 2015). As of 31 December 2016 and 2015 remaining balance of accrued income was attributable to revenue from rendering services.

(all amounts are in EUR thousand unless otherwise stated)

14 Cash and cash equivalents

	Group	
	As of 31 December 2016	**As of 31 December 2015**
Cash at bank	30,223	15,127
Cash on hand	48	43
Short-term deposits	-	1,688
	30,271	16,858

The original term of all deposits is less than three months. There was no cash classified as short-term deposits as of 31 December 2016 (the weighted average annual interest rate of the Group as of 31 December 2015 was 0.17%).

The fair value of cash and short-term deposits as of 31 December 2016 of the Group was EUR 30,271 thousand (EUR 16,858 thousand as of 31 December 2015) (3rd level).

As of 31 December 2016 the Group had restricted cash of EUR 1,980 thousand (EUR 1,801 thousand as of 31 December 2015) held in the bank as guarantee provided to customers, EUR 1,242 thousand is accounted in non-current receivables caption (EUR 1,187 thousand as of 31 December 2015) while EUR 738 thousand – in other receivables caption in the statement of financial position as of 31 December 2016 (EUR 614 thousand as of 31 December 2015).

As of 31 December 2016 and 2015 part of bank accounts of the Company and its subsidiaries are pledged to banks for loans (Note 16).

15 Reserves and share premium

Legal reserve

A legal reserve is a compulsory reserve under Estonian legislation and the Statutes of the Company. Annual transfers of not less than 1/20 (one-twentieth) of net profit, calculated for statutory reporting purposes are required until the reserve reaches 1/10 (one-tenth) of the share capital. As of 31 December 2016 the reserve was fully composed and reached the required amount (as of 31 December 2015 the reserve was not fully composed).

Other reserves

Based on the shareholders' decision other reserves of EUR 1,738 thousand were formed from the retained earnings during the year 2009 for acquisition of its own shares. The Group also accounts for foreign currency translation reserve (Note 2.2).

Share premium

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

(all amounts are in EUR thousand unless otherwise stated)

16 Borrowings

The list of borrowings of the Group as of 31 December 2016 and 2015 are as follows:

		Group	
	Currency of the loan	As of 31 December 2016	As of 31 December 2015
Current loans			
Bank loans	EUR	110	2,681
Bank loans	PLN	224	58
Current loan balance		**334**	**2,739**
Non-current loans			
Bank loans	EUR	20,987	16,793
Less: current portion of long term loans		(2,989)	(3,738)
Non-current loan balance		**17,998**	**13,055**

For the loans of the Group both fixed and variable interest rates apply. Actual interest rates are close to effective interest rates. As of 31 December 2016 the weighted average annual interest rate of borrowings outstanding was 1.28% (2.22% as of 31 December 2015). In 2016 and 2015 the period of re-pricing of floating interest rates on borrowings was 6 months. Interest is paid monthly.

The total unutilized borrowing facilities of the Group as of 31 December 2016 amounted to EUR 5,452 thousand (EUR 9,945 thousand as of 31 December 2015).

As of 31 December 2016 and 2015 the subsidiary's UAB Mano būstas shares, part of property, plant and equipment (Note 6) and part of bank accounts (Note 14) of the Group were pledged to banks as collateral for the loans received.

Terms of repayment of non-current debt are as follows:

	Group	
Term	**As of 31 December 2016**	**As of 31 December 2015**
Within one year	2,989	3,738
From one to five years	17,998	13,055
	20,987	16,793

(all amounts are in EUR thousand unless otherwise stated)

17 Provisions and other non-current payables

As of 31 December 2016 EUR 1.25 million provision was made for City Service SE guarantees provided to Concentra Servicios y Mantenimiento S.A. customers (see also Note 2.20). Additionaly, long-term payable for contingent purchase consideration associated with acquired client portfolios by Administraciones Santa Pola S.L. amounted to EUR 362 thousand as of 31 December 2016.

As of 31 December 2016 based on liquidation-based accounting, Concentra Servicios y Mantenimiento, S.A. had no provisions associated with legal claims accrued related to disputes with employees (as of 31 December 2015 provision amounted to EUR 461 thousand).

18 Financial lease

The assets leased by the Group under financial lease contracts mainly consist of vehicles. Apart from the lease payments, other obligations under lease contracts are maintenance and insurance. The net book value of the vehicles acquired under financial lease amounted to EUR 2,376 thousand as of 31 December 2016 in the Group (EUR 2,663 thousand in the Group as of 31 December 2015). The terms of the financial lease agreements are from 2 to 5 years. The currencies of the financial lease agreements are EUR and PLN.

As of 31 December 2016 the interest rate on the financial lease obligations is 6 month EURIBOR + 1.6-2.3%, 3 Month EURIBOR + 1.7-3.6%, 6 month EUR LIBOR + 1.7-1.8%, 1 month WIBOR + 1% (as of 31 December 2015 – is 6 month EURIBOR + 1-3%, 3 Month EURIBOR + 1-3%, 6 month EUR LIBOR + 1-3%, 1 month WIBOR + 1-3%). Interest is paid monthly.

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2016 and 2015 are as follows:

	Group	
	As of 31 December 2016	As of 31 December 2015
Within one year	1,043	1,097
From one to five years	2,097	1,707
Total financial lease obligations	3,140	2,804
Interest	(115)	(76)
Present value of financial lease obligations	3,025	2,728
Financial lease obligations are accounted as:		
- current	998	1,067
- non-current	2,027	1,661

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19 Operating lease

As of 31 December 2016 and 2015 the Group had several contracts of operating lease for vehicles outstanding.

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

	Group	
	As of 31 December 2016	As of 31 December 2015
Within one year	387	379
From one to five years	405	360
	792	739

Operating lease contracts are denominated in Euros and Zlots.

20 Provision for employee benefits

As of 31 December 2016 and 2015 the Group accounted for employee benefits for employees leaving the Group at the age of retirement (Note 2.15). Related expenses are included into general and administrative expenses in the Group's statement of comprehensive income.

	Group	
	As of 31 December 2016	As of 31 December 2015
As of 31 December of the previous year	448	416
Change during the year	9	31
Currency exchange effect	-	1
As of 31 December of the financial year	457	448

Main assumptions applied while evaluating the Group's provision for employee benefits as of 31 December 2016 and 2015 are as follows:

	Group	
	As of 31 December 2016	As of 31 December 2015
Discount rate	2.0%	2.3%
Anticipated annual salary increase	2.3%	3.2%

(all amounts are in EUR thousand unless otherwise stated)

21 Trade payables and payables to related parties

	Group	
	As of 31 December 2016	As of 31 December 2015
Trade payables	17,288	15,717
Payables to related parties (Note 33)	1,112	818
	18,400	16,535

Trade payables are non-interest bearing and are normally settled on 30-day terms.

22 Advances received

As of 31 December 2016 and 2015 amount represents advances received from the owners of commercial and residential buildings administrated by the Group for repair and other works.

23 Other current liabilities

	Group	
	As of 31 December 2016	As of 31 December 2015
Salaries and social security	5,031	4,372
Vacation pay accrual	2,168	1,820
Accrued expenses and deferred income	1,862	4,699
Other current liabilities	4,541	3,553
	13,602	14,444

Other payables are non-interest bearing and have an average term of one to six months.

24 Cost of sales

	Group	
	2016	2015
Services of subcontractors and materials used	77,000	70,277
Wages and salaries and social security	60,352	56,893
Depreciation	1,140	1,333
Cost of goods sold	47	202
Other	3,097	3,898
Total cost of sales	**141,636**	**132,603**

(all amounts are in EUR thousand unless otherwise stated)

25 General and administrative expenses

	Group	
	2016	2015
Wages and salaries and social security	14,495	15,629
Depreciation and amortisation	3,120	2,748
Consulting and similar expenses	1,733	1,391
Provisions for potential obligations from guarantees provided for subsidiary Concentra customers (see Note 2.20)	1,253	-
Rent of premises and other assets	1,199	934
Commissions for collection of payments	698	661
Allowance for and write-off of receivables	628	1,084
Computer software maintenance	604	553
Taxes other than income tax	583	773
Advertising	499	565
Representational costs	438	365
Consulting and tax expenses related with acquisitions and disposals	414	432
Communication expenses	375	331
Insurance	365	361
Transportation	360	404
Fuel expenses	352	399
Business trips and training	290	381
Utilities	242	200
Bank payments	143	148
Charity and support	76	44
Result of remeasuring of assets and liabilities to liquidation value (subsidiary Concentra, see Note 2.20)	(3,318)	-
Other	2,172	1,455
Total general and administrative expenses	**26,721**	**28,858**

(all amounts are in EUR thousand unless otherwise stated)

26 Other operating income and expenses

	Group	
	2016	**2015**
Income from rent	191	232
Gain on disposal of property, plant and equipment	16	400
Fines and penalties	150	472
Other income	1,210	953
Total other operating income	**1,567**	**2,057**
Depreciation of rented assets	66	75
Loss on disposal of property, plant and equipment	6	372
Fines and penalties	466	92
Legal claims	71	146
State duties	48	72
Rent expenses	173	174
Other expenses	1,294	970
Total other operating expenses	**2,124**	**1,901**

27 Finance income and (expenses)

	Group	
	2016	**2015**
Interest income	786	1,282
Gain on sale of investments (Note 1)	-	1,435
Foreign currency exchange gain	233	359
Other financial income	478	63
Total finance income	**1,497**	**3,139**
Interest (expenses)	(692)	(946)
Foreign currency exchange (loss)	(544)	(451)
Other financial (expenses)	(33)	(155)
Total finance (expenses)	**(1,269)**	**(1,552)**
Financial activity, net	**228**	**1,587**

(all amounts are in EUR thousand unless otherwise stated)

28 Income tax

	Group	
	2016	**2015**
Components of the income tax expenses		
Current income tax	1,566	1,778
Deferred income tax expenses (income)	2,695	(425)
Income tax expenses recorded in the statement of comprehensive income	**4,261**	**1,353**

	Group	
	As of 31 December 2016	**As of 31 December 2015**
Deferred income tax asset		
Allowance for accounts receivable	1,252	1,036
Allowance for inventories	5	2
Accruals and similar temporary differences	612	420
Deferred income	19	-
Tax loss carry forward	2,997	1,630
Tax goodwill	2,803	2,684
Deferred income tax asset before valuation allowance	7,688	5,772
Less: valuation allowance	(1,116)	(617)
Less: write-off of deferred income tax asset (subsidiary Concentra, see Note 2.20)	(4,098)	-
Deferred income tax asset, net of valuation allowance	2,474	5,155
Deferred income tax liability		
Property, plant and equipment and intangible assets	(3,762)	(2,702)
Accrued income	(53)	(53)
Deferred income tax liability	(3,815)	(2,755)
Deferred income tax, net	(1,341)	2,400

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28 Income tax (cont'd)

Tax loss carry forward can be utilised as follows: in Lithuania (EUR 642 thousand as of 31 December 2016, EUR 817 thousand as of 31 December 2015) – indefinitely, in Latvia (EUR 315 thousand as of 31 December 2016, EUR 274 thousand as of 31 December 2015) – indefinitely, in Russia (EUR 907 thousand as of 31 December 2016, EUR 712 thousand as of 31 December 2015) – mainly until the year 2025, in Poland (EUR 2,324 thousand as of 31 December 2016, EUR 1,934 thousand as of 31 December 2015) – mainly until the year 2020 and in Spain (EUR 457 thousand as of 31 December 2016, EUR 3,825 thousand as of 31 December 2015) – indefinitely.

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15% rate in 2016 and 2015. The deferred tax of companies operating in Russia, Latvia, Poland and Spain was calculated using 20%, 15%, 19% and 25% tax rates, respectively in 2016 (same as in 2015, except in Spain was 28%).

Due to group reorganisations (mergers) in 2016 and 2015 and prior periods as discussed in Notes 1 and 4, tax goodwill was created as of the merger date. Consequently, a deferred tax asset was recorded on these transactions to the extent tax goodwill exceeds respective financial statements goodwill amounts.

The changes of temporary differences before and after tax effect in the Group were as follows (discontinued operations included):

	Balance as of 31 December 2015	Recognised in profit or loss	Exchange differences	Disposed subsidiaries	Acquired subsidiaries	Balance as of 31 December 2016
Allowance for accounts receivable	5,937	244	486	-	915	7,582
Allowance for inventories	11	15	3	-	-	29
Accruals and similar temporary differences	2,490	933	105	-	-	3,528
Deferred income	-	104	(2)	-	-	102
Tax loss carry forward	7,562	5,430	114	-	-	13,106
Tax goodwill	12,254	1,155	-	-	-	13,409
Property, plant and equipment and intangible assets	(16,672)	589	(234)	-	(6,544)	(22,861)
Accrued income	(271)	(16)	9	-	-	(278)
Total temporary differences before valuation allowance	11,311	8,454	481	-	(5,629)	14,617
Valuation allowance	(3,222)	(18,353)	(564)	-	-	(22,139)
Total temporary differences	8,089	(9,899)	(83)	-	(5,629)	(7,522)
Deferred income tax, net	2,400	(2,695)	(18)	-	(1,028)	(1,341)

(all amounts are in EUR thousand unless otherwise stated)

28 Income tax (cont'd)

The changes of temporary differences before and after tax effect in the Group were as follows (discontinued operations included):

	Balance as of 31 December 2014	Recognised in profit or loss	Exchange differences	Disposed subsidiaries	Acquired subsidiaries	Balance as of 31 December 2015
Allowance for accounts receivable	6,038	1,029	(879)	(289)	38	5,937
Allowance for inventories	2	13	(4)	-	-	11
Accruals and similar temporary differences	3,431	(245)	(65)	(631)	-	2,490
Deferred income	107	(108)	1	-	-	-
Tax loss carry forward	3,616	4,092	(146)	-	-	7,562
Tax goodwill	12,085	169	-	-	-	12,254
Property, plant and equipment and intangible assets	(16,199)	1,040	1,084	312	(2,909)	(16,672)
Accrued income	(343)	76	(4)	-	-	(271)
Total temporary differences before valuation allowance	8,737	6,066	(13)	(608)	(2,871)	11,311
Valuation allowance	(2,513)	(1,680)	72	899	-	(3,222)
Total temporary differences	6,224	4,386	59	291	(2,871)	8,089
Deferred income tax, net	2,464	425	21	58	(568)	2,400

28 Income tax (cont'd)

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying Lithuanian income tax rate (15%), since the majority of the operations of the group is conducted in Lithuania, to pre-tax income as follows:

	Group	
	2016	**2015**
Income tax expenses computed at 15% in 2016 and 2015	(829)	(1,131)
Effect of different tax rates applicable to foreign subsidiaries	(287)	269
Change in deferred tax asset valuation allowance and write-off of deferred tax asset	(4,597)	(102)
Deferred tax asset recognized from subsidiaries' reorganizations	313	-
Permanent differences*	1,139	(389)
Income tax expenses reported in the statement of comprehensive income	(4,261)	(1,353)

* Majority of permanent differences are related with remeasurement of assets and liabilities to liquidation value of subsidiary Concentra.

29 Basic and diluted earnings per share (EUR)

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year. The Company has no diluting instruments, therefore basic and diluted earnings per share are equal. Calculation of basic and diluted earnings per share is presented below:

	Group	
	2016	**2015**
Net profit from continuing operations attributable to the shareholders	1,385	6,551
Net profit from discontinued operations attributable to the shareholders	-	1,549
Net profit attributable to the shareholders	**1,385**	**8,100**
Number of shares (thousand), opening balance	31,610	31,610
Number of shares (thousand), closing balance	31,610	31,610
Weighted average number of shares (thousand)	31,610	31,610
Basic and diluted earnings per share (EUR)	**0.04**	**0.26**
From continued operations	0.04	0.21
From discontinued operations	-	0.05

30 Dividends per share

	2016	**2015**
Approved dividends*	3,161	948
Number of shares (in thousand)**	31,610	31,610
Approved dividends per share (EUR)	0.10	0.03

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

(all amounts are in EUR thousand unless otherwise stated)

31 Financial assets and liabilities and risk management

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, cash, 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 borrowings (loans and financial lease obligations) are subject to variable rates, related to EUR LIBOR, EURIBOR, EONIA, WIBOR which create an interest rate risk (Notes 16 and 18). There are no financial instruments designated to manage the exposure to the interest rate risk outstanding as of 31 December 2016 and 2015.

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

2016	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(234)
PLN	+100	(8)
2015		
EUR	+100	(200)
PLN	+100	(6)

(all amounts are in EUR thousand unless otherwise stated)

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

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed overdraft and loans to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as of 31 December 2016 were 1.71 and 1.67 respectively (1.39 and 1.36 as of 31 December 2015 respectively).

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2016 and 2015 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings	-	-	-	17,822	753	18,575
Current portion of non-current interest bearing borrowings	-	812	2,435	-	-	3,247
Current loans	-		340	-	-	340
Financial lease obligations	-	35	1,111	1,994	-	3,140
Trade payables and payables to related parties	-	15,005	3,395	362	-	18,762
Other current liabilities	-	5,850	553	-	-	6,403
Balance as of 31 December 2016	**-**	**21,702**	**7,834**	**20,178**	**753**	**50,467**
Non-current interest bearing borrowings	-	-	-	13,057	471	13,528
Current portion of non-current interest bearing borrowings	-	2,188	1,750	-	-	3,938
Current loans	-	-	2,783	-	-	2,783
Financial lease obligations	-	256	841	1,707	-	2,804
Trade payables and payables to related parties	-	10,360	6,159	16	-	16,535
Other current liabilities	-	3,944	4,308	-	-	8,252
Balance as of 31 December 2015	**-**	**16,748**	**15,841**	**14,780**	**471**	**47,840**

(all amounts are in EUR thousand unless otherwise stated)

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

Foreign exchange risk

Monetary assets and liabilities of the Group denominated in various currencies as of 31 December 2016 and 2015 were as follows:

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
RUB	9,324	9,734	5,825	6,111
PLN	4,147	5,095	5,022	4,361
EUR	65,325	48,046	74,639	46,985
	78,796	62,875	85,486	57,457

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

PLN held by the Parent:

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2016		
EUR	+ 15.00 %	821
EUR	- 15.00 %	(821)
2015		
EUR	+ 15.00 %	850
EUR	- 15.00 %	(850)

EUR held by Polish subsidiaries:

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2016		
EUR	+ 15.00 %	(997)
EUR	- 15.00 %	997
2015		
EUR	+ 15.00 %	(391)
EUR	- 15.00 %	391

(all amounts are in EUR thousand unless otherwise stated)

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

EUR held by subsidiaries in St. Petersburg:

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2016		
EUR	+ 15.00 %	(108)
EUR	- 15.00 %	108
2015		
EUR	+ 15.00 %	-
EUR	- 15.00 %	-

Fair value of financial instruments

The Group's principal financial instruments not carried at fair value are trade and other receivables, non-current receivables, trade and other payables, non-current and current borrowings.

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

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

The fair values of the Group's financial assets and financial liabilities approximate their carrying values. Based on fair value measurement categorization principles described in Note 2.9, the Group categorizes inputs used for borrowings from financial institutions valuation as level 3. Inputs for other financial assets and liabilities valuation are categorized as Level 3.

* Subsidiary Concentra financial assets and liabilities are measured at net realizable value (forced liquidation value) as explained in Note 2.20

32 Commitments and contingencies

Mano Sauga UAB cases

On 7 January 2014 a Group's company UAB Mano Sauga as a defendant got an action from UAB Trikampis žiedas bankruptcy administrator UAB Karaliaučiaus group. In this case the administrator seeks that an agreement signed on 27 September 2012 between UAB Trikampis žiedas and UAB Mano Sauga would be declared as null and void. Bankruptcy administrator also required to apply restitution in this case and to receive from UAB Mano Sauga in favor of UAB Trikampis žiedas the sum of EUR 1,014 thousand.

In the opinion of the management of the Group, the bankruptcy administrator brought groundless action which is not based on any objective calculations in order to determine the value of the assets transferred from UAB Trikampis žiedas to UAB Mano Sauga. At this stage, Group's company UAB Mano Sauga has presented to the court its legal opinion expressing disagreement with the stated legal action. The court has appointed an independent expert to determine the value of the assets transferred. On 31 March 2016 the expert gave his opinion that the value of the assets transferred was EUR 156 thousand. UAB Mano Sauga disagrees with expert opinion because it is methodologically unfounded.

On 12 October 2016 the court adopted negative decision in this case. Court nulled and voided an agreement signed on 27 September 2012. Court ordered form UAB Mano Sauga to UAB Trikampis žiedas EUR 141 thousand and 6 percent annual interest from the date the court proceedings until the judgment is fulfilled. UAB Mano Sauga has appealed against the judgement of the Court, as the judgement is unfounded. The court did not analyze the report about company's financial results which proves that company's activity was unprofitable, and the transaction is concluded in order to reduce the company's insolvency. According to arguments mentioned above it is likely that the appellate court will change first instance court decision and no provisions were recorded for this uncertainty in the financial statements. If first instance court decision will not be changed, separate civil actions against the former manager and shareholder of UAB Mano Sauga may be brought.

In addition to the case above, the pre-trial investigation is being executed in Vilnius District Prosecutor's Office, in Lithuania. In this proceeding, UAB Mano Sauga, having its civil insurance, is participating as a civil defendant. The investigation is about the liability of UAB Mano Sauga for the actions made by two of its employees fulfilling its job functions (protecting the object).

Lawsuit to City Service SE from Vilnius City municipality's administration

On 21 April 2017 the Company received a notice from Vilnius County Court that Vilnius City municipality's administration and General Procurator's office submitted a lawsuit against the Company on recovery of losses. The lawsuit brings, in the management's opinion, unfounded allegations that Vilnius City municipality might have suffered losses arising from public procurement agreements concluded in years 2002 to 2010 between Vilnius City municipality and the Company. The quantum of the lawsuit is EUR 20.6 million.

Since 2002, the Company under above mentioned public procurement agreements has been providing heating facilities management and technical maintenance services under ESCO model to education institutions established by Vilnius City municipality. ESCO model allowed to enhance energy efficiency and provided for substantial savings from energy expenses in public establishments. According to these agreements, City Service SE committed to maintain temperature levels in public establishments above occupational exposure standards, to reduce costs of system maintenance, and to make investments on behalf of the Company to achieve above-mentioned commitments.

In 2014 Vilnius city municipality announced that thanks to ESCO model, implemented in cooperation with City Service SE, Vilnius city benefited significant savings through the period of 2002-2013, as high as EUR 36.2 million.

The Company is absolutely confident and ready to prove that the lawsuit is totally without merit and therefore no provisions are recognized on this matter in these financial statements. These public procurement agreements were investigated by Lithuanian courts before: in 2013, Supreme Court of Lithuania ruled in favor of ESCO model in above-mentioned agreements between City Service SE and Vilnius city municipality. Both public procurement agreements and ESCO model itself were declared as absolutely compliant with the laws.

In addition, in the management's opinion the term to file such kind of lawsuit to the court has long expired. The Company has to submit its response to a lawsuit within 30 days and all legal arguments and objections to the lawsuit will be provided in Company's response.

32 Commitments and contingencies (cont'd)

Contingencies related to foreign subsidiaries

Group subsidiaries, carrying out business operations in the region of St. Petersburg, namely ZAO City Service, OAO City Service and OOO Жилкомсервис № 3 Фрунзенского района, due to contradictory court practice and disputed legal interpretations may be exposed to additional income tax and VAT risk. The Group's management estimates that the maximum exposure of such risk, including penalties, may amount to EUR 2,032 thousand. The management of the Group estimate such risk to be not probable. Thus no provisions in respect of these tax contingencies have been accounted for in these financial statements.

33 Related party transactions

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

- Global energy consulting OÜ – the ultimate parent of the company;
- UAB Lag&d – controlled by the same ultimate parent;
- UAB ICOR - the shareholder of the Company;
- Subsidiaries and associates of UAB ICOR (same ultimate controlling shareholder);
- Associates of City Service SE subsidiaries (for the list of the associates, see also Note 1);
- J. Janukėnas (until 23 February 2017), T. Kleiva, V. Turonis, E. Paulauskas, V. Junevičius, J. Šimkevičius, A. Górecka – Kolasa, T. Gulbinas, (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 in 2016 and 2015 were sold in accordance of arm's length principle.

UAB Mano Būstas and Zespół Zarządców Nieruchomości sp. z o.o. (subsidiaries of the Group) have provided EUR 34.5 million guarantees each for City Service SE to Nordea Bank under credit agreement. Also, UAB Mano Būstas has provided EUR 5.75 million guarantee for City Service SE to Nordea Bank under bank account credit agreement. Shares of UAB Mano Būstas are pledged to Nordea Bank as well. City Service SE has provided EUR 1.25 million guarantees for Concentra to its clients (see also Note 2.20).

(all amounts are in EUR thousand unless otherwise stated)

33 Related party transactions (cont'd)

2016

Group	Purchases	Sales	Receivables and prepayments	Payables and advances received
UAB ICOR	501	11	-	857
Subsidiaries of UAB ICOR				
AB Axis Industries	452	393	60	154
Other subsidiaries of UAB Lag&d	460	566	75	101
	1,413	**970**	**135**	**1,112**

2015

Group	Purchases	Sales	Receivables and prepayments	Payables and advances received
UAB ICOR	506	9	-	551
Subsidiaries of UAB ICOR				
AB Axis Industries	654	436	18	246
Other subsidiaries of UAB Lag&d	42	477	81	10
Other shareholders of the Company	-	-	7	11
Associates	327	45	-	-
	1,529	**967**	**106**	**818**

The ageing analysis of the Group's receivables from related parties as of 31 December is as follows:

	Trade receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	
2015	68	20	-	-	3	15	**106**
2016	104	16	13	-	1	1	**135**

<u>Remuneration of the management and other payments</u>

The Group's management remuneration amounted to EUR 939 thousand in 2016 (to EUR 921 thousand in 2015). In 2016 and 2015 the management of the Group did not receive any loans or guarantees; no other payments or property transfers were made or accrued. There was no supervisory board remuneration in 2016 and 2015.

(all amounts are in EUR thousand unless otherwise stated)

34 Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintain healthy capital ratios in order to support the business and to maximize shareholders' value. For capital management purposes, capital comprises equity attributable to equity holders of the Parent Company.

The Group and the Company manage capital structure and makes adjustments to it in the light of changes in economic conditions and risk characteristics of the activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders and/or return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2016 and 2015.

The Group companies registered in Lithuania and Estonia are obliged to upkeep their equity at not less than 50% of their share capital (comprised of share capital), as imposed by the Law on Companies of the Republic of Lithuania and the Commercial Code of the Republic of Estonia. The Group companies registered in Russia are obliged to upkeep their net assets at not less than the minimum amount of share capital, as imposed by the Law on Joint Stock Companies of the Russian Federation. As of 31 December 2016 one Group company did not meet these requirements (OAO City Service). A company, which does not comply with these legal requirements, may become a subject for liquidation. If the company does not decide on its liquidation, creditors may claim early termination or the execution of the company's liabilities and compensation of losses, if any. In practice, such actions of the creditors are not usual and the management of the Group considers such risk as remote.

In addition the Group has committed to its lenders to keep to certain minimum capital requirements. There were no other externally imposed capital requirements on the Group. As of 31 December 2016 and 2015 the Group was not in breach of the above mentioned requirements.

The Group and the Company monitor capital using debt to equity ratio. There is no target debt to equity ratio set out by the Group's and the Company's management, however, current ratios presented below are treated as good performance indicators, taking into account the changes in the Group and the Company (Note 1).

	Group	
	2016	**2015**
Non-current liabilities (including deferred tax)	25,830	18,328
Current liabilities	42,972	47,322
Liabilities	**68,802**	**65,650**
Equity	**69,132**	**70,569**
Debt to equity ratio	**100%**	**93%**

35 Subsequent events

On 12 January 2017 the Company, through its Lithuanian subsidiary, established new company UAB Nacionalinis Renovacijos fondas (share capital EUR 2.5 thousand).

On 13 January 2017 UAB Neries būstas company title was changed into UAB Tauragės būstas. Director and other contact details did not change.

On 20 January 2017 the Company, through its Lithuanian subsidiary, established new company UAB Grindos būstas (share capital EUR 2.5 thousand).

On 24 January 2017 the Company, through its Spanish subsidiary, established new company Vetell dos ibérica S.L. (share capital EUR 3 thousand) which manages facilities in Spain.

On 27 January 2017 the Company, through its Lithuanian subsidiary, acquired company UAB Visos apsaugos paslaugos (acquisition price EUR 12 thousand). 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 acquistion.

On 30 January 2017 SIA Latio Namsaimnieks company title was changed into SIA Latvijas Namsaimnieks. Director and other contact details did not change.

On 30 January 2017 SIA Latvijas Namsaimnieks company title was changed into SIA L-Namsaimnieks. Director and other contact details did not change.

On 30 January 2017 the Company, through its Spanish subsidiary, established two new companies Aresi Gestion Residencial, S.L. and Aresi Euroinmo, S.L.

On 23 February 2017 Concentra Servicios y Mantenimiento S.A. has submitted a petition for bankruptcy to official institutions in Spain, authorized to initiate the bankruptcy procedure. The decision to ask for initiation of bankruptcy of Concentra has been made after evaluation of commercial property administration and cleaning sector prospects in Spain (see Note 2.20 for more details).

On 23 February 2017 the Management Board Member Jonas Janukėnas, acting as CEO, left the Company, following petition for bankruptcy of Concentra. Financial director Tomas Kleiva acts as Member of the Board instead of J. Janukėnas until extraordinary meeting of shareholders of the company.

On 16 March 2017 reorganization of the companies UAB Šilalės butų ūkis and UAB Šilalės būstas was completed. After the process of reorganization UAB Šilalės būstas was incorporated into UAB Šilalės butų ūkis with all the assets, rights and obligations. UAB Šilalės būstas ceased operations and was deregistered. After reorganization UAB Šilalės butų ūkis title was changed in to UAB Šilalės būstas, director and other contact details did not change.

On 5 April 2017 City Service SE sold Grupa Techniczna Sp. z o.o., enterprise code 122420503, a company active in Poland. The company was founded in 2014 and provided technical maintenance services to residential facilities and commercial facilities, managed by City Service group. City Service SE will continue investments in Poland in residential facility management market. Value of share sale – purchase agreement is EUR 46 thousand. Net assets of disposed subsidiary as of 31 December 2016 amounted to EUR (2,883) thousand.

On 6 April 2017 the Company, through its Lithuanian subsidiary, acquired 57.71% stake in UAB Biržų butų ūkis. Value of the share purchase amounts to EUR 48 thousand. 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 acquistion.

On 13 April 2017 the Company, through its subsidiary operating in St. Peterburg, established new company OOO БЕРИНГ (share capital EUR 0.4 thousand).

On 21 April 2017 City Service received a lawsuit from Vilnius City municipality's administration and General Procurator's office. Quantum of the lawsuit is EUR 20.6 million (further disclosed in Note 32).

(all amounts are in EUR thousand unless otherwise stated)

36 Parent company's separate primary financial statements

The unconsolidated primary financial statements of the parent company have been prepared in accordance with the Accounting Act of the Republic of Estonia and these are not separate financial statements of the parent company in the meaning of IAS 27 "Separate Financial Statements". The parent's primary financial statements have been prepared using the same accounting policies as for the preparation of the consolidated financial statements, except for the accounting policy of the investments in subsidiaries and associates which are carried at cost, less impairment (Note 2.4).

Statement of financial position	**As of 31 December 2016**	**As of 31 December 2015**
ASSETS		
Non-current assets		
Other intangible assets	-	117
Property, plant and equipment	176	466
Investments into subsidiaries	31,475	32,603
Non-current receivables	21,520	16,363
Deferred income tax asset	68	58
Total non-current assets	**53,239**	**49,607**
Current assets		
Prepayments	52	57
Trade receivables	676	939
Receivables from related parties (including loans granted)	6,867	19,821
Other receivables	40	45
Prepaid income tax	-	-
Cash and cash equivalents	15,517	7,101
Total current assets	**23,152**	**27,963**
Total assets	**76,391**	**77,570**

(all amounts are in EUR thousand unless otherwise stated)

36 Parent company's separate primary financial statements (cont'd)

Statement of financial position (cont'd)	As of 31 December 2016	As of 31 December 2015
EQUITY AND LIABILITIES		
Equity		
Share capital	9,483	9,483
Share premium	21,067	21,067
Reserves	2,686	2,653
Retained earnings	19,837	27,632
Total equity	**53,073**	**60,835**
Liabilities		
Non-current liabilities		
Non-current borrowings	16,844	12,421
Financial lease obligations	42	147
Non-current payables	1,286	34
Total non-current liabilities	**18,172**	**12,602**
Current liabilities		
Current portion of non-current borrowings	2,884	2,096
Current portion of financial lease obligations	7	56
Trade payables and payables to related parties	1,325	829
Advances received	647	929
Provisions for employee benefits	23	3
Other current liabilities	260	220
Total current liabilities	**5,146**	**4,133**
Total liabilities	**23,318**	**16,735**
Total equity and liabilities	**76,391**	**77,570**

(all amounts are in EUR thousand unless otherwise stated)

36 Parent company's separate primary financial statements (cont'd)

Statement of comprehensive income	2016	2015
Sales	3,133	3,227
Cost of sales	(2,389)	(2,394)
Gross profit	**744**	**833**
General and administrative expenses	(8,399)	(2,108)
Other operating income	274	265
Other operating expenses	(173)	(174)
Profit from operations	**(7,554)**	**(1,184)**
Finance income	3,755	12,988
Finance expenses	(790)	(932)
Profit before tax	**(4,589)**	**10,872**
Income tax	(12)	(268)
Net profit	**(4,601)**	**10,604**
Other comprehensive income	-	-
Total comprehensive income for the year, net of tax	**(4,601)**	**10,604**

(all amounts are in EUR thousand unless otherwise stated)

36 Parent company's separate primary financial statements (cont'd)

Statement of changes in equity	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2015	**9,155**	**21,383**	**915**	**1,738**	**17,988**	**51,179**
Net profit for the year	-	-	-	-	10,604	10,604
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	10,604	10,604
Increase in share capital	316	(316)	-	-	-	-
Currency translation effect to share capital	12	-	-	-	(12)	-
Dividends declared	-	-	-	-	(948)	(948)
Balance as of 31 December 2015	**9,483**	**21,067**	**915**	**1,738**	**27,632**	**60,835**
Book value of holdings under control or significant influence						(32,603)
Value of holdings under control of significant influence, calculated under equity method						45,080
Adjusted unconsolidated equity as of 31 December 2015*						**73,312**

* Adjusted unconsolidated equity differs from the consolidated equity as of 31 December 2016 and 2015 because the Company's share of losses of certain subsidiaries exceeds its interest in respective subsidiaries, accounted for based on equity method.

(all amounts are in EUR thousand unless otherwise stated)

36 Parent company's separate primary financial statements (cont'd)

Statement of changes in equity	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2016	**9,483**	**21,067**	**915**	**1,738**	**27,632**	**60,835**
Net profit for the year	-	-	-	-	(4,601)	(4,601)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	(4,601)	(4,601)
Increase in share capital	-	-	-	-	-	-
Transfer to reserves	-	-	33	-	(33)	-
Dividends declared	-	-	-	-	(3,161)	(3,161)
Balance as of 31 December 2016	**9,483**	**21,067**	**948**	**1,738**	**19,837**	**53,073**
Book value of holdings under control or significant influence						(31,475)
Value of holdings under control of significant influence, calculated under equity method						53,767
Adjusted unconsolidated equity as of 31 December 2016*						**75,365**

* Adjusted unconsolidated equity differs from the consolidated equity as of 31 December 2016 and 2015 because the Company's share of losses of certain subsidiaries exceeds its interest in respective subsidiaries, accounted for based on equity method.

(all amounts are in EUR thousand unless otherwise stated)

36 Parent company's separate primary financial statements (cont'd)

Statement of cash flows	2016	2015
Cash flows from (to) operating activities		
Net profit from	(4,601)	10,604
Adjusting items:		
Income tax expenses	12	268
Depreciation and amortisation	147	161
Impairment and write-off of accounts receivable	5,187	(116)
Provisions for potential obligations from guarantees provided for subsidiary Concentra customers (see Note 2.20)	1,253	-
(Gain) loss on disposal of property, plant and equipment	(16)	(6)
Dividend (income)	(2,000)	(9,510)
(Gain) loss from sale of investments	(26)	(2,114)
Impairment of investments into subsidiaries	625	-
Interest (income)	(1,351)	(1,132)
Interest expenses	298	356
Other financial activity result, net	117	345
	(355)	(1,144)
Changes in working capital:		
Decrease in trade receivables, receivables from related parties, non-current receivables, other receivables and other current assets	6,782	3,988
Decrease (increase) in prepayments	4	(21)
(Decrease) increase in trade payables and payables to related parties	496	(3,432)
Income tax (paid)	-	(161)
Increase in advances received and other current liabilities	(246)	176
Net cash flows (to) from operating activities	**6,681**	**(594)**
Cash flows from (to) investing activities		
(Acquisition) of non-current assets	(10)	(194)
Proceeds from sale of non-current assets	287	25
(Acquisition) of investments in subsidiaries and associates	(806)	-
Disposal of investments in subsidiaries	1,335	3,595
Interest received	1,590	612
Dividends received	2,000	9,510
Loans (granted)	(7,020)	(8,800)
Loans repaid	2,900	-
Net cash flows from (to) investing activities	**276**	**4,748**
Cash flows from (to) financing activities		
Dividends (paid)	(3,161)	(948)
Proceeds from loans	7,508	800
Financial lease (payments)	(45)	(56)
Loans (repaid)	(2,297)	(2,330)
Interest (paid)	(546)	(356)
Net cash flows (to) from financing activities	**1,459**	**(2,890)**
Net increase (decrease) in cash and cash equivalents	**8,416**	**1,264**
Cash and cash equivalents at the beginning of the year	**7,101**	**5,837**
Cash and cash equivalents at the end of the year	**15,517**	**7,101**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of City Service SE

Opinion

We have audited the consolidated financial statements of City Service SE and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our ethical responsibilities in accordance with IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

1. Impairment assessment of goodwill and other intangible assets

Goodwill and other intangible assets amount to EUR 35,222 thousand in the statement of financial position of the Group as of 31 December 2016. The Group performed an impairment test of these assets based on the value in use estimation as disclosed in Notes 4 and 5 to the financial statements. This annual impairment test was significant to our audit as it involves judgment in allocation of goodwill to cash generating units (CGU), as well as making the assumptions related to cash flows forecasts used in the value in use estimations as disclosed in Note 4. Furthermore, the goodwill and other intangible assets represent more than 20% of the total assets of the Group as of 31 December 2016.

Among other procedures, we involved a valuation specialist to assist us with the assessment of the discount rates used by the management in the impairment test. We also considered other key assumptions used by the management in the estimation of cash flows forecasts as follows: data on square meters serviced by each CGU, revenues and costs by comparing them to historical performance levels and inflation by considering expected inflation rate in each relevant country. We tested the sensitivity in the available headroom of the CGUs considering if a possible change in assumptions could cause the carrying amount to exceed its recoverable amount and also assessed the historical accuracy of management's estimates. Finally, we reviewed the adequacy of the Group's disclosures included in Note 4 about the assumptions used in the impairment test and the outcome of the test.

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2. Contingencies related to foreign subsidiaries in Russia

As disclosed in Note 32 of the financial statements, the Group has contingent liabilities related to the uncertain tax environment for its foreign subsidiaries operating in Russia with a total potential exposure approximating EUR 2 million as of 31 December 2016. This matter is significant to our audit because an adverse outcome of these contingencies could have a material adverse effect on the financial position, results of operations and cash flows of the Group and it involves a significant management judgment to assess the probable outcomes of the uncertainties and consequently the amount of provisions to be recorded and contingent liabilities to be disclosed in the financial statements.

We involved our component's auditor of the Group's subsidiaries operating in Russia including EY tax specialists to assist in auditing the management's judgment on the probability of the outcomes of the contingencies and the estimation of related potential exposure amounts.

In our role as a Group auditor we have specifically discussed these tax risks with the component audit team and the management of the Group. Furthermore, we have considered the adequacy of the Group's disclosure of these contingent liabilities in Note 32 of the consolidated financial statements.

3. Impairment of trade accounts receivable and classification to current and non-current balances

As of 31 December 2016 the Group had current trade accounts receivable balance amounting to EUR 34,718 thousand reported in the statement of financial position, part of which was overdue as disclosed in Note 13 of the financial statements, and EUR 5,419 thousand non-current receivables as disclosed in Note 12. The determination as to whether a trade receivable is collectable involves management judgment. Specific factors management considers include the age of the balance, location of customers, existence of disputes, recent historical payment patterns as well as data on subsequent collections. As disclosed in Note 2.20, there is significant judgment involved not only in the assessment of impairment of accounts receivable, but also in the classification of receivables from public sector customers into current and non-current based on the estimated collection period. This matter is significant to our audit due to materiality of the amounts as these receivables constitute over 25% of the total assets of the Group in the statement of financial position as of 31 December 2016 and high level of management judgment involved in allowance calculation.

Among other procedures, we reviewed the adequacy of the valuation of trade receivables and impairment recorded by the Group by reviewing the management assumptions used to calculate the impairment. Our procedures included testing the correctness of aging of the receivables data and clerical accuracy of the calculation of impairment recorded for the customer groups based on ageing. We reviewed the management's assessment of individual material overdue receivables by substantive testing of subsequent payments received and examination of other data as available to support individual facts and circumstances underlying the management judgment on these receivables. In addition, we performed external confirmation procedures with selected customers, which included audit procedures to investigate differences in the confirmations received and alternative procedures for non replies.

Our audit procedures also included the assessment of the management judgment on the classification of receivables from public sector clients in the statement of financial position by examination of available repayment schedules agreed with these clients, relevant court decisions as well as historical payments information.

Furthermore, we have considered adequacy of the disclosures in the financial statements in this area.

4. Estimation of useful life of customer relationship intangible assets

The Group has customer relationship intangible assets recorded upon business acquisitions with the carrying value of EUR 23,690 thousand as of 31 December 2016. As disclosed on Note 2.20, these intangible assets are amortized over the estimated validity period of the existing contracts, which is 10-40 years. This useful life estimate of the intangible assets was important to our audit due to significance of the amounts of these assets and high degree of management estimation involved.

Among other procedures, our audit procedures included discussions with the management of the basis underlying the management's estimate of the validity period of the existing contracts, including current development of the operations, i.e. already concluded contracts as well as current rate of terminated contracts. In addition we also assessed estimate made by the management in the previous period for potential management bias. We also considered completeness of the financial statements disclosures in respect of this estimate and the revision that might be required in the future should the circumstances change.

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5. Basis of accounting for the net assets of the Subsidiary with initiated bankruptcy procedures

As at 31 December 2016 the consolidated financial statements of the Group include still controlled as of the year end Subsidiary operating in Spain - Concentra Servicios y Mantenimiento S.A. - for which the basis of going concern accounting was concluded not to be appropriate. As disclosed in Note 2.20, the Subsidiary faced inability to continue as a going concern and meet its current financial obligations as they fall due, therefore the Group management in the end of 2016 took a decision not to continue to provide financial support and file for the bankruptcy of the Subsidiary. Based on the management judgment declaring bankruptcy was imminent as of 31 December 2016, the assets and liabilities of the Subsidiary included in the Group's consolidated financial statements are measured using estimated liquidation value and the excess of liabilities over the estimated liquidation value of the assets available to satisfy the claims of the creditors is de-recognized in the consolidated financial statements for the year ended 31 December 2016. To the extent the parent entity or other entities of the Group have legal or constructive obligations arising in respect of guarantees issued for the obligation of this Subsidiary, provisions are recognized as of 31 December 2016 as disclosed in Note 2.20. This matter is significant to our audit because it involves a significant management judgment, complex accounting treatment and it is material to the financial statements as a whole since total carrying value of the assets (at estimated liquidation value) of the Subsidiary amount to EUR 6,467 thousand as of 31 December 2016, its sales for 2016 included in the consolidated statement of comprehensive income amount to EUR 38,130 thousand and related provisions recorded in the Group's financial statements amount to EUR 1,253 thousand.

We involved EY IFRS specialist when considering the management judgment in respect of the appropriate basis of accounting for the assets and liabilities included in the Group's consolidated financial statements. In addition we had a discussion with the Group management as well as the representative of the Board of the ultimate parent entity for gaining understanding of the related facts and circumstances underlying the Group's management judgment. In addition, we obtained copies of the letters by the external legal counsel of the Subsidiary outlining the insolvency proceedings in Spain supporting the judgment made by the management.

Our procedures included obtaining from the management a list of the guarantees provided by the Group for the obligations of the Subsidiary. We considered completeness of this list by reviewing confirmations of the guarantees issued received by us from the banks. We discussed with the management the assumptions underlying related provisions recorded by the Group as of 31 December 2016. Also, among other procedures, we discussed with the management and assessed the basis of the management's judgments in relation to estimation of the liquidation value of the assets of the Subsidiary included in the consolidated financial statements as of 31 December 2016 considering the nature of these assets.

Finally we considered completeness of the financial statements disclosures in respect of this matter, see Note 2.20

6. Contingency related to subsequently received lawsuit

As disclosed in Note 32 of the financial statements, on 21 April 2017 the Company received a lawsuit against the Company claiming for recovery of losses in relation to services provided under public procurement agreements during the period 2002-2013. This matter is significant for our audit because an adverse outcome of this lawsuit would have a material effect on the financial statements as the total claim amount is EUR 20.6 million and it involves a significant management judgement to assess the probable outcome of this contingency and consequently the amount of provision to be recorded and contingent liability to be disclosed in the financial statements.

Among other procedures, our audit procedures included discussions with the management and the management's internal legal advisor of the basis underlying the management's assessment of the potential outcome of the lawsuit. Our procedures also included examination of evidence provided by the management to support information about the past announcement of the Vilnius City Municipality in respect of the services provided by the Company and the Supreme Court of Lithuania ruling dated 2013 which were considered by the management when concluding on the potential outcome of the contingency. Furthermore, we have considered the adequacy of the disclosures in the financial statements on this matter.

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Other Information Included in the Company's Annual Report

Other information consists of the information included in the Company's 2016 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Ivar Kiigemägi.

Tallinn, 28 April 2017

Ivar Kiigemägi
Authorised Auditor's number 527
Ernst & Young Baltic AS
Audit Company's Registration number 58