CITYSERVICE

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CONSOLIDATED ANNUAL REPORT 2017

CITY SERVICE SE
CONSOLIDATED ANNUAL REPORT FOR 2017

Beginning of the reporting period	1 January 2017
End of the reporting period	31 December 2017
Business name	City Service SE
Registration number	12827710
Legal address	Narva mnt. 5, 10117 Tallinn, the Republic of Estonia
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Website	http://www.cityservice.eu
Auditor	Ernst & Young Baltic AS

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Declaration of the management

According to Management Board Regulations of City Service SE, Chairman of the Management Board hereby declares and confirms that according to his best knowledge, the financial statements, prepared according to the accounting standards in force, present a correct and fair view of the assets, liabilities, financial situation and loss or profit of the issuer and the undertakings involved in the consolidation as a whole, and the management report gives a correct and fair view of the development and results of the business activities and financial status of the issuer and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Chairman of the Management Board Artūras Gudelis

30 April 2018

1. CORPORATE PROFILE

1.1. CITY SERVICE 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.

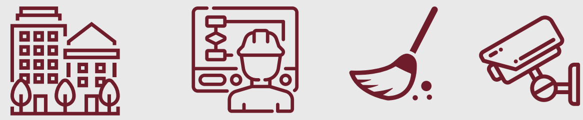
The Group companies engage in facility management process administration, engineering systems maintenance and repairs, energy resources management and renovation, buildings' technical and energetic auditing, territory cleaning as well as provision of security and debt administration services.

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

At present the Group companies perform their activities in Lithuania, Poland, in the city of St. Petersburg in Russian Federation, Spain and Latvia. The total area of facilities, administered in the said regions, reaches 35.8 million sq. m.

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

THE GROUP COMPANIES' PRINCIPAL AREAS OF ACTIVITIES:



Apartment buildings administration	Commercial facility management	Territory cleaning and maintenance	Other activities

The total area of facilities, administered in these regions, reaches 35.8 million sq. m.

1.2. STRATEGY AND OBJECTIVES

The long-term objective of our group is development of new services for city and city people.

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 to be the leading facility and property management company in European Market. Our vide range of services ensure the maintenance, care and improvement of clients property value and our services are considered as a quality standard in the market.
- **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 City Service	100% UAB Alytaus būstas	100% UAB Economus	100% UAB Mano Būstas	100% UAB Rinkų vystymas	100% Atrium 21 sp. z o.o.	100% Parama Blue sp. z o.o.	100% ОАО Сити Сервис / ОАО City service	100% Administración de Fincas Jimenez, S.L.	100% Elche administracion de fincas, S.L.U.
100% SIA City Service Engineering	76% UAB Alytaus namų valda	100% UAB Grindos būstas	100% UAB Mano Būsto Sauga	100% UAB Skolos LT	100% Certus-Serwis sp. z o. o.	100% Parama Group sp z o. o.	100% ЗАО Сити Сервис / ZAO City service	100% Aresi administracion de fincas S. L.	100% Eurodrauda Correguria de Seguros, S.L.U.
100% SIA Namu serviss APSE	100% UAB Antakalnio būstas	100% UAB Justiniškių būstas	100% UAB Mano sauga LT	100% UAB Šiaulių būstas	100% City Service Poland sp. z. o.o.	100% Parama Red sp. z o.o.	100% ОАО СРНУ[7]	100% Aresi gestion residencial, S.L.	100% Euronamas Gestion de Fincas Mrc, S.L.,
100% SIA Laba Enerģija	100% UAB Aukštaitijos būstas	100% UAB Jūros būstas	100% UAB Nacionalinis renovacijos fondas	100% UAB Šilalės būstas	100% City Service Polska sp. z o.o.	100% Parama Yellow sp. z o.o.	100% ООО МН Групп	100% Aresi Euroinmo S.L.	100% Euronamas Gestion de Fincas Madr, S.L.
100% SIA Ēku pārvaldīšanas serviss	100% UAB Baltijos būsto priežiūra	100% UAB Kauno centro būstas	100% UAB Namų priežiūros centras	99.84% UAB Šilutės būstas	100% Concierge-ZN[2] sp. z o.o.	100% Parama White sp. z o.o.	80% ООО Жилком-сервис № 3 Фрунзенского района	100% Administracion Urbana y Rural Chorro, S.L.U.	100% Grupo Aresi de Inversiones S.L.
100% SIA Latvijas Namsaimnieks	100% UAB Baltijos NT valdymas	100% UAB Karoliniškių būstas	100% UAB Naujamiesčio būstas	100% UAB Tauragės būstas	100% Dom Best sp. z o. o.	100% Progresline sp. z o.o.	100% ООО Чистый дом	100% Afimen administración de finques, S.L.U.	100% Interlift Mantenimiento y Ascensores, S.L.
	100% UAB Baltijos transporto valdymas	100% UAB Karoliniškių turgus	100% UAB Naujosios Vilnios turgavietė	100% UAB Toirenta	100% EnergiaOK sp. z o.o.	100% SANTER ZN[4] sp. z o.o.	100% ООО Подъемные механизмы	100% Concentra Servicios y Mantenimiento, S.A.[8]	100% Vetell dos iberica S.L.
	100% UAB Baltijos turto valdymas	100% UAB Klaipėdos būstas LT	100% UAB Nemuno būstas	100% UAB Vaizdo stebėjimo sprendimai	100% Famix sp. z o.o.	100% Skydas - PB[5] sp. z o.o.	100% ООО Территория комфорта		
	100% UAB Birštono būstas	100% UAB Konarskio turgelis	100% UAB Saugos projektų valdymas[1]	100% UAB Vėtrungės būstas	100% Gerente - SN[3] sp. z o.o.	100% TED sp. z o.o			
	57,71% UAB Biržų butų ūkis	100% UAB Lazdynų butų ūkis	100% UAB Pastatų priežiūra	100% UAB Vilkpėdės būstas	100% Grupa Techniczna 24 sp. z o.o.	100% ZZN[6] sp. z o.o.			
	100% UAB City Service Engineering	100% UAB Lazdynų būstas	100% UAB Pašilaičių būstas	100% UAB Vilniaus turgus	50% Home Rent sp. z o.o.	100% ZZN Inwestycje sp. z o.o.			
	100% UAB Dainavos būstas	100% UAB Mano aplinka	100% UAB Pietinis būstas	100% UAB Viršuliškių būstas	100% Hoone - Usługi Budowlane sp. z o.o.				
	100% UAB Danės būstas	100% UAB Mano aplinka plius	100% UAB Radviliškio būstas	100% UAB Žirmūnų būstas					

[1] The Group ceased to consolidate UAB Saugos projektu valdymas in its Financial statements after bankruptcy administrator was appointed on 24 July 2017, as from that date the Group has lost its control.

[2] Concierge - Zarządzanie Nieruchomościami sp. z o.o.

[3] Gerente - Serwis nieruchomości sp. z o.o.

[4] SANTER Zarządzanie Nieruchomościami sp. z o.o.

[5] Skydas - Przeglądy Budowlane sp. z o.o.

[6] Zespół Zarządców Nieruchomości sp. z o.o.

[7] ОАО Специализи-рованное ремонтно-наладочное управление

[8] The Group ceased to consolidate Concentra Servicios y Mantenimiento, S.A. in its Financial statements after bankruptcy administrator was appointed on 10 May 2017, as from that date the Group has lost its control.

The Group's investment in an associate as of 31 December 2017 included an investment in Marijampolės butų ūkis UAB (34% of the share capital).

1.5.STAFF

In 2017, the group of companies was mainly focused on seamless integration of acquisitions by actively involving all levels of employees in the development of a common standards of work. One of the main objectives was to present performance indicators (KPIs) to all levels of staff, to develop action plans, to achieve them, and to provide all necessary assistance to achieve the goals.

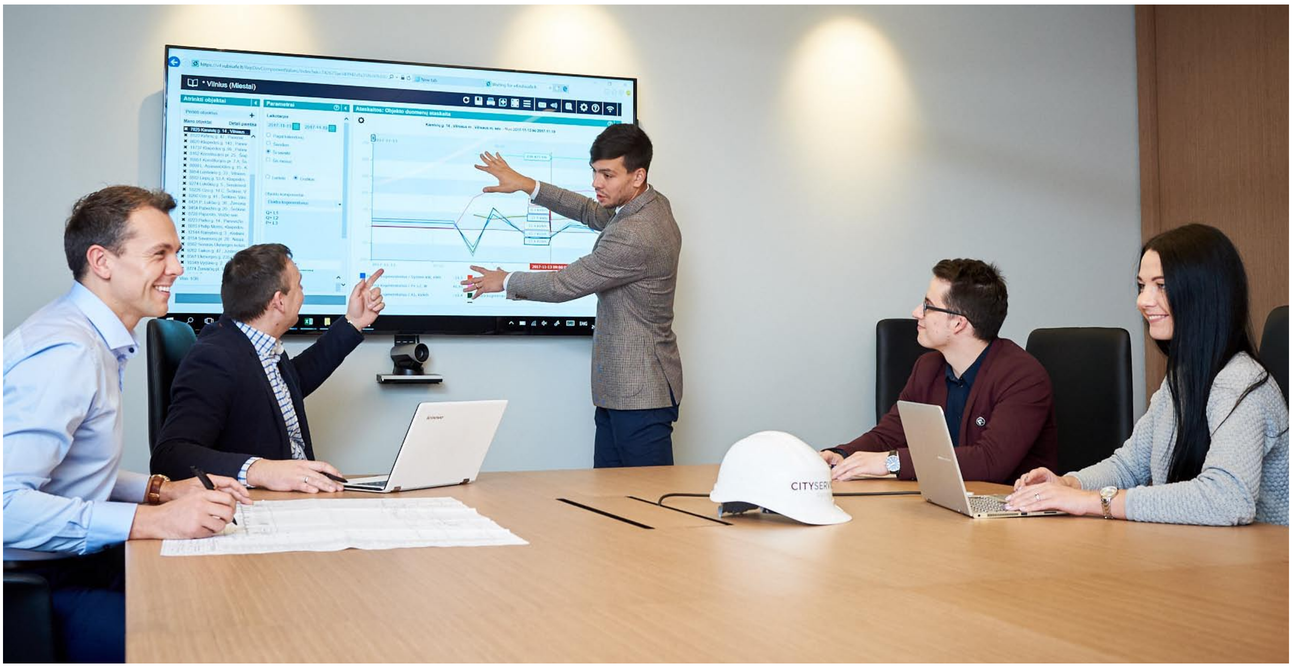
Over the years, internal and external trainings were organized for employees, during which they were introduced to legal requirements, market situation and strengthened professional skills. To this end, a training program for technical staff (electricians, builders, plumbers) was developed and implemented. Also, great attention was paid to strengthening the leadership skills of top and middle levels of managers.

63 managers participated in the Situational Leadership training, where they acquired knowledge and skills in working with personnel with different levels of preparation and emotional maturity in a variety of situations.

The development of "Career Academy" began, aiming to identify potential employees and offer the necessary training and skills to develop future managers. This programme was particularly important and successful, as the majority of its participants were promoted to or recruited in other countries.

NUMBER OF EMPLOYEES BY COUNTRY

At present, the Group companies employed 2,599 employees in Lithuania, 112 employees in Latvia, 775 in Poland, 92 in Spain, and 624 employees in St. Petersburg.

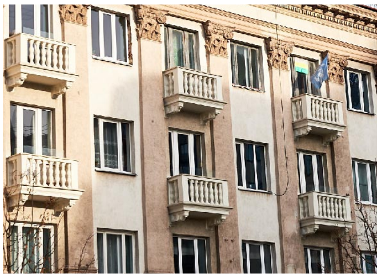


2. MANAGEMENT REPORT

2.1. MAIN AREAS OF ACTIVITY

2.1.1. APARTMENT BUILDINGS ADMINISTRATION

The Group's companies provide apartment building administration services – they carry out all necessary activities for the preservation of the shared objects and their use for the targeted purposes, and provide constant technical maintenance.



The companies take care of maintaining the mechanical durability of the main building structures, eliminating minor defects, performing the prevention tasks of engineering equipment, is tuning, ensuring safe operation, accident prevention, dealing with the prevention, adjustment and preparation of heat and hot water supply systems for the heating season.

The Group companies provide apartment building administration and maintenance services in Lithuania, Poland, Latvia, Spain and St. Petersburg.

10.45
million m²

IN LITHUANIA the Group companies increased the area of maintained apartment buildings by signing new contracts with apartment owners. As a result, the area of maintained apartment buildings has grown by almost 700 thousand sq. meters per year.

In 2017, the geographical coverage of company's activities has also expanded – apartment housing administration services were launched in Tauragė and Šakiai. The company continued to focus on building strong customer relationship management, quality control, and development of virtual services.

The mobile application **eBūstas** was presented to customers. It offers a platform for convenient payment of bills, registration of failures directly by sending a photo to the service system, contacting the house manager, participating in surveys, and receiving personalized offers.

In 2018, the Group's companies will continue to increase the area of maintained buildings, improve the quality of services, and will focus on the development of electronic services.

At present, the total area of maintained buildings reaches 10.45 million sq. meters.

11.2
million m²

Organic development continued **IN POLAND** in addition to that, Certus-Serwis, a new company providing services in Gdynia, was acquired.

In 2018, the Group companies have a target to provide a possibility for the apartment owners to solve all their problems via one contact principle.

At present, the total area of administered apartment buildings in Poland is 11.2 million. sq. meters.

5.9
million m²

The Group's holding in Grupo Aresi de Inversiones (SPAIN) SL, which operates **IN SPAIN**, continued its active expansion of the administration of Apartment buildings in the Murcia and Madrid regions. In the year 2017, seven portfolios were purchased.

Group companies provide services in the regions of Madrid, Alicante and Murcia. In 2017 insurance, data protection services and real estate services were launched. In 2018 the company is planning to provide elevator maintenance services.

In 2018, the Company will continue its efforts to increase the market share of apartment houses through organic development and acquisitions of new contracts. The company has plans for stepping in the regions of Barcelona and Málaga. The goal of the group company is to grow in the market of the maintenance of apartment houses.

At present, the total area of administered apartment buildings in Spain reaches 5.9 million sq. meters.

0.62
million m^2

IN LATVIA, in the Riga region, the company has implemented IT solutions which were already tested in other countries. The Building Maintenance Standard was implemented. As a result of these projects, the enterprise succeeded in optimizing processes and reducing operating costs.

There are plans to complete the IT deployment process in Liepaja region in 2018.

In 2018, the Group's companies will aim to increase the area of the houses maintained organically and through new acquisitions, as well as expand the geographic scope of activities in other cities and towns of the country.

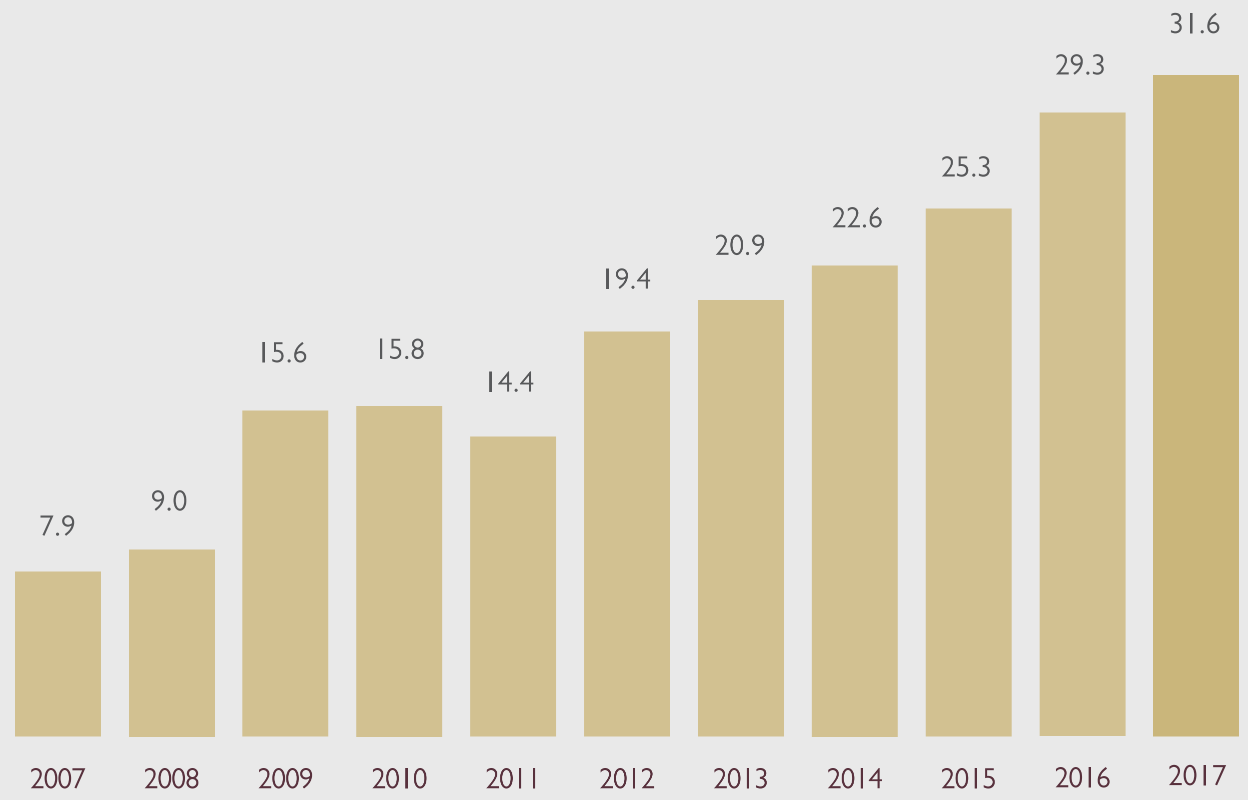
The total area of administered apartment buildings in Latvia currently maintained is 626 thousand. sq. m.

3.35
million m^2

In the first half of this year, the Group's company operating **IN ST. PETERSBURG** provided services for apartment houses with a total area of 3.35 million sq. meters.

In 2018, the Company plans to increase the number of maintained apartment buildings through natural development.

THE CHANGE OF THE TOTAL AREA OF MAINTAINED APARTMENT BUILDINGS THROUGHOUT THE GROUP COMPANIES, MILLION M^2



2.1.2. COMMERCIAL FACILITY MANAGEMENT

The group companies provide commercial facility management services that ensure reliable functioning of building systems and lower maintenance costs.

Companies take care of building maintenance from engineering equipment, energy resource management and savings to interior cleaning and protection.

Commercial enterprise management services are provided by the Group companies in Lithuania and Latvia.

IN LITHUANIA, the Group's companies have signed 77 contracts with customers: 50 contracts with new customers, 27 contracts with existing customers.

3.45
million m^2

In 2017, complex building management services were launched to the facilities of the industrial technology company ABB, Ukmergė Industrial Park, hotels owned by Achemos Grupė – "Palangos Vėtra" and "Old Mill", facilities owned by "Kesko Senukai Lithuania" in Lithuania, "Betonika" and "Baltic Sofa" plants, as well as new contracts were signed with public sector organizations, and the municipal company "Vilniaus Vandenys". Maintenance services for all buildings in Lithuania were started to be provided to "NT Valdos" company.

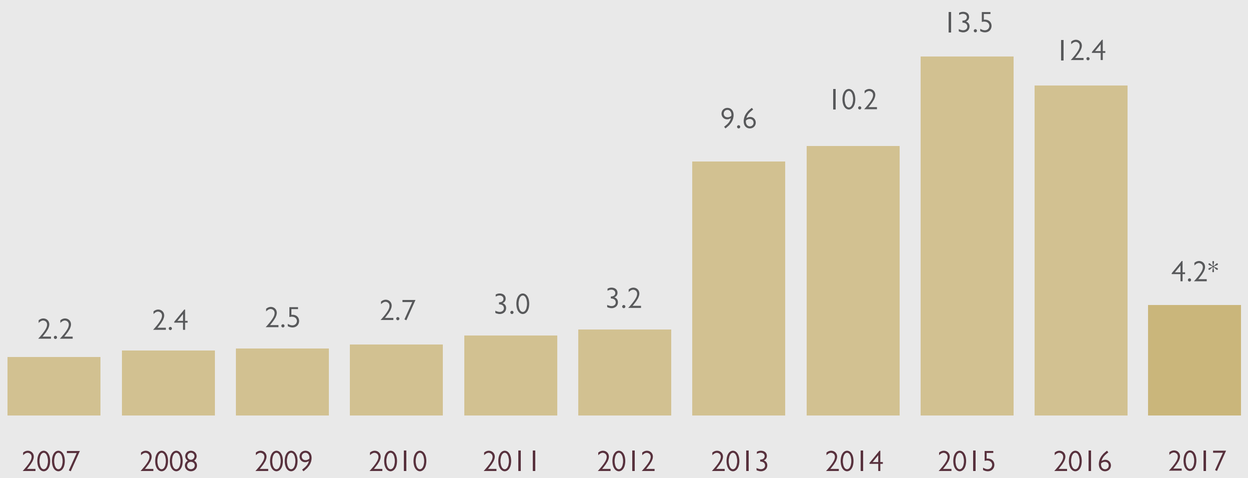
The total area of the maintained facilities amounts to 3.45 million. sq. meters.

0.71
million m²

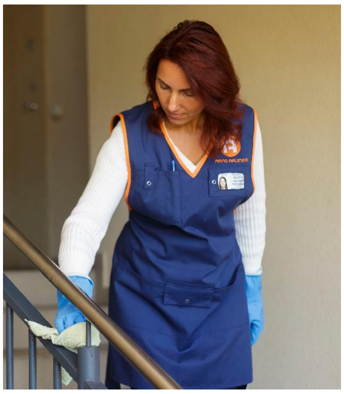
IN LATVIA, the amount of customers in the commercial segment has been expanded. The company signed new complex facility maintenance agreements with supermarkets, a factory, etc. The company's structural changes were carried out to improve the quality of services and to enhance the development processes. The company began developing energy efficiency projects. In 2018, the Group's companies will seek to increase the area of serviced buildings through organic development.

The total area of maintained facilities amounted to more than 710 thousand. sq. meters.

THE CHANGE OF COMMERCIAL, PUBLIC AND INDUSTRIAL FACILITIES AREAS THROUGHOUT THE GROUP COMPANIES, MILLION M²



* Decrease of commercial, public and industrial facilities areas related to deconsolidation of Concentra Servicios y Mantenimiento, S.A. and disposal of Grupa Techniczna Sp. z o.o.

2.1.3. TERRITORIES MAINTENANCE AND CLEANING

Group companies provide full range of maintenance and cleaning services: indoor and outdoor cleaning, maintenance of private territories and public areas of cities, removal of snow, sand, leaves, mowing of grass, performing special cleaning works and supplying hygienic materials. Cleaning and territory maintenance services are provided in Lithuania, Latvia and St. Petersburg.

IN LITHUANIA, in 2017, the Group company started providing territory maintenance services in Šilutė, and with its partners won the procurement of the contract for pedestrian walkway cleaning in the city of Šiauliai. The company also started providing cleaning services to the Impuls sports clubs in Vilnius.

The Group's company provides cleaning and territory maintenance services in Vilnius, Kaunas, Klaipėda, Šiauliai, Birzai, Alytus, Šilutė, Radviliškis, Rokiškis and Panevėžys. The company is responsible for clean environment in apartment buildings and commercial objects, as well as in the public areas of the cities.

The company is constantly expanding the range of services and investing in the acquisition of new equipment – in 2017 various equipment purchases totalled to almost 0.5 million euros.

IN LATVIA, the Group companies provides cleaning and territory maintenance services for apartment houses, supermarkets and offices. In 2017, the list of clients was expanded, new quality standards were implemented, and structural changes were made in the company.

IN ST. PETERSBURG, the company provides territory cleaning and maintenance services for apartment residential buildings.

2.1.4. OTHER SERVICES

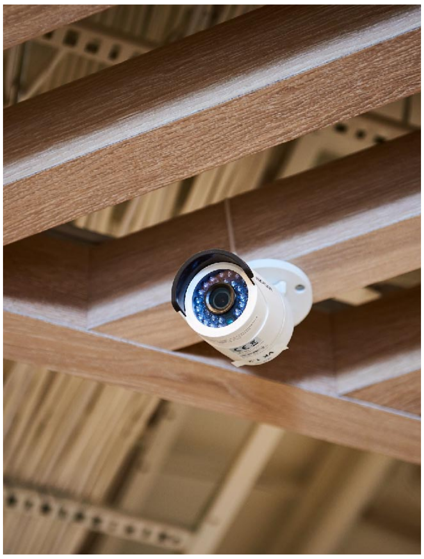
Besides core activities, the Group companies also provide other services in Lithuania, Poland, Latvia and St. Petersburg.

IN LITHUANIA, in 2017 the Group companies provided security services to 3,789 customers, renovated 41 houses, maintained 522 children's playgrounds, recovered more than 3.5 million euro of debts in favour of customers by judicial and prosecutorial methods.

The company operating **IN LATVIA**, the first in the country, started renovating apartment houses under a new program. In 2017, one apartment house was completely renovated and procurement contracts were signed for two buildings. Also, a new company name has been registered and the lift maintenance service was launched.

IN POLAND, the companies are engaged in the production and supply of heat energy, installation of heat points, and retail electricity trading.

IN ST. PETERSBURG, the company provides the administration service of utility bills for 361 apartment houses.



2.2.IMPROVING EFFICIENCY OF ACTIVITIES

The Group of companies continued to implement LEAN's effective business process management methodology. Projects have been implemented in all regions where the company has its business.

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IN LITHUANIA, LEAN group continued to actively implement optimization processes. The ideas implemented in 2017 generated over 75 thousand hours of savings, which allowed to create a higher value with the same resources. Over 560 persons participated in various training sessions during the year. Among the training topics, new BPMN training was offered. Moreover, the Knowledge Club has successfully continued its activities and presents not only books but other innovative methods and solutions.

In Lithuania, 8% of all employees of the company are engaged in continuous improvement activities, including 43% top executives, 62% second level managers, 60% first level managers and 19% of administration staff.

The main trend of 2018 is standardization and efficiency of processes through automation and robotics.

IN ST. PETERSBURG all departments and sections work with the indicators installed. Successful implementation of Kaizen ideas has saved 15 thousand euro and 820 hours of work in half a year.

Companies **IN SPAIN** are actively implementing processes for continuous improvement, which have already involved all executives of the top-level and 50% of other personnel. In 2018, great attention will be paid to increasing the competences of all employees. Also, significant attention will be dedicated to the implementation of the building management standard.

Units **IN POLAND** also continue to implement performance optimization solutions. LEAN allows for the active deployment of development plans, involving all senior executives and about 80% of the administration staff. There is a high potential in these regions, and the focus on increasing the efficiency of Operations will continue.

560

persons in Lithuania in various training sessions during the year

IN LATVIA, the LEAN methodology was developed through A3 projects, involving increasingly more employees of the company in the process.

The LEAN standard has become one of the main competitive advantages of the Group, therefore, all the Group companies will continue to actively implement processes that improve their performance in 2018.

2.3. THE MOST SIGNIFICANT INVESTMENTS AND EVENTS

- **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.

- **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 through a subsidiary 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 at the date of disposal amounted to EUR (3.150) 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.

- **ON 21 APRIL 2017** City Service received a lawsuit from Vilnius City municipality's administration and General Procurator's office. Amount of the lawsuit is EUR 20.6 million. The Company is reasonably convinced that Vilnius City municipality's administration and General Procurator's office lawsuit on recovery of losses is without base and legally unfounded. The case is based on the pre-trial investigation under the the Financial Crime Investigation Service under the Ministry of the Interior conclusion. On January 2018 the pre-trial investigation was terminated. Upon termination of the pre-trial investigation, Vilnius city municipality lost the opportunity to follow it and claim that there was an act contrary to the law. Summarizing the above, there is no actual or legal basis for the claim. At present, the court has appointed an independent expert to determine the losses. The court appointed expert before the pre-trial investigation was terminated.

- **ON 3 MAY 2017** City Service SE through a subsidiary sold SIA Namserviss, a company active in Latvia. The company was managed by City Service group. City Service SE will continue investments in Latvia in residential facility management market. Value of share sale — purchase agreement is EUR 3 thousand. Net assets of disposed subsidiary at the date of disposal amounted to EUR (4) thousand.

- On 4 May 2017, the Extraordinary General Shareholders meeting of City Service SE has been held. The shareholders increased the number of members of the management board of the Company and provided that there might be 1 (one) to 7 (seven) members of the management board and approved new wording of the Statutes.

- On 22 May 2017, the Annual General Meeting of Shareholders of the Company has been held. The shareholders approved the set of consolidated annual financial statements of the Company for 2016, distributed the Company's profit for the year 2016.

- **ON 16 JUNE 2017** the Company, through its Latvian subsidiary, acquired 100% stake in SIA Laba Enerģija.
- **ON 23 JUNE 2017** Supervisory Board member Artūras Gudelis resigned from the Supervisory Board.
- **ON 26 JUNE 2017** new management structure of City Service SE was approved. Management board consisted of 5 management board members including chairman of the management board.
- **ON 20 JULY 2017** UAB Mano Sauga company title was changed into UAB Saugos projektų valdymas. Director and other contact details did not change.
- **ON 24 JULY 2017** was initiated bankruptcy procedure for UAB Saugos projektų valdymas after Court of appeal did not change the ruling by which first instance court adjudged EUR 141 thousand from UAB Saugos projektų valdymas. From this date the Group ceased to consolidate this subsidiary in its Financial statements as from that date the Group has lost its effective control to it. UAB Saugos projektų valdymas is still presented in the Group's structure (Note 1.4) as City Service SE remains shareholder of the subsidiary until the end of bankruptcy process.
- **ON 11 AUGUST 2017** reorganization of UAB Mano Būstas was finished. Method of reorganisation was separation. After separation of property, rights and responsibilities was established a new company UAB City Service Engineering. After reorganization UAB Mano Būstas management and other contact details did not change.
- **ON SEPTEMBER 2017** the subsidiary of the Company operating in Poland, Zespół Zarządców Nieruchomości sp. z o.o., received a claim for PLN 6.3 million (EUR 1.5 million) on compensation of damages. The subsidiary is convinced that claim is not reasonable and brought a civil action.
- **ON 1 OCTOBER 2017** the Company, through its Spanish subsidiary, acquired company Administración de Fincas Jimenez, S.L. The main companies activity is administration of dwelling-houses in Spain.
- **ON 17 OCTOBER 2017** the Supervisory Board of the Company elected Ignas Krasauskas as a new Management Board member. Management Board consists of 6 management board members including chairman of the Management Board.
- **ON 1 NOVEMBER 2017** the Company, through its Spanish subsidiary, acquired Jenasa portfolio, providing administration services to Madrid's apartment building owners communities. The investment amounted to EUR 1,000 thousand.
- **ON 12 DECEMBER 2017** the Company, through its Polish subsidiary, acquired 100% stake in Certus-Serwis Sp. z o. o.

LATEST EVENTS

- **ON 18 JANUARY 2018** the Company, through its Lithuanian subsidiary, acquired 100% stake in UAB Acta iuventus which provides security services.
- **ON 28 FEBRUARY 2018** reorganization of the companies City Service Poland sp. z o.o. and City Service Polska sp. z o.o. was completed. After the process of reorganization City Service Poland sp. z o.o. was incorporated into City Service Polska sp. z o.o. with all the assets, rights and obligations. City Service Poland sp. z o.o. ceased operations and was deregistered.

2.4. KEY RISK ACTIVITY TYPES AND UNCERTAINTIES

In 2017 the market was stable, prices and purchasing power did not decline, in comparison with 2016. 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 2017, 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

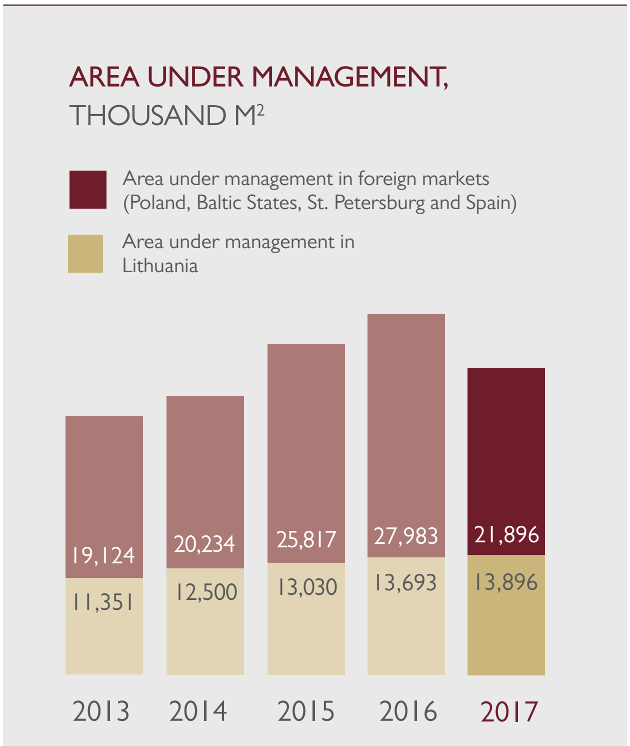
The major part of the Group's and the Company's borrowings (loans and financial lease obligations) are subject to variable rates, related to EURIBOR, EONIA and WIBOR, which create an interest rate risk (Notes 15 and 17). There are no financial instruments designated to manage the exposure to the interest rate risk outstanding as of 31 December 2017 and 2016.

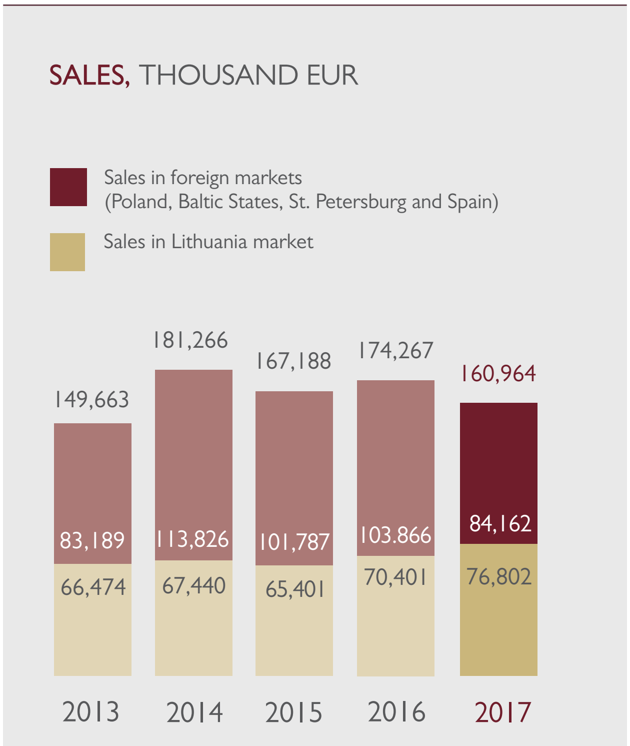
2.5. THE MAIN FINANCIAL RATIOS CONCERNING THE FINANCIAL YEAR

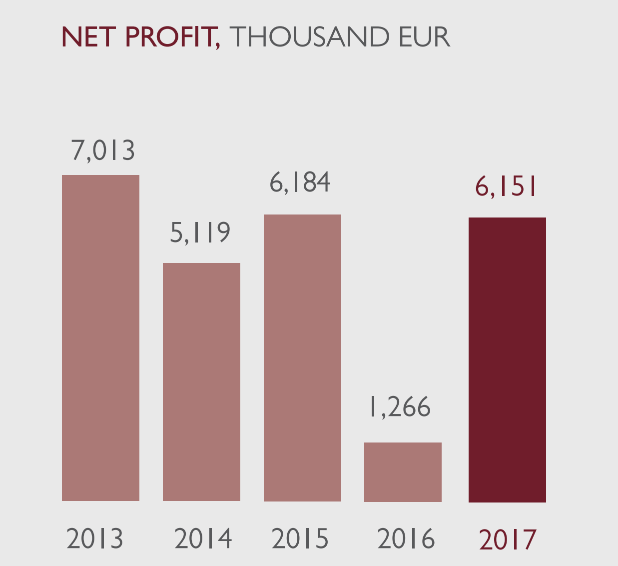
KEY FINANCIAL INDICATORS*	2013	2014	2015	2016	2017
Sales	149,663	181,266	167,188	174,267	160,964
Sales in Lithuania market	66,474	67,440	65,401	70,401	76,802
Sales in foreign markets (Poland, Baltic States, St. Petersburg and Spain)	83,189	113,826	101,787	103,866	84,162
Area under management in Lithuania (thousand sq. m)	11,351	12,500	13,030	13,693	13,896
Area under management in foreign markets (Poland, Baltic States, St. Petersburg and Spain)	19,124	20,234	25,817	27,983	21,896
GROSS PROFIT					
EBITDA	13,331	12,314	10,012	9,679	12,318
EBITDA margin	8.91%	6.79%	5.99%	5.55%	7.65%
Operating profit (EBIT)	10,370	8,914	5,883	5,353	7,929
EBIT margin	6.93%	4.92%	3.52%	3.07%	4.93%
Earnings before tax (EBT)	8,674	6,932	7,537	5,527	7,943
EBT margin	5.80%	3.82%	4.51%	3.17%	4.93%
Net profit	7,013	5,119	6,184	1,266	6,151
Net profit in foreign markets (Poland, Latvia, Russia and Spain)	1,331	(831)	(783)	(354)	49
Net profit margin	4.69%	2.82%	3.70%	0.73%	3.82%
Profit per share (EUR)	0.23	0.20	0.26	0.04	0.19
Return on equity (ROE)	12%	9%	11%	2%	11%
Return on assets (ROA)	5%	4%	6%	1%	5%

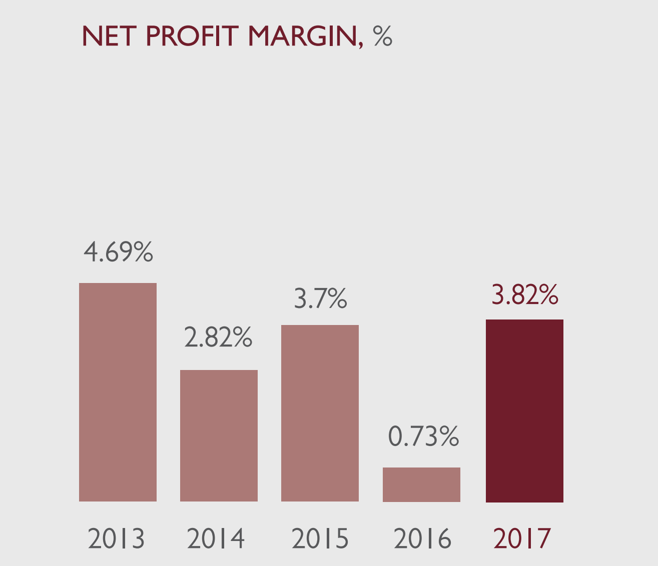
* Key financial data and ratios in 2013, 2014 and 2015, except return on equity and assets as well as profit per share, is presented excluding subsidiaries that were disposed in 2014 and 2015, i.e. Ecoservice UAB group and companies operating in the city of Stavropol. All amounts in key financial indicators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

HIGHLIGHTS


AREA UNDER MANAGEMENT, THOUSAND M²
Area under management in foreign markets (Poland, Baltic States, St. Petersburg and Spain)
Area under management in Lithuania
19,124
11,351
20,234
12,500
25,817
13,030
27,983
13,693
21,896
13,896
2013
2014
2015
2016
2017


SALES, THOUSAND EUR
Sales in foreign markets (Poland, Baltic States, St. Petersburg and Spain)
Sales in Lithuania market
149,663
83,189
66,474
181,266
113,826
67,440
167,188
101,787
65,401
174,267
103.866
70,401
160,964
84,162
76,802
2013
2014
2015
2016
2017


NET PROFIT, THOUSAND EUR
7,013
5,119
6,184
1,266
6,151
2013
2014
2015
2016
2017


NET PROFIT MARGIN, %
4.69%
2.82%
3.7%
0.73%
3.82%
2013
2014
2015
2016
2017

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 2017. 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 2017 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 2017 the total number of shareholders of the Company was 269.

Company's shares distribution among shareholders who have more than 5 % shares of the Company as of 29 December 2017 (the last operating day in December of Estonian central securities depository) was the following:

	Number of shares held	Owned percentage of the share capital and votes, %
ICOR UAB, legal entity code 300021944, address: Ozo str. 12A, 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 2017.

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 2017.

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 one (1) to seven (7) 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 2017, THE SUPERVISORY BOARD OF THE COMPANY COMPRISES OF THE FOLLOWING PERSONS:

Name and surname	Position	Start of term	End of term
Andrius Janukonis	Chairman of the Supervisory Board	April 8, 2015	April 9, 2019
Gintautas Jaugielavičius	Member of the Supervisory Board	April 8, 2015	April 9, 2019

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).

2.9.2. COMPANY'S MANAGEMENT BOARD

The Management Board of the Company comprises of six (6) members who are representing and directing the Company. The members of the Management Board are elected by Supervisory Board for a term of four (4) years. Supervisory Board has right 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. 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 members are authorized to represent the Company in all legal acts which do not fall within competence of other Management bodies. The individual members of the Management Board have competence, be accountable and responsible within the following jurisdictions and areas of activity of the Company and its directly controlled subsidiaries under Management Board regulations. 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.

AS OF 31 DECEMBER 2017, THE MANAGEMENT BOARD OF THE COMPANY COMPRISES OF THE FOLLOWING PERSONS:

Name and surname	Position	Start of term	End of term
Artūras Gudelis	Chairman of the Management Board	June 26, 2017	June 26, 2021
Tomas Kleiva	Member of the Management Board	June 26, 2017	June 26, 2021
Edvinas Paulauskas	Member of the Management Board	June 26, 2017	June 26, 2021
Vytautas Turonis	Member of the Management Board	June 26, 2017	June 26, 2021
Algė Jablonskienė	Member of the Management Board	June 26, 2017	June 26, 2021
Ignas Krasauskas	Member of the Management Board	October 17, 2017	October 17, 2021

They do not control any shares of the Company.

ARTŪRAS GUDELIS (born in 1977) is a Chairman of the Management Board of City Service SE (since 2017). Artūras Gudelis was a Member of the Supervisory Board of City Service SE (2015 – 2017). He holds Bachelor's degree in Economics and Master's degree in Business Management.

Artūras Gudelis is responsible for carrying the formal functions of the chairman of the Management Board as well as for signing of the consolidated financial statements, representing the Company in the stock exchanges, securities depositories and in relations with the investors, as well as in all other general matters related to the Company.

TOMAS KLEIVA (born 1979) is a Member of the Management Board of City Service SE (since 2017). Tomas Kleiva was Member of the Board and acting CEO instead of Jonas Janukėnas until was approved new management structure of City Service SE (23 February 2017 – 26 June 2017).

Prior to that, Tomas Kleiva was the Financial Manager of City Service SE (2016 - 2017) and Financial Manager 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). Tomas Kleiva has a Master's degree in Environmental Engineering.

Tomas Kleiva is responsible and accountable for any and all financial matters and operations within the Group in all the jurisdictions and carries functions of Group's CFO, except for Lithuania, Latvia and Estonia. Tomas Kleiva is also responsible for the organization and supervision of Group activities in Russia.

EDVINAS PAULAUSKAS (born 1976) is a Member of the Management Board of City Service SE (since 2017). Previously he worked as the Executive Manager at City Service SE (2015 - 2017), Commercial director (2008 – 2015). Edvinas Paulauskas started working in the Company as the Project Manager (2005 – 2006). He holds a Bachelor's degree in an Environment Engineering.

Edvinas Paulauskas is responsible and accountable for the organization and supervision of Group activities (except for financial and HR matters) in Poland and Spain.

VYTAUTAS TURONIS (born 1972) is a Member of the Management Board of City Service SE (since 2017). Vytautas Turonis woks as the General Manager at UAB Mano Būstas. 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 and accountable for the organization and supervision of Group activities (including the financial but except for HR matters) in Lithuania, Latvia and Estonia.

ALGĖ JABLONSKIENĖ (born in 1971) is a Member of the Management Board of City Service SE (since 2017). Previously she worked as the HR Director of City Service SE (2017). She has a Master's degree in Psychology and an Executive Master's degree in Business Administration. Previously Mrs. Jablonskienė was working as the Human Resources and Administration Director within international and local companies. She also brings nearly 10 years experience as a business consultant.

Mrs. Jablonskienė is responsible and accountable for human resources matters within the Group in all jurisdictions.

IGNAS KRASAUSKAS (born in 1983) is a member of the Management Board of City Service SE (since 2017). He also is an Executive Manager at Mano Būstas (since 2016). Mr. Krasauskas works in City Service SE since 2007. Previously he worked as the Director of Legal department at City Service SE (2007-2013) and the Director of Administration and legal department at Mano Būstas (2013-2016). Mr. Krasauskas holds a Bachelor`s degree in Economics and a Master`s degree in Law.

Ignas Krasauskas is responsible for the Group's information technology policy and enforcement, e-commerce and legal issues in countries, where active activities are taking place.

2.9.3. COMPANY'S MANAGEMENT

AS OF 31 DECEMBER 2017, THE COMPANY'S MANAGEMENTS COMPRISES OF THE FOLLOWING PERSONS:

Name and surname	Position within the Company	Start of employment
Anna Górecka – Kolasa	Head of the Group's companies, operating in Poland	2013
Larijus Lapinskas	Chairman of the Board of the Group companies operating in St. Petersburg	2017
Evgejij Grachiov	Head of the Group companies, operating in Spain (residential building administration)	2012

They do not control any shares of the Company.

ANNA GÓRECKA - KOLASA (born 1975)) is the Head of the Group companies, operating in Poland. Anna Górecka – Kolasa has been working for the Group since 2013, prior to that she held positions of Management and Control Director, Chief Analysis Specialist and Deputy Accountant General (2004 – 2013). Anna Górecka-Kolasa has a higher education in the area of management and marketing.

Anna Górecka-Kolasa is responsible for the Group's day-to-day activities in Poland.

LARIJUS LAPINSKAS (born 1972) has been the Chairman of the Board for the City Service Group companies, operating in St. Petersburg, since 2017. Larijus Lapinskas has a Bachelor's degree in Information Technology.

Larijus Lapinskas is responsible for the Group's activities in St. Petersburg.

EVGENIJ GRACHIOV (born 1985) has been Chairman of the Board of Grupo Aresi De Inversiones S.L, operating in residential buildings administration segment in Spain, since 2017. Evgenij Grachiov works in Company since year 2012. Previously he worked as LEAN projects manager at City Service SE (2012 - 2017). E. Grachiov holds a Master's degree in an Industry Engineering and Management.

Evgenij Grachiov 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.

In the period since the 1st of January 2017 by the 31st of December 2017 and the day of Annual Report is released 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. 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, two of whom shall be independent and one member 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.

MEMBERS OF THE AUDIT COMMITTEE OF THE COMPANY:

MRS. ILONA MATUSEVIČIENĖ – a chairman of the Audit committee, independent member, does not work at the Company.

MRS. AUŠRA ANIULYTĖ – independent member, does not work at the Company

MR. MATAS LIKAUSKAS – financial controller of the Company.

Audit Committee members do not control shares of the Company.

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.

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 I.Z.1.20., 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 II.Z.3., 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 II.Z.4., according to which annex II 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;

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

- Recommendation IV.R.2., 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;
- Recommendation VI., 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.

3. SOCIAL RESPONSIBILITY REPORT

3.1. OVERVIEW

In 2017, the City Service Group's companies, operating in Lithuania, Latvia, Poland, Spain and Russia, kept their activities consistently integrated with the idea of social responsibility, since it is an integral part of the Group's mission to create a harmonious 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, the Group aims for focused improvement of management of the customers' relations, creating individual relationship with each of the customers and ensuring the improving quality of working and living environment of the customers, as well as timely communication and comprehensive provision of information. The customers' experiences and evaluations are widely communicated through the Group's internal communication channels and local media. Taking into consideration the continuous analysis of customers' needs, the Group develops focused action plans and sets targets for its activities. The Group's companies are committed to quality and customer satisfaction in accordance with the Quality Management System ISO 9001:2008.

WHEN DEVELOPING ITS RELATIONS WITH EMPLOYEES, City Service aims to involve its personnel into the Group's activity processes, encourage open dialogue between different management levels and increase the staff motivation and involvement. The personnel training programmes are adopted for enhancement of professional competences of the employees. A remote learning system is being introduced. The great attention is paid to the issues of health and safety of the employees. The Group observes the principles of tolerance as regards age, gender, race, religion, origin and beliefs, ensuring equal opportunities and rights

for its employees. In 2017 there were created special closed groups for employees in social network (i.e. Facebook). At the same time there were created public pages in Facebook and LinkedIn, which are part of the employer image strategy and lets employees know about company activities in different countries.

IN THE AREA OF RELATIONS WITH COMMUNITY, the Group develops, supports and improves the cooperation and partnership with communities, educational institutions, law enforcement and non-governmental organizations. The Group implements initiatives, intended for improving the living environment in multi-apartment buildings, encouraging the neighbourly relations and responsible attitude towards commonly owned property, as well as strengthening a safe neighbourhood, community relations and socializing traditions. City Service SE and companies of the Group are always taking part in specialised seminars and conferences, where provides newest information about living environment and changes in facility management.

IN THE AREA OF ENVIRONMENTAL PROTECTION, the Group encourages sparing the natural resources, encourages the waste sorting, contributes to the projects aiming to reduce environmental pollution and participates in public awareness initiatives and campaigns. Group companies collaborate with Green organisations and carry out projects related to optimizing waste and promoting ecology initiatives in residential buildings.

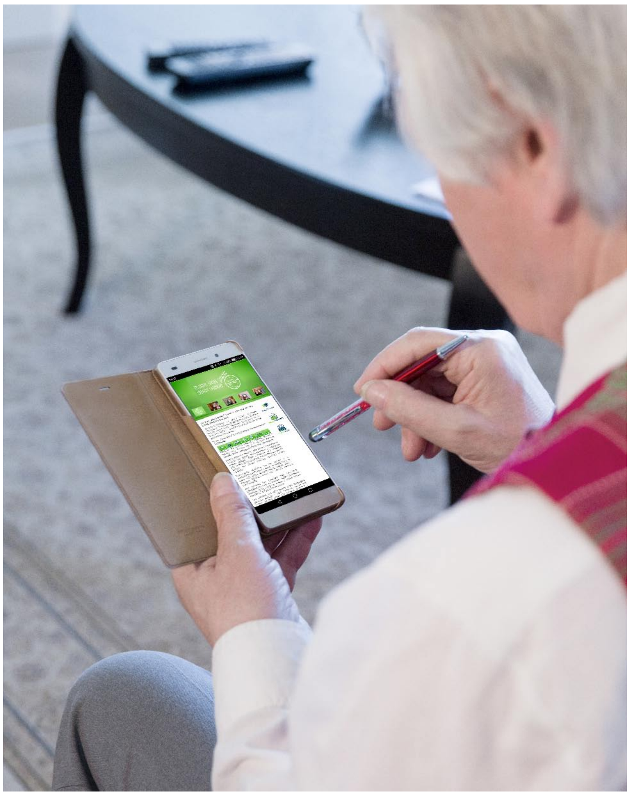
3.2. MARKET

In 2017 the Group companies dedicated even more attention to the customer relations standard and the solutions of saving energy in residential buildings and commercial facilities.

CUSTOMER RELATIONS

In 2017, the Group's companies paid a significant attention to the solutions on quality of communication with customers, as well as energy saving in residential and commercial buildings by taking part in public events.

The Group successfully continues to promote communication standard for the majority of the companies, which covers both corporate and outward communication, i.e. the media, interactive channels, as well as personnel and marketing communication. In order to accurately identify the customers' needs, the Group encouraged continuous direct communication with the customers. As the result the building administration managers spent at least 40 percent of their working time in direct communication with the customer. Customer relationship management (CRM) helps the Group to provide the essential services in a timely manner. In Lithuania, Latvia, Poland, Spain and Russia the communication with the customers is maintained though different reach-out communication channels, e. g. over the telephone, e-mail messages and newsletters, news boards, self-service portals, social networks, meetings and individual sessions.



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 used to be informed by announcements in the staircases, mass SMS and e-mail messages. In the end of 2017 we created two more modern channels: live chat (in self-service portals) and Apps.

IN POLAND virtual customer service portals and the call centre are currently in development. At the end of 2017, the Group company, operating in Poland, had 50,000 active Internet users. The Call centre serves 11 cities and receives more than 3,000 calls and e-mail messages each month. The Call centre's employees also participate in customer satisfaction surveys.

The Call centre in Poland receives more than

3,000

calls and e-mail messages a month.

ENERGY SAVING

In 2017 the Group's Energy Saving Group (ESG) proposed to the part of its customers and applied **IN LITHUANIA AND LATVIA** the EPC (Energy Performance Contracts) methodology, which is widely applied in the developed countries in the world and specially applied in Energy saving companies (ESCO). It makes it possible to increase energy efficiency and reduce the energy costs suffered by the customer. This model was successfully implemented in educational institutions of Vilnius city – kindergartens and schools, also in streets lighting. ESG together with the commercial building management division concerned about the customers' energy resources and developed the Project on Energy Saving Measures. These two groups targeted to cooperate for a common objective to offer the customer-tailored innovative and energy efficient Using the EPC model, for the educational establishments almost 2.4 million euros were saved per year.

The project proposed different measures as replacement of LED lights, reactive power compensation equipment (reducing consumption of reactive power energy), enhancement of efficiency of cooling/freezing systems, automatization of heating systems, performance of audits of the power energy systems.

IN LITHUANIA, energy audits were one of the main activities in 2017 for ESG group, because large companies were required to carry out audits and identify the energy efficiency in the buildings.

IN RUSSIA, in order to increase energy efficiency in the multi-apartment and commercial buildings, there was performed a variety of modernisations and renovations, among which – ensuring of water circulation in domestic hot water supply systems, replacement of heating systems and pipelines, insulation of basement ceilings, replacement of old wooden windows to new plastic ones, and installation of automatic illumination devices in public areas.

In Russia the Group's employees created electrical measurement laboratory ЛАБОРАТОРИЯ ЭЛЕКТРИКС. Laboratory performs testing and detection of failures in power energy networks. It has already performed around 500 tests.

3.3. RELATIONS WITH THE PERSONNEL

The Group's companies pursue and invest into their employees personal growth, cooperation, joint results and success. In 2017 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.

TRAINING AND SEMINARS

In 2017, in Lithuania, the training courses and seminars on efficient sales, time management, stress management, procurement management, engineering, computer literacy, legal issues, internal coaching and other subjects were organised for 15 divisions of the Group. Totally, more than 70 business days were dedicated to strengthening of knowledge and building of the competences of almost 400 employees. In Lithuania, the ROOKIES' DAY is organised each quarter. During the training, which takes full business day, the new employees are familiarized with the Group's vision, mission, values, activities and the LEAN methodology. They receive the specific knowledge on information systems, procurements, and occupational safety; they play the team game on the Group's values.

IN LITHUANIA the Lean performance efficiency methodology was further developed for the purpose of involving the personnel in suggesting performance optimization ideas.

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.

In 2017, **IN LATVIA,** the technical competence staff was trained for new qualifications and awarded with new certificates to operate and maintain the engineering systems. These activities were planed because the number of technical employees had increased.

IN POLAND, the new training system was introduced for the employees 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.

IN SPAIN, the trainings on safety on the road were conducted for the staff members. These trainings emphasized negative effect of alcohol on driving and developed the first aid skills of the employees. 340 Employees extended their knowledge and built competences.

PRACTICAL TRAINING FOR STUDENTS

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. 15 students improved their practical skills and acquired knowledge in Lithuania, 2 in Latvia and 8 in Poland.

25
students improved their skills in Lithuania, Latvia and Poland.

HEALTH AND SAFETY AT WORK

In 2017 in Lithuania, 20 trainings on occupational safety, as the Occupational Safety Day, were performed: 14 – for the operational division, and 6 – for the cleaning division. During these trainings, the news and innovations in the area of occupational safety were delivered, and the results of legal compliance with the occupational safety were discussed. The company made mention of the World Day for Safety and Health at Work. Each staff member was reminded of how important it is to comply with occupational safety regulations.

20
trainings on occupational safety were held in Lithuania.

3.4. COMMUNITY-BASED SOCIAL ACTIVITIES

The Group had received an assessment award from the Ministry of Social Security and Labour of the Republic of Lithuania for its socially responsible activities few years ago. That is why in 2017 the Group continued to develop its activities aimed at strengthening the community-based traditions.

In the area of social activities, the Group implemented initiatives, aimed at improving the living environment in the multi-apartment buildings, encouraging the neighbourly relations and responsible attitude towards the common property, as well as the partnership of the Group's companies and employees with the society.

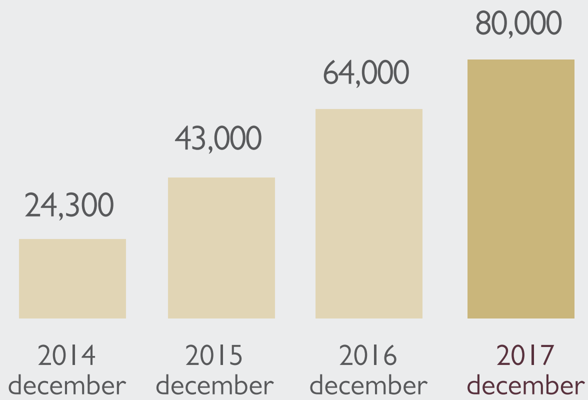
Already for a number of years, the Group has been paying a particular attention to strengthening of relations with the communities and to investing to the corporate social responsibility projects. In 2017 the Group were nominated in European "Digital communication awards". Group won the nomination for virtual Lithuanian community project „Neighbour Talk", created in Facebook (category – Social responsibility). It was important for successful implementation of innovative solutions in the future, promoting the closer dialogue within the communities.

The employees of the Group companies, operating **IN POLAND**, participated in projects, intended to assist poor families. Employees also participated in special events, organized by the company special for the employees.

IN LITHUANIA, almost 40 events and actions were organised to the residents of multi-apartment buildings in 2017: Christmas tree lighting celebration, the Shrove Tuesday celebration, community entertainment events, cleaning and arrangement actions of the leisure spaces and the biggest event – the elections "Neighbour of the year".

In 2017 the virtual communities project "Neighbours Talk" was further developed on social network Facebook. At the end of the year, the target audience of the project reached more than 80,000 followers, i.e. almost 30 percent of all the apartment building customers, serviced by the Group.

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



IN RUSSIA, the old water meters were replaced free of charge for the Second World War veterans and the great discounts were applied for electric and plumbing works.

At the end of 2017 and in the beginning of 2018 the charity initiatives were implemented, when the Group company's employees collected food, clothing, hygiene items and toys for needy families and Children houses and sponsored football school for poor children "Ataka".

3.5 ENVIRONMENTAL PROTECTION

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

IN LITHUANIA the Group's professionals participated in the lectures and seminars of the students of Vilnius Gediminas Technical University, where they gave their presentations on the corporate performance indicators, energy efficiency measures applied in the multi-apartment and commercial buildings, and management of other related processes. The Group encourages its customers to refuse printed paper bills in order to spare the nature and save the environment. In Lithuania almost 52,000 customers receive their bills for the provided services by e-mail and about 8,000 customers paid their bills by using Apps.

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.

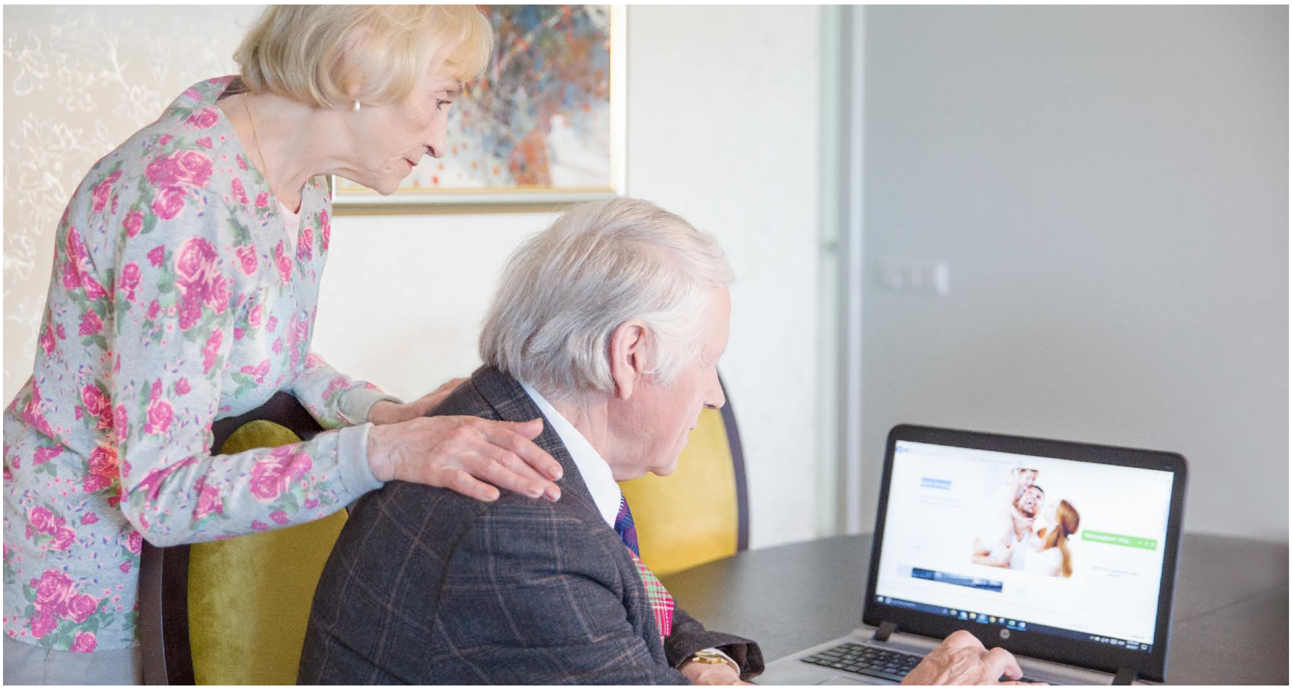
IN LATVIA, the Group company contributed to the works of putting in order of the territory around apartment buildings. They cleaned yards, walkways, playgrounds and parking lots, which resulted both in the environment getting prettier, as well as in an increase of the value of the real estate.

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.

52,000

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 2017	As of 31 December 2016
ASSETS			
Non-current assets			
Goodwill	4	11,597	11,532
Other intangible assets	5	27,870	26,092
Property, plant and equipment	6	18,463	18,606
Investment property	7	81	160
Investment into associate	1	162	184
Non-current receivables	11, 13	5,791	5,419
Deferred income tax asset	27	2,693	2,474
Total non-current assets		**66,657**	**64,467**
Current assets			
Inventories	9	1,493	1,607
Prepayments	10	1,703	1,125
Trade receivables	12	30,657	34,718
Receivables from related parties (including loans granted)	32	169	135
Other receivables	13	2,505	2,134
Prepaid income tax		795	599
Accrued income		2,024	2,878
Cash and cash equivalents	13	7,797	30,271
Total current assets		**47,143**	**73,467**
Total assets		**113,800**	**137,934**

(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 2017	As of 31 December 2016
EQUITY AND LIABILITIES			
Equity			
Share capital	1	9,483	9,483
Share premium	14	21,067	21,067
Reserves	14, 2.2	190	263
Retained earnings		24,554	38,002
Equity attributable to equity holders of the parent		**55,294**	**68,815**
Non-controlling interests	8	354	317
Total equity		**55,648**	**69,132**
Liabilities			
Non-current liabilities			
Non-current borrowings	15	14,611	17,998
Financial lease obligations	17	2,717	2,027
Deferred income tax liability	27	3,747	3,815
Provisions for employee benefits	19	160	242
Provisions and other non-current payables	16	2,112	1,748
Total non-current liabilities		**23,347**	**25,830**
Current liabilities			
Current loans	15	-	334
Current portion of non-current borrowings	15	3,290	2,989
Current portion of financial lease obligations	17	995	998
Trade payables and payables to related parties	20, 32	14,910	18,400
Advances received	21	5,275	5,850
Income tax payable	27	495	584
Provisions for employee benefits	19	124	215
Other current liabilities	22	9,716	13,602
Total current liabilities		**34,805**	**42,972**
Total liabilities		**58,152**	**68,802**
Total equity and liabilities		**113,800**	**137,934**

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	2017	2016
Sales	3	160,964	174,267
Cost of sales	23	(121,690)	(141,636)
Gross profit		**39,274**	**32,631**
General and administrative expenses	24	(30,846)	(26,721)
Other operating income	25	1,800	1,567
Other operating expenses	25	(2,299)	(2,124)
Profit from operations		**7,929**	**5,353**
Finance income	26	1,025	1,497
Finance expenses	26	(989)	(1,269)
Share of profit (loss) of associates	1	(22)	(54)
Profit before tax		**7,943**	**5,527**
Income tax	27	(1,792)	(4,261)
Net profit		**6,151**	**1,266**
Other comprehensive income that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(89)	456
Total other comprehensive income for the year		**(89)**	**456**
Total comprehensive income for the year, net of tax		**6,062**	**1,722**
Net profit attributable to:			
The shareholders of the Company		6,150	1,385
Non-controlling interests		1	(119)
		6,151	**1,266**
Total comprehensive income attributable to:			
The shareholders of the Company		6,061	1,841
Non-controlling interests		1	(119)
		6,062	**1,722**
Basic and diluted earnings per share (EUR)	28	0.19	0.04

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 changes in equity

Group	Notes	Attributable to equity holders of the parent							
		Share capital	Share premium	Foreign currency translation reserve	Other reserves	Retained earnings	Subtotal	Non-controlling interest	Total
Balance as of 1 January 2016		**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	29	-	-	-	-	(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**
Net profit for the year		-	-	-	-	6,150	6,150	1	6,151
Other comprehensive income		-	-	(89)	-	-	(89)	-	(89)
Total comprehensive income		-	-	(89)	-	6,150	6,061	1	6,062
Dividends declared	29	-	-	-	-	(19,598)	(19,598)	-	(19,598)
Acquisition of non-controlling interest	4	-	-	-	-	-	-	36	36
Disposal of subsidiary	1	-	-	16	-	-	16	-	16
Balance as of 31 December 2017		**9,483**	**21,067**	**(2,499)**	**2,689**	**24,554**	**55,294**	**354**	**55,648**

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

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of cash flows

	Notes	2017	2016
Cash flows from (to) operating activities			
Net profit		6,151	1,266
Adjusting items:			
Income tax expenses	27	1,792	4,261
Depreciation and amortisation	5, 6, 7	4,389	4,326
Impairment and write-off of accounts receivable	24	820	692
Loss on disposal of property, plant and equipment	25	728	(10)
Provisions for potential obligations from guarantees provided for subsidiary Concentra customers	2.20	-	1,253
Loss from sale of investments	1	392	-
Interest (income)	26	(540)	(786)
Interest expenses	26	539	692
Other provisions	31	419	-
Result on deconsolidation of subsidiaries	1, 2.20	(1,667)	-
Result on remeasuring of assets and liabilities to liquidation value	1, 2.20	-	(3,318)
Other financial activity result, net		(496)	363
Share of net loss of associate		22	54
		12,549	8,793
Changes in working capital:			
Decrease (increase) in inventories		40	(14)
(Increase) decrease in trade receivables, receivables from related parties, non-current receivables, other receivables and other current assets		(3,590)	16,347
(Increase) decrease in prepayments		(964)	279
(Decrease) increase in trade payables and payables to related parties		(711)	4,907
Income tax (paid)		(2,595)	(1,701)
Increase (decrease) in advances received and other current liabilities		1,944	(1,580)
Net cash flows from operating activities		**6,673**	**27,031**

(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 cash flows (cont'd)

	Notes	2017	2016
Cash flows from (to) investing activities			
(Acquisition) of non-current assets	5, 6, 7	(4,242)	(3,555)
Proceeds from sale of non-current assets		995	199
(Acquisition) of investments in subsidiaries and associates (net of cash acquired in the Group)	1, 4	(406)	(7,185)
Disposal of investments in subsidiaries net of cash disposed	1	39	-
Deconsolidation of investments in subsidiaries	1	(462)	-
Interest received		384	783
Dividends received		-	10
Net cash flows (to) investing activities		**(3,692)**	**(9,748)**
Cash flows from (to) financing activities			
Dividends (paid)		(19,598)	(3,161)
Proceeds from loans	15	180	7,679
Financial lease (payments)		(1,820)	(1,213)
Loans (repaid)	15	(3,607)	(6,715)
Interest (paid)		(441)	(774)
Net cash flows (to) financing activities		**(25,286)**	**(4,184)**
Net (decrease) increase in cash and cash equivalents		**(22,305)**	**13,099**
Foreign exchange difference		**(169)**	**314**
Cash and cash equivalents at the beginning of the year		**30,271**	**16,858**
Cash and cash equivalents at the end of the year		**7,797**	**30,271**
Supplemental information of cash flows:			
Non-cash investing activity:			
Property, plant and equipment acquisitions financed by finance leases		2,478	1,485

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

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(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 2017 the number of employees of the Group was 4,202 (as of 31 December 2016 – 5,559).

As of 31 December 2017 and 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.

As of 31 December 2017 and 2016 the shareholders of the Company were:

	2017		2016	
	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%
Other private and institutional shareholders	4,796,707	15.17%	4,796,707	15.17%
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 authorised 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 2017 and 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 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 2017 and 2016.

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Structure of the Group

On 31 December 2017 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 2017	Share of the stock held by the Group as of 31 December 2016	Main activities
UAB Alytaus būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Alytaus namų valda	Lithuania	76%	76%	Dormant
UAB Antakalnio būstas	Lithuania	100%	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 Biržų butų ūkis	Lithuania	57.71%	-	Administration of dwelling-houses
UAB City Service Engineering	Lithuania	100%	-	Commercial real estate management and building maintenance
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 Grindos būstas	Lithuania	100%	-	Dormant
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%	100%	Administration of dwelling-houses
UAB Klaipėdos būstas LT	Lithuania	100%	100%	Administration of dwelling-houses
UAB Konarskio turgelis	Lithuania	100%	100%	Marketplace administration services
UAB Lazdynų butų ūkis	Lithuania	100%	100%	Administration of dwelling-houses
UAB Lazdynų būstas	Lithuania	100%	100%	Dormant
UAB Mano aplinka	Lithuania	100%	100%	Maintenance and cleaning of territories and premises
UAB Mano aplinka plius	Lithuania	100%	100%	Maintenance and cleaning of territories and premises
UAB Mano Būstas	Lithuania	100%	100%	Building maintenance
UAB Mano Būsto Sauga	Lithuania	100%	100%	Security services
UAB Mano sauga LT	Lithuania	100%	100%	Security services
UAB Nacionalinis renovacijos fondas	Lithuania	100%	-	Dormant
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 Pastatų priežiūra	Lithuania	100%	100%	Building maintenance
UAB Pašilaičių būstas	Lithuania	100%	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 Rinkų vystymas	Lithuania	100%	-	Dormant
UAB Saugos projektų valdymas	Lithuania	100%	100%	Security services
UAB Skolos LT	Lithuania	100%	100%	Debt collection services
UAB Šiaulių būstas	Lithuania	100%	100%	Administration of dwelling-houses

(all amounts are in EUR thousand unless otherwise stated)

UAB Šilalės butų ūkis	Lithuania	-	100%	Administration of dwelling-houses
UAB Šilalės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Šilutės būstas	Lithuania	99.84%	99.84%	Administration of dwelling-houses
UAB Tauragės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Toirenta	Lithuania	100%	100%	Rental of bio toilets and sewage disposal services
UAB Vaizdo stebėjimo sprendimai	Lithuania	100%	-	Dormant
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 Viršuliškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Žirmūnų būstas	Lithuania	100%	100%	Administration of dwelling-houses
Administracion Urbana y Rural Chorro, S.L.U.	Spain	100%	100%	Administration of dwelling-houses
Afinem administración de finques, S.L.U.	Spain	100%	100%	Administration of dwelling-houses
Administración de Fincas Jimenez, S.L.	Spain	100%	-	Administration of dwelling-houses
Aresi administracion de fincas S. L.	Spain	100%	100%	Administration of dwelling-houses
Aresi Euroinmo, S.L.	Spain	100%	-	Dormant
Aresi Gestion residencial, S.L.	Spain	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
Eurodrauda Correguria de Seguros, S.L.U.	Spain	100%	-	Dormant
Euronamas Gestion de Fincas Madr, S.L.	Spain	100%	-	Dormant
Euronamas Gestion de Fincas Mrc, S.L.	Spain	100%	-	Dormant
Grupo Aresi de Inversiones, S.L.	Spain	100%	100%	Holding company
Interlift Mantenimiento y Ascensores, S.L.	Spain	100%	-	Dormant
Vetell dos iberica, S.L.**	Spain	100%	-	Administration of dwelling-houses
SIA City Service	Latvia	100%	100%	Holding company
SIA City Service Engineering	Latvia	100%	100%	Commercial real estate management and building maintenance
SIA Ēku pārvaldīšanas serviss	Latvia	100%	-	Building maintenance
SIA Laba Enerģija	Latvia	100%	-	Sale of electricity
SIA Latvijas Namsaimnieks	Latvia	100%	100%	Administration of dwelling-houses
SIA L-Namsaimnieks	Latvia	-	100%	Administration of dwelling-houses
SIA Namserviss	Latvia	-	100%	Administration of dwelling-houses
SIA Namu serviss APSE	Latvia	100%	100%	Administration of dwelling-houses
Atrium 21 sp. z o.o.	Poland	100%	100%	Administration of dwelling-houses
City Service Grupa Techniczna sp. z o.o.	Poland	-	100%	Building maintenance
City Service Poland sp. z o.o.	Poland	100%	100%	Dormant
City Service Polska sp. z o.o.	Poland	100%	100%	Country holding company
Certus-Serwis Sp. z o. o.	Poland	100%	-	Administration of dwelling-houses
Concierge - Zarządzanie Nieruchomościami sp. z o.o.	Poland	100%	100%	Administration of dwelling-houses
Dom Best sp. z o.o.	Poland	100%	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%	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%	50%	Administration of dwelling-houses

(all amounts are in EUR thousand unless otherwise stated)

Hoone - Usługi Budowlane sp. z o.o.	Poland	100%	100%	Construction and engineering
Parama Blue sp. z o.o.	Poland	100%	100%	Dormant
Parama Group sp. z o.o.	Poland	100%	100%	Holding company
Parama Yellow sp. z o.o.	Poland	100%	100%	Dormant
Parama Red sp. z o.o.	Poland	100%	100%	Dormant
Parama White sp. z o.o.	Poland	100%	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%	100%	Construction and engineering
TED sp. z o.o.	Poland	100%	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%	100%	Dormant
ОАО Сити Сервис / OAO City service	St. Petersburg	100%	100%	Administration of dwelling-houses
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%	100%	Elevator installing & tech. support
ООО Территория комфорта	St. Petersburg	100%	-	Dormant

* 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.
** The Group ceased to consolidate Concentra Servicios y Mantenimiento, S.A. (including sub-consolidated subsidiary Vetell dos iberica, S.L.) in its Financial statements after bankruptcy administrator was appointed on 10 May 2017, as from that date the Group has lost its control (Note 1 and Note 2.20).

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30.04.2018

1 General information (cont'd)

Changes in the Group in 2017

In 2017 the Group acquired several subsidiaries (acquisitions in more details are disclosed in Note 4):

- On 27 January 2017 the Group, through its Lithuanian subsidiary, acquired company UAB Visos apsaugos paslaugos (acquisition price EUR 12 thousand).
- On 6 April 2017 the Group, through its Lithuanian subsidiary, acquired 57.71% stake in UAB Biržų butų ūkis. Value of the share purchase amounts to EUR 48 thousand.
- On 16 June 2017 the Group, through its Latvian subsidiary, acquired 100% stake in SIA Laba Enerģija.
- On 1 October 2017 the Group, through its Spanish subsidiary, acquired company Administración de Fincas Jimenez, S.L. The main company's activity is administration of dwelling-houses in Spain.
- On 12 December 2017 the Group, through its Polish subsidiary, acquired 100% stake in Certus-Serwis Sp. z o. o.

In 2017 there were several reorganizations (changes in the legal structure of the Group) performed as outlined below:

- 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 11 August 2017 reorganization of UAB Mano Būstas was finished. Method of reorganisation was separation. After separation of property, rights and responsibilities was established a new company UAB City Service Engineering. After reorganization UAB Mano Būstas management and other contact details did not change.
- On 21 August 2017 reorganization of the companies SIA L-Namsaimnieks and SIA Latvijas Namsaimnieks was completed. After the process of reorganization SIA L-Namsaimnieks was incorporated into SIA Latvijas Namsaimnieks with all the assets, rights and obligations. SIA L-Namsaimnieks ceased operations and was deregistered. After reorganization SIA Latvijas Namsaimnieks management and other contact details did not change.
- On 15 September 2017 reorganization of the companies UAB Visos apsaugos paslaugos and UAB Mano sauga LT was completed. After the process of reorganization UAB Visos apsaugos paslaugos was incorporated into UAB Mano sauga LT with all the assets, rights and obligations. UAB Visos apsaugos paslaugos ceased operations and was deregistered. After reorganization UAB Mano sauga LT management and other contact details did not change.

In 2017 the Group established several subsidiaries:

- In 2017 the Group, through its Lithuanian subsidiary, established new companies UAB Nacionalinis renovacijos fondas (share capital EUR 2.5 thousand), UAB Grindos būstas (share capital EUR 2.5 thousand), UAB Rinkų vystymas (share capital EUR 2.5 thousand), UAB Vaizdo stebėjimo sprendimai (share capital EUR 2.5 thousand)
- In 2017 the Group, through its Spanish subsidiaries, established new companies Vetell dos iberica S.L., Aresi Gestion Residencial, S.L. (share capital EUR 3 thousand), Aresi Euroinmo, S.L. (share capital EUR 3 thousand), Euronamas Gestion de Fincas Mrc, S.L. (share capital EUR 3 thousand), Euronamas Gestion de Fincas Madr, S.L. (share capital EUR 3 thousand), Esibrok Correduria de Seguros, S.L. (share capital EUR 3 thousand), Interlift Mantenimiento y Ascensores (share capital EUR 3 thousand).
- In 2017 the Group, through its subsidiary operating in St. Petersburg, established new company OOO Территория комфорта (share capital EUR 0.4 thousand).
- In 2017 the Group, through its Latvian subsidiary, established new company SIA Ēku pārvaldīšanas serviss.

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Group company City Service Grupa Techniczna sp. z o.o. was sold on 5 April 2017. Total value of the shares sale – purchase agreement is PLN 200 thousand (EUR 47 thousand). Information about the disposed subsidiary is summarised below:

Date of disposal	**City Service Grupa Techniczna sp. Z o.o. 5 April, 2017**
Goodwill	-
Non-current assets other than goodwill	278
Current assets other than cash and cash equivalents	569
Cash and cash equivalents	7
Non-current and current liabilities	(3,987)
Total net assets disposed of	
attributable to equity holders of the parent	(3,133)
attributable to non-controlling interests	-
Currency translation reserve realised on sale	(16)
Total consideration received, all consisting of cash and cash equivalents	47

The Group recorded the net loss of EUR 396 thousand from the sale of shares of the subsidiary which also reflects impairment loss for amount of EUR 3,433 thousand from the Group's receivables from disposed subsidiaries at the date of disposal and cost to dispose amounting to EUR 127 thousand.

Group company SIA Namserviss was sold on 3 May 2017. Total value of the shares sale – purchase agreement is EUR 3 thousand. Information about the disposed subsidiary is summarised below:

Date of disposal	**SIA Namserviss 3 May, 2017**
Goodwill	12
Non-current assets other than goodwill	-
Current assets other than cash and cash equivalents	5
Cash and cash equivalents	4
Non-current and current liabilities	(22)
Total net assets disposed of	
attributable to equity holders of the parent	(1)
attributable to non-controlling interests	-
Total consideration received, all consisting of cash and cash equivalents	3

The Group recorded the net profit of EUR 4 thousand from the sale of shares of the subsidiary.

During the 2017 Group lost effective control of the subsidiary Concentra Servicios y Mantenimiento, S.A. (including sub-consolidated subsidiary of Concentra, Vetell dos iberica, S.L.) on 10 May 2017, due to the bankruptcy procedure, as disclosed in Note 2.20. Information about the deconsolidated subsidiary is summarised below:

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Date of deconsolidation	**Concentra Servicios y Mantenimiento, S.A. 10 May, 2017**
Goodwill	-
Non-current assets other than goodwill	95
Current assets other than cash and cash equivalents	6,381
Cash and cash equivalents	373
Non-current and current liabilities	(8,567)
Total net assets disposed of	
attributable to equity holders of the parent	(1,718)
attributable to non-controlling interests	-

The Group recorded the net gain of EUR 1,592 thousand from the deconsolidation of the subsidiary which includes impairment loss for amount of EUR 126 thousand from the Group's receivables from deconsolidated subsidiary at the date of disposal and also includes total excess of liabilities over estimated liquidation value of the assets of the subsidiary of EUR 1,718 thousand for the year 2017 (Note 2.20).

During the 2017 Group lost effective control of the subsidiary UAB Saugos projektų valdymas on 24 July 2017, as a result of bankruptcy procedure. Information about the deconsolidated subsidiary is summarised below:

Date of deconsolidation	**UAB Saugos projektų valdymas 24 July, 2017**
Goodwill	1
Non-current assets other than goodwill	19
Current assets other than cash and cash equivalents	86
Cash and cash equivalents	89
Non-current and current liabilities	(359)
Total net assets disposed of	
attributable to equity holders of the parent	(164)
attributable to non-controlling interests	-

The Group recorded the net gain of EUR 75 thousand from the deconsolidation of the subsidiary which includes impairment loss for amount of EUR 89 thousand from the Group's receivables from deconsolidated subsidiaries at the date of disposal.

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.

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Changes in the Group in 2016 (cont'd)

- 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.

Investment into associates

The Group's investments in associates as of 31 December 2017 and 2016 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.

The Group accounted for the associates' results attributable to the Group amounting to respectively EUR (22) thousand and EUR (44) thousand in the statement of comprehensive income for the year ended 31 December 2017 and 2016. In 2017 the Group had not received any dividends from associates (in 2016 – EUR 10 thousand).

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

	UAB Marijampolės butų ūkis 2017	**UAB Marijampolės butų ūkis 2016**
Non-current assets	79	97
Current assets	581	661
Non-current liabilities	(15)	(42)
Current liabilities	(578)	(543)
Net assets	67	173
Revenue	1,165	982
Net profit (loss)	(65)	(129)
Group's carrying amount of the investment	**162**	**184**

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 30 April 2018. 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 were carried at estimated liquidation values as of 31 December 2016 as disclosed further 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 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealised losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The Amendments were not applicable for the Group.

- ***IAS 7: Disclosure Initiative (Amendments)***
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments were implemented by the Group and the changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes were disclosed in Note 15.

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: Classification and Measurement* (effective for financial years beginning on or after 1 January 2018)

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group management has preliminary assessed the possible application of the amendment and concluded that it would have no effect for consolidated financial statements, as the Group has only the type of financial instruments for which classification and measurement did not change, mainly trade receivables (including allowance) and payables and bank loans taken.

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. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). 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.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Based on the analysis Group management performed, the implementation of IFRS 15 will have no impact on 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, etc.

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. Based on the analysis Group management performed, the implementation of IFRS 15 will have no impact on Consolidated Financial Statements as discussed in more detail above.

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

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group has not yet evaluated the impact of the implementation of this standard.

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 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.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

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 implementation of this amendment will have no impact on the financial statements of the Group, as each property units which meets the definition of investment property are disclosed as investment property.

IFRS 9: Prepayment features with negative compensation (Amendments) (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The Group has not yet evaluated the impact of the implementation of this standard.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments) (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. The Group has not yet evaluated the impact of the implementation of this standard.

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments) (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. 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 implementation of this amendment will have no impact on the financial statements of the Group, as Group has no or little receipt or payment of advance consideration in a foreign currency.

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. 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 (adopted by EU from 1 January 2018) 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. The implementation of this amendments will have no impact on the financial statements of the Group, as Group has little investments in associates and no interests in disposal of subsidiaries or associates.

- ***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 summarised 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 **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. 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 3 Business Combinations and IFRS 11 Joint Arrangements*:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits has been recognised.
- ***IAS 23 Borrowing Costs:*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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.

2 Accounting policies (cont'd)

2.2. Measurement and presentation currency (cont'd)

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 recognised 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. Generally, there is a presumption that a majority of voting rights result in control.

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. The net result of disposed subsidiaries is accounted for under the item of financial income in Consolidated Statement of Comprehensive Income. When control over subsidiaries is lost due to other reasons (bankuptcies, liquidations), the net result of the deconsolidation of subsidiaries is accounted for under the item of operating expenses in Consolidated Statement of Comprehensive Income. 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.

2 Accounting policies (cont'd)

2.3. Principles of consolidation (cont'd)

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.

2.4. Investments in subsidiaries and associates (the Company)

Investments in subsidiaries and associates in the Company's separate financial statements (Note 35) 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.

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	5 – 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)	15 – 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.

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 2017 and 2016.

<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 2017 and 2016.

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 unrealised 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 2017 and 2016.

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 categorised 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)

2.9. Financial assets (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 2017 and 2016 and disclosed in Note 13.

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 2017 and 2016.

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.

<u>Financial lease</u>

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.

<u>Operating lease</u>

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 recognised 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 recognised 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 2017 and 2016. Income tax rate in 2017 and 2016 in Russia, Latvia, Poland and Spain was 20%, 15%, 19% and 25% respectively.

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 2017 was 20/80 of the amount distributed as the net dividend (20/80 in 2016). 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.

The change of corporate income tax in Latvia is applicable from 1 January 2018. In accordance with the changed Latvian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. 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. Deferred tax assets and liabilities of Group companies in Latvia were reversed through profit (loss) statement in 2017.

As at 31 December 2017, the Group's retained earnings amounted to EUR 24,554 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 unlimited time 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 Accounting policies (cont'd)

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.

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. If services are rendered but no invoices are issued yet for the work done, accrued income (current assets) are recognised in the consolidated statement of financial position respectively to the revenue accounted for in the consolidated statement of comprehensive income.

Dividend income from subsidiaries is recognised in the Company's separate financial statements (Note 35) 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

Financial assets

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

For financial assets carried at amortised cost, whenever it is probable that the 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.

Other assets (excluding goodwill)

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in 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 19), impairment evaluation of goodwill, including allocation of Group assets to cash generating units (Note 2.3 and Note 4), trade receivables allowance (Note 2.19, Note 12),other assets (Note 2.19, Note 5, Note 9, Note 10 and Note 11), assets held for sale and discontinued operations (Note 2.5), recognition and realization of deferred tax asset (Note 27), 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 31). 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.

2 Accounting policies (cont'd)

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

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 28,051 thousand as of 31 December 2017 and EUR 27,294 thousand as of 31 December 2016. The management amortises these customer relationship intangible assets over the estimated validity period of existing contracts, which is 5-40 years.

The management estimated the expected validity term of customer relationships based on the current development of the operations, i.e. already concluded contracts as well as current rate of terminated contracts, which is insignificant. Should the circumstances change in the future, the estimate may need to be revised and the size of such revision cannot be reasonably estimated at the date of these financial statements. The net book value of these intangible assets of the Group amount to EUR 24,115 thousand as of 31 December 2017 and EUR 23,690 thousand as of 31 December 2016 (see Note 5).

In addition, deferred tax asset recognised from tax loss carry forward - significant judgment exists that forecasted results will be achieved and tax losses will be utilised in the foreseeable future. The management estimated what part of the deferred tax asset will be utilised based on the best knowledge of the operations and results of the Group companies as at 31 December 2016 and 2017 (see Note 27).

In addition, as disclosed in Note 12 as of 31 December 2017 the Group has EUR 1,366 thousand (EUR 1,648 thousand as of 31 December 2016) 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.

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. In 2017, Group continuously accounted funds managed on the trust right to off-balance sheet and they are no longer presented in the Group's consolidated financial statements as cash and cash equivalents and advances received as they are 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.

In 2017, the Group acquired several client portfolios in Spain for the amount EUR 1.8 million. The Group management determined that these transactions meet the business recognition conditions according to IFRS 3, thus the acquisition method was applied, as required by IFRS 3. As acquired client portfolios consisted mainly from contracts with the clients (Note 4) and no other material assets and related liabilities were actually acquired by the Group during the course of the aforementioned transactions, applied acquisition method has resulted the addition of contracts with the clients (EUR 1,8 million) solely.

As disclosed in Note 4 and Note 5, as of 31 December 2017 the Group has goodwill and other intangible assets (contracts with the clients) in amount of EUR 35,712 thousand (EUR 35,222 thousand – as of 31 December 2016), which based on the assessment of the management were not impaired. This management judgement is based on the cash generating units impairment testing performed as of 31 December 2017 and 31 December 2016 (Note 4). If significant assumptions used in impairment testing differed from the actual results achieved, the results of the testing would change (for Spain cash generating unit testing sensitivity analysis, please refer to Note 4).

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, authorised to initiate the bankruptcy procedure. The court's decision regarding assigning bankruptcy administrator was announced to the Company on 10 May 2017. Following the appointment of bankruptcy administrator, the Group ceased to consolidate this subsidiary in its Financial statements as from this date the Group lost its effective control to it. On 19 February 2018 bankruptcy administrator has submitted a request to the court to initiate the liquidation prcedure of Concentra. The Company remains shareholder of the subsidiary until the end of bankruptcy process.

Considering limited available IFRS guidance and specific facts and circumstances the management assessed as at 31 December 2016 that the net realizable value (liquidation value) of accounting for assets and liabilities, attributable to Concentra, 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 derecognised 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 16 in more detail. The table below summarizes the effect of this management estimate on the consolidated financial statements as of 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 12, Note 16, Note 22, Note 24 and Note 27 provide further information on estimated liquidation values of the subsidiary assets and liabilities included in the consolidated financial statements as of 31 December 2016. In 2017, Concentra's results were consolidated until 30 April 2017, whereas the day of loss of control was 10 May 2017, and its loss of EUR 1,697 thousand was included in consolidated financial statements. On the day of derecognition of net assets of Concentra from consolidated financial statements, its liabilities exceeded assets by EUR 1,718 thousand and respective gain was recognized in operating expenses caption (Note 24).

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 organised 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 and other different activities which are not material. 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, except for Baltics, which actually represents 2 separate cash generating units, but for internal management purposes analysed as one.

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 2017	**Buildings' administration**				
	Baltic states	**St. Petersburg**	**Poland**	**Spain**	**Total**
Revenue	83,155	42,683	26,032	9,094	160,964
Total revenue					**160,964**
Segment results	8,184	1,673	(562)	(600)[1]	8,695
Unallocated expenses					(766)[2]
Profit from operations					7,929
Net financial income					14[3]
Profit / (loss) before income tax					7,943
Income tax expenses					(1,792)[3]
Net profit for the year					**6,151**
Other segment information					
Capital expenditure	3,285	118	1,341	1,976	**6,720**

[1] Includes operating loss for the year of commercial property administration activity amounting to EUR 1,676 thousand as well as the positive effect of derecognition of net assets of deconsolidated subsidiary in Spain in amount of EUR 1,697 thousand as of the day of loss of control.
[2]Unallocated expenses include general and administrative expenses (EUR 766 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 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.

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(all amounts are in EUR thousand unless otherwise stated)

3 Segment information (cont'd)

Geographical information

In these financial statements information about geographical areas means a constituent part of the Group revenue from external customers attributed to the Group's country of domicile and attributed to all foreign countries in total from which the Group derives revenue.

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:

2017	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Revenue					
Sales to external customers	9,094	26,032	83,155	42,683	160,964
Segment revenue	**9,094**	**26,032**	**83,155**	**42,683**	**160,964**

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**

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

As of 31 December 2017	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Non-current assets					
Segment assets	6,365	22,799	35,347	2,146	66,657
Total non-current assets	**6,365**	**22,799**	**35,347**	**2,146**	**66,657**

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**

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 2017 and 2016.

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill

	Group
Cost:	
Balance as of 1 January 2016	9,475
Additions	2,053
Exchange differences	88
Balance as of 31 December 2016	11,616
Additions	122
Disposals	(13)
Exchange differences	(44)
Balance as of 31 December 2017	11,681
Impairment:	
Balance as of 31 December 2016	84
Balance as of 31 December 2017	84
Net book value as of 31 December 2017	**11,597**
Net book value as of 31 December 2016	**11,532**

Acquisitions during 2017

As described in Note 1, during 2017 the Group acquired the following entities:

Name of entity acquired	Acquisition cost	Notes
UAB Visos apsaugos paslaugos	EUR 12 thousand	All paid in cash
UAB Biržų butų ūkis	EUR 48 thousand	All paid in cash
SIA Laba Enerģija	EUR 1	All paid in cash
Administracion de Fincas Jimenez	EUR 364 thousand	All paid in cash
Certus-Serwis Sp. z.o.o.	PLN 453 thousand (EUR 108 thousand)	All paid in cash

At the acquisition of these subsidiaries a total goodwill of EUR 122 thousand has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from horizontal expansion of business.

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 owned SIA Namserviss)	EUR 3.1 million	All paid in cash

At the acquisition of these subsidiaries a 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)

The fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2017 were as follows:

Fair value of assets, liabilities and contingent liabilities Date of acquisition	**Visos apsaugos paslaugos 27 January**	**Biržų butų ūkis 6 April**	**Laba Energija 16 June**	**Jimenez 1 October**	**Certus-Serwis 12 December**
Intangible assets	-	51	-	313	114
Property, plant and equipment	-	9	2	-	-
Deferred tax asset	-	3	-	2	-
Trade receivables	-	96	-	3	2
Other current assets	3	63	8	51	2
Total assets	**3**	**222**	**10**	**369**	**118**
Deferred tax liability	-	8	-	78	22
Trade payables	-	22	-	-	-
Other current liabilities	1	116	10	17	2
Total liabilities	**1**	**146**	**10**	**95**	**24**
Total identifiable net assets at fair value	**2**	**76**	**-**	**274**	**94**
attributable to equity holders of the parent	2	40	-	274	94
attributable to non-controlling interests	-	36	-	-	-

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

Book value Date of acquisition	**Visos apsaugos paslaugos 27 January**	**Biržų butų ūkis 6 April**	**Laba Energija 16 June**	**Jimenez 1 October**	**Certus-Serwis 12 December**
Intangible assets	-	1	-	-	-
Property, plant and equipment	-	9	2	-	-
Deferred tax asset	-	3	-	2	-
Trade receivables	-	96	-	3	2
Other current assets	3	63	8	51	2
Total assets	**3**	**172**	**10**	**56**	**4**
Trade payables	-	22	-	-	-
Other current liabilities	1	116	10	17	2
Total liabilities	**1**	**138**	**10**	**17**	**2**

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

The differences between the amounts paid and the fair values of assets acquired, liabilities and contingent liabilities assumed on the acquisitions of 2017 were as follows:

Date of acquisition	**Visos apsaugos paslaugos 27 January**	**Biržų butų ūkis 6 April**	**Laba Energija 16 June**	**Jimenez 1 October**	**Certus-Serwis 12 December**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	2	40	-	274	94
Non-controlling interests	-	36	-	-	-
Goodwill	10	8	-	90	14
Total purchase consideration	**12**	**84**	**-**	**364**	**108**
Fair value of non-controling interest acquired	**-**	**36**	**-**	**-**	**-**
Cash acquired	3	62	8	51	2
Total purchase consideration, net of cash acquired	**9**	**22**	**(8)**	**313**	**106**

Date of acquisition	**Visos apsaugos paslaugos 27 January**	**Biržų butų ūkis 6 April**	**Laba Energija 16 June**	**Jimenez 1 October**	**Certus-Serwis 12 December**
Profit (loss) incurred since acquisition date to 31 December 2017	-	11	7	(4)	4
Total revenue since acquisition date to 31 December 2017	-	157	316	51	9
Total revenue for the year 2017 (unaudited)	-	331	476	203	9
Total net result for the year 2017 (unaudited)	-	7	14	(11)	4

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

The fair values (calculated in 2016, remained the same and no adjustments were required in 2017) 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 owned 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 fair values (calculated in 2016, remained the same and no adjustments were required in 2017) 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)

For the purpose of impairment evaluation, the goodwill as of 31 December 2017 and 2016 was allocated to the following CGU:

Cash generating unit	Carrying value of allocated goodwill as of 31 December 2017	Carrying value of allocated goodwill as of 31 December 2016
Subsidiaries operating in Lithuania	9,028	9,011
Subsidiaries operating in Latvia	990	1,002
Subsidiaries operating in Poland	1,088	1,091
Subsidiaries operating in St. Petersburg	372	399
Subsidiaries operating in Spain	119	29
	11,597	**11,532**

The recoverable amount of each cash generating unit as of 31 December 2017 and 2016 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 2017 and 2016 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 2017 and 2016 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 2016) 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 8.9% for cash generating units located in Lithuania and Latvia (13% in 2016), 10.8% for cash generating units located in Poland (13% in 2016), 10.5% for cash generating units in Spain (12% in 2016) and 17.9% for cash generating unit in St. Petersburg (22% was used in 2016).

In the opinion of the Group's management, the most important and most change-like assumptions are the EBITDA and discount rate. Based on management's estimations, a reasonable change in these assumptions in Lithuanian, Latvian, Polish and Russian cash generating units would not result in any impairment as of 31 December 2017 and 2016. At the moment of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used.

In Spain, the impairment assessment at this stage is highly dependent on the assumptions used in the model. Below is provided sensitivity analysis for key assumptions of impairment assessment as at 31 December 2017:

- A decrease in annual EBITDA margin by 0.5 p.p. would result in EUR 86 thousand impairment loss to goodwill and customer contracts reported under intangible assets;
- An increase in WACC (discount rate) by 0.5 p.p. would result in EUR 134 thousand impairment loss to goodwill and customer contracts reported under intangible assets.

(all amounts are in EUR thousand unless otherwise stated)

5 Other intangible assets

Movement of other intangible assets in 2017 and 2016 is presented below:

	Other intangible assets
Cost:	
Balance as of 1 January 2016	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
Additions arising from acquisitions of subsidiaries (Note 4)	478
Additions through business acquisitions (Note 2.20)	1,971
Disposals of subsidiaries	(526)
Exchange differences	422
Retirements	(89)
Reclassifications	175
Balance as of 31 December 2017	33,770
Accumulated amortisation:	
Balance as of 1 January 2016	3,914
Charge for the year	1,130
Impairment	289
Exchange differences	(13)
Retirements	(73)
Balance as of 31 December 2016	5,247
Charge for the year	1,197
Reversal of impairment	(34)
Disposals of subsidiaries	(511)
Exchange differences	42
Retirements	(41)
Balance as of 31 December 2017	5,900
Net book value as of 31 December 2017	**27,870**
Net book value as of 31 December 2016	**26,092**

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 5-40 years. As of 31 December 2017 net book value of such intangible assets constituted EUR 24,115 thousand (EUR 23,690 thousand as of 31 December 2016).

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 2017 and 2016. Significant assumptions used for the assessment of the recoverable value are presented in Note 4. In 2016, all accounted impairment of intangible assets was 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 949 thousand as of 31 December 2017 was fully amortised but still in use (EUR 282 thousand of the Group as of 31 December 2016).

(all amounts are in EUR thousand unless otherwise stated)

6 Property, plant and equipment

Movement of property, plant and equipment in 2017 and 2016 is presented below:

	Buildings	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:					
Balance as of 1 January 2016	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
Additions arising from acquisitions of subsidiaries	3	3	5	-	11
Additions	58	2,180	1,667	844	4,749
Disposals of subsidiaries	-	(414)	(1,080)	-	(1,494)
Disposals	(1,432)	(76)	(50)	(3)	(1,561)
Exchange differences	123	45	359	18	545
Retirements	(116)	(50)	(298)	-	(464)
Reclassifications	258	18	614	(1,065)	(175)
Balance as of 31 December 2017	9,053	9,642	12,854	276	31,825
Accumulated depreciation:					
Balance as of 1 January 2016	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
Charge for the year	420	1,143	1,611	-	3,174
Disposals	(77)	(16)	(34)	-	(127)
Disposals of subsidiaries	-	(167)	(925)	-	(1,092)
Reversal of impairment	-	-	(39)	-	(39)
Exchange differences	17	12	93	-	122
Retirements	(53)	(49)	(182)	-	(284)
Balance as of 31 December 2017	2,630	5,539	5,193	-	13,362
Net book value as of 31 December 2017	**6,423**	**4,103**	**7,661**	**276**	**18,463**
Net book value as of 31 December 2016	**7,836**	**3,320**	**6,968**	**482**	**18,606**

6 Property, plant and equipment (cont'd)

The depreciation charge of the Group's property, plant and equipment for the year 2017 amounts to EUR 3,174 thousand (EUR 3,148 thousand in the year 2016). Amount of EUR 2,114 thousand for the year 2017 (EUR 1,990 thousand for the year 2016) 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 6,293 thousand was fully depreciated as of 31 December 2017 (EUR 5,820 thousand as of 31 December 2016), but were still in active use.

As of 31 December 2017 buildings of the Group with a net book value of EUR 4,125 thousand (EUR 4,673 thousand as of 31 December 2016) were pledged to banks as collateral for the loans (Note 15).

In 2016, 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).

As of 31 December 2017 buildings of the Group with a net book value of EUR 625 thousand are posted publicly on sale. However, Group management decided not to reclassify those assets as held for sale, as they are in use (own use) and management estimates that there is an uncertainty that the realisation of such assets could be completed within a 12 months.

(all amounts are in EUR thousand unless otherwise stated)

7 Investment property

Movement of the Group's investment property during 2017 and 2016 is presented below:

	Buildings
Cost:	
Balance as of 1 January 2016	629
Additions arising from acquisition of subsidiaries	53
Reclassifications to property, plant and equipment	(411)
Balance as of 31 December 2016	271
Disposals	(96)
Balance as of 31 December 2017	175
Accumulated depreciation:	
Balance as of 1 January 2016	150
Charge for the year	48
Reclassifications to property, plant and equipment	(87)
Balance as of 31 December 2016	111
Charge for the year	18
Disposals	(35)
Balance as of 31 December 2017	94
Net book value as of 31 December 2017	**81**
Net book value as of 31 December 2016	**160**

Investment property consist of office buildings in Vilnius and 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 2017 is estimated by the management to be approximately EUR 247 thousand (EUR 178 thousand as of 31 December 2016) (3rd level by fair value hierarchy). The fair value of investment property as of 31 December 2017 and as of 31 December 2016 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 2017 investment property of the Group with a net book value of EUR 32 thousand was pledged to banks as collateral for the loans (EUR 160 thousand as of 31 December 2016) (Note 16).

(all amounts are in EUR thousand unless otherwise stated)

8 Material partly-owned subsidiaries

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

Name	**Region of incorporation and operation**	**2017**	**2016**
ООО Жилкомсервис № 3 Фрунзенского района	St. Petersburg	80%	80%

	As of 2017 December 31	**As of 2016 December 31**
Summarised statement of financial position		
Inventories, trade receivables and cash	3,470	3,881
Property, plant and equipment and other non-current assets	2,096	2,205
Deferred income tax, net	(415)	(423)
Current liabilities	(3,790)	(4,280)
Total equity	**1,361**	**1,383**
Attributable to:		
Equity holders of parent	1,089	1,106
Non-controlling interest	272	277

	2017	**2016**
Summarised statement of profit or loss		
Sales	17,245	13,670
Cost of sales	(12,405)	(10,442)
General and administrative expenses	(895)	(915)
Other activity (net)	(3,903)	(2,991)
Financial activity (net)	58	18
Profit (loss) before tax	**100**	**(660)**
Income tax	(146)	8
Profit (loss) for the year	**(46)**	**(652)**
Attributable to non-controlling interests	(9)	(130)

Summarised cash flow information

	2017	**2016**
Net cash flows from operating activities	(480)	311
Net cash flows from investing activities	32	(2)
Net cash flows from financing activities	-	-
Net increase (decrease) in cash flows	**(448)**	**309**

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9 Inventories

	Group	
	As of 31 December 2017	**As of 31 December 2016**
Raw and auxiliary materials	1,022	1,347
Goods for resale	94	7
Other	450	289
	1,566	1,643
Less: net realizable value allowance	(73)	(36)
	1,493	**1,607**

Change in allowance for inventories for the year 2017 and 2016 has been included into general and administrative expenses.

10 Prepayments

Prepayments of the Group amount to EUR 1,703 thousand as of 31 December 2017 (EUR 1,125 thousand as of 31 December 2016) and mainly include prepayments to suppliers and subcontractors.

11 Non-current receivables

Non-current receivables mainly comprise of long-term part of receivables for residential buildings' repair works performed amounting to EUR 4,414 thousand as of 31 December 2017 (EUR 3,188 thousand as of 31 December 2016) and long-term part of restricted cash amounting to EUR 436 thousand as of 31 December 2017 (EUR 1,242 thousand as of 31 December 2016).

(all amounts are in EUR thousand unless otherwise stated)

12 Trade receivables

	Group As of 31 December 2017	Group As of 31 December 2016
Trade receivables, gross	39,973	46,593
Less: allowance for doubtful trade receivables	(9,316)	(9,107)
Less: remeasurement of trade receivables to liquidation value (subsidiary Concentra, see Note 2.20)	-	(2,768)
	30,657	**34,718**

Change in allowance for doubtful trade receivables for the year 2017 and 2016 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.

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

	Individually impaired	Collectively impaired	Total
Balance as of 1 January 2016	**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**
Charge for the year	520	1,202	1,722
Remeasurement of trade receivables to liquidation value (subsidiary Concentra, see Note 2.20)	-	326	326
Exchange differences	(19)	(463)	(482)
Reversed during the year	(36)	(226)	(262)
Written-off during the year	(61)	(61)	(122)
Disposals and deconsolidation of subsidiaries	(1,986)	(1,755)	(3,741)
Balance as of 31 December 2017	**1,652**	**7,664**	**9,316**

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
2016	24,701	3,465	2,234	1,247	1,423	1,648	**34,718**
2017	18,875	3,714	2,442	2,434	1,826	1,366	**30,657**

As of 31 December 2016 company had outstanding balance of accrued income accounted at the Group's statement of financial position related to customer specific projects amounting to EUR 433 thousand. Sales and costs, recognised in the statement of the comprehensive income from customer specific projects in 2016 amounted to EUR 541 thousand and EUR 515 thousand respectively. As of 31 December 2016 remaining balance of accrued income was attributable to revenue from rendering services. The Company had no such balance of accrued income as of 31 December 2017.

(all amounts are in EUR thousand unless otherwise stated)

13 Cash and cash equivalents

	Group	
	As of 31 December 2017	As of 31 December 2016
Cash at bank	7,791	30,223
Cash on hand	6	48
	7,797	**30,271**

The fair value of cash as of 31 December 2017 of the Group was EUR 7,797 thousand (EUR 30,271 thousand as of 31 December 2016) (3rd level).

As of 31 December 2017 the Group had restricted cash of EUR 1,728 thousand (EUR 1,980 thousand as of 31 December 2016) held in the bank as guarantee provided to customers, EUR 436 thousand is accounted in non-current receivables caption (EUR 1,242 thousand as of 31 December 2016) while EUR 1,292 thousand – in other receivables caption in the statement of financial position as of 31 December 2017 (EUR 738 thousand as of 31 December 2016).

As of 31 December 2017 and 2016 part of bank accounts of the Company and its subsidiaries are pledged to banks for loans (Note 15).

14 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 2017 the reserve was fully composed and reached the required amount – EUR 948 thousand (as of 31 December 2016 the reserve was fully composed and amounted to EUR 948 thousand).

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).

Foreign currency translation reserve

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 foreign currency translation reserve. As of 31 December 2017 it amounted to EUR (2,499) thousand (as of 31 December 2016 EUR (2,426) thousand).

Share premium

Share premium represents the excess of the share issue price over nominal value of the shares issued and amounts to EUR 21,067 thousand as of 31 December 2017 (EUR 21,067 thousand as of 31 December 2016).

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15 Borrowings

The list of borrowings of the Group as of 31 December 2017 and 2016 are as follows:

	Currency of the loan	Group As of 31 December 2017	As of 31 December 2016
Current loans			
Bank loans	EUR	-	110
Bank loans	PLN	-	224
Current loan balance		**-**	**334**
Non-current loans			
Bank loans	EUR	17,901	20,987
Less: current portion of long term loans		(3,290)	(2,989)
Non-current loan balance		**14,611**	**17,998**

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 2017 the weighted average annual interest rate of borrowings outstanding was 1.50% (1.28% as of 31 December 2016). In 2017 and 2016 the period of re-pricing of floating interest rates on borrowings was 6 months. Interest is paid monthly.

The total unutilised borrowing facilities of the Group as of 31 December 2017 amounted to EUR 5,239 thousand (EUR 5,452 thousand as of 31 December 2016).

As of 31 December 2017 and 2016 the subsidiary's UAB Mano Būstas shares, part of property, plant and equipment (Note 6) and part of bank accounts (Note 13) of the Group were pledged to banks as collateral for the loans received.

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

Term	Group As of 31 December 2017	As of 31 December 2016
Within one year	3,290	2,989
From one to five years	14,611	17,998
	17,901	**20,987**

The following table presents financial liabilities movement during the financial year:

	1 January 2017	Cash flows from proceeds from loans	Cash flows to loans repaid	New leases	Foreign exchange effect	31 December 2017
Current interest-bearing loans and borrowing (excluding items listed below)	334	-	(334)	-	-	-
Non-current interest-bearing loans and borrowings (excluding items listed below)	20,987	180	(3,273)	-	7	17,901
Non-current obligations under finance leases and hire purchase contracts	3,025	-	(1,820)	2,478	29	3,712
Total liabilities from financing activities	**24,346**	**180**	**(5,427)**	**2,478**	**36**	**21,613**

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16 Provisions

As of 31 December 2017 EUR 1.25 million provision was made for City Service SE guarantees provided to Concentra Servicios y Mantenimiento S.A. customers and other possible claims arising from bankruptcy process (see also Note 2.20) (EUR 1.25 million as of 31 December 2016). Furthermore, provision was made for guarantee provided by Group's subsidiary Zespół Zarządców Nieruchomości sp. z o.o. to its customer for the amount of EUR 412 thousand (Note 31). Additionaly, long-term payable for contingent purchase consideration associated with acquired client portfolios by Aresi administracion de fincas S.L. amounted to EUR 93 thousand as of 31 December 2017 (EUR 362 thousand as of 31 December 2016).

17 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 2,914 thousand as of 31 December 2017 in the Group (EUR 2,376 thousand in the Group as of 31 December 2016). 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 2017 the interest rate on the financial lease obligations is 6 month EURIBOR + 1.65-2.15%, 3 Month EURIBOR + 1.4-2.5%, 1 month WIBOR + 1.6% (as of 31 December 2016 – 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%). Interest is paid monthly.

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2017 and 2016 are as follows:

	Group	
	As of 31 December 2017	As of 31 December 2016
Within one year	1,064	1,043
From one to five years	2,821	2,097
Total financial lease obligations	3,885	3,140
Interest	(173)	(115)
Present value of financial lease obligations	**3,712**	**3,025**
Financial lease obligations are accounted as:		
- current	995	998
- non-current	2,717	2,027

(all amounts are in EUR thousand unless otherwise stated)

18 Operating lease

As of 31 December 2017 and 2016 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 2017	**As of 31 December 2016**
Within one year	56	387
From one to five years	20	405
	76	**792**

Operating lease contracts are denominated in Polish Zlots.

19 Provision for employee benefits

As of 31 December 2017 and 2016 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 2017	**As of 31 December 2016**
As of 31 December of the previous year	457	448
Change during the year	(180)	9
Currency exchange effect	7	-
As of 31 December of the financial year	**284**	**457**

Main assumptions applied while evaluating the Group's provision for employee benefits as of 31 December 2017 and 2016 are as follows:

	Group	
	As of 31 December 2017	**As of 31 December 2016**
Discount rate	2.3%	2.0%
Anticipated annual salary increase	2.2%	2.3%

(all amounts are in EUR thousand unless otherwise stated)

20 Trade payables and payables to related parties

	Group	
	As of 31 December 2017	As of 31 December 2016
Trade payables	13,951	17,288
Payables to related parties (Note 32)	959	1,112
	14,910	**18,400**

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

21 Advances received

As of 31 December 2017 and 2016 amount represents advances received from the owners of commercial and residential buildings administrated by the Group for repair and other works.

22 Other current liabilities

	Group	
	As of 31 December 2017	As of 31 December 2016
Vacation pay accrual	2,459	2,168
Accrued expenses and deferred income	1,884	1,862
Salaries and social security	1,221	5,031
Other current liabilities	4,152	4,541
	9,716	**13,602**

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

23 Cost of sales

	Group	
	2017	2016
Services of subcontractors and materials used	75,955	77,000
Wages and salaries and social security	41,200*	60,352
Depreciation	1,050	1,140
Cost of goods sold	150	47
Other	3,335	3,097
Total cost of sales	**121,690**	**141,636**

*Decrease due to subsidiary Concentra deconsolidation (Note 2.20).

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24 General and administrative expenses

	Group	
	2017	2016
Wages and salaries and social security	17,156	14,495
Depreciation and amortisation	3,311	3,120
Consulting and similar expenses*	1,912	1,733
Rent of premises and other assets	1,579	1,199
Allowance for and write-off of receivables	665	628
Commissions for collection of payments	659	698
Taxes other than income tax	565	583
Computer software maintenance	542	604
Representational costs	517	438
Advertising	471	499
Fuel expenses	449	352
Communication expenses	397	375
Insurance	373	365
Business trips and training	333	290
Utilities	286	242
Transportation	272	360
Bank payments	168	143
Consulting and tax expenses related with acquisitions and disposals	131	414
Charity and support	85	76
Net result of deconsolidated subsidiaries due to loss of control (Note 1)	(1,667)	-
Provisions for potential obligations from guarantees provided for subsidiary Concentra customers (Note 16)	-	1,253
Result of remeasuring of assets and liabilities to liquidation value (subsidiary Concentra, see Note 2.20)	-	(3,318)
Other	2,642	2,172
Total general and administrative expenses	**30,846**	**26,721**

* Includes EUR 7 thousand of tax consulting expenses incurred during the audit period of 2017 from audit company Ernst & Young Baltic AS.

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25 Other operating income and expenses

	Group	
	2017	2016
Fines and penalties	205	150
Income from rent	118	191
Gain on disposal of property, plant and equipment	80	16
Other income	1,397	1,210
Total other operating income	**1,800**	**1,567**
Loss on disposal of property, plant and equipment	808	6
Fines and penalties	214	466
Legal claims	129	71
Rent expenses	70	173
State duties	64	48
Depreciation of rented assets	28	66
Other expenses	986	1,294
Total other operating expenses	**2,299**	**2,124**

26 Finance income and (expenses)

	Group	
	2017	2016
Interest income	540	786
Foreign currency exchange gain	485	233
Other financial income	-	478
Total finance income	**1,025**	**1,497**
Interest (expenses)	(539)	(692)
Loss on sale of investments (Note 1)	(392)	-
Foreign currency exchange (loss)	(34)	(544)
Other financial (expenses)	(24)	(33)
Total finance (expenses)	**(989)**	**(1,269)**
Financial activity, net	**36**	**228**

(all amounts are in EUR thousand unless otherwise stated)

27 Income tax

	Group	
	2017	2016
Components of the income tax expenses		
Current income tax	2,282	1,566
Deferred income tax expenses (income)	(490)	2,695
Income tax expenses recorded in the statement of comprehensive income	**1,792**	**4,261**

	Group	
	As of 31 December 2017	As of 31 December 2016
Deferred income tax asset		
Allowance for accounts receivable	1,360	1,252
Allowance for inventories	101	5
Accruals and similar temporary differences	583	612
Deferred income	1	19
Tax loss carry forward	585	2,997
Tax goodwill	694	2,803
Deferred income tax asset before valuation allowance	3,324	7,688
Less: valuation allowance	(631)	(1,116)
Less: write-off of deferred income tax asset (subsidiary Concentra, see Note 2.20)	-	(4,098)
Deferred income tax asset, net of valuation allowance	2,693	2,474
Deferred income tax liability		
Property, plant and equipment and intangible assets	(3,685)	(3,762)
Accrued income	(62)	(53)
Deferred income tax liability	(3,747)	(3,815)
Deferred income tax, net	**(1,054)**	**(1,341)**

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27 Income tax (cont'd)

Tax loss carry forward can be utilised as follows: in Lithuania (EUR 555 thousand as of 31 December 2017, EUR 642 thousand as of 31 December 2016) – indefinitely, in Latvia (EUR 315 thousand as of 31 December 2017, EUR 315 thousand as of 31 December 2016) – until the year 2022, in Russia (EUR 570 thousand as of 31 December 2017, EUR 907 thousand as of 31 December 2016) – indefinitely, in Poland (EUR 625 thousand as of 31 December 2017, EUR 2,324 thousand as of 31 December 2016) – mainly until the year 2022 and in Spain (EUR 1,077 thousand as of 31 December 2017, EUR 457 thousand as of 31 December 2016) – indefinitely.

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15% rate in 2017 and 2016. The deferred tax of companies operating in Russia, Poland and Spain was calculated using 20%, 19% and 25% tax rates, respectively in 2017 (same as in 2016).

Due to group reorganisations (mergers) in 2017 and 2016 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:

	Balance as of 31 December 2016	Recognised in profit or loss	Exchange differences	Disposed subsidiaries	Acquired subsidiaries	Balance as of 31 December 2017
Allowance for accounts receivable	7,582	580	(151)	(31)	10	7,990
Allowance for inventories	29	527	(23)	-	-	533
Accruals and similar temporary differences	3,528	29	(5)	(96)	13	3,469
Deferred income	102	7	4	(110)	-	3
Tax loss carry forward	13,106	598	104	(10,982)	7	2,833
Tax goodwill	13,409	(877)	(1)	(7,911)	-	4,620
Property, plant and equipment and intangible assets	(22,861)	1,402	(255)	-	(496)	(22,210)
Accrued income	(278)	(30)	(16)	-	-	(324)
Total temporary differences before valuation allowance	14,617	2,236	(343)	(19,130)	(466)	(3,086)
Valuation allowance	(22,139)	29	154	18,754	-	(3,202)
Total temporary differences	**(7,522)**	**2,265**	**(189)**	**(376)**	**(466)**	**(6,288)**
Deferred income tax, net	(1,341)	490	(44)	(56)	(103)	(1,054)

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27 Income tax (cont'd)

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

	Balance as of 31 December 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)

27 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	
	2017	**2016**
Income tax expenses computed at 15% in 2017 and 2016	(1,191)	(829)
Effect of different tax rates applicable to foreign subsidiaries	(18)	(287)
Change in deferred tax asset valuation allowance and write-off of deferred tax asset	485	(4,597)
Deferred tax asset recognised from subsidiaries' reorganizations	-	313
Permanent differences	(1,068)*	1,139*
Income tax expenses reported in the statement of comprehensive income	**(1,792)**	**(4,261)**

* Majority of permanent differences are related with remeasurement of assets and liabilities to liquidation value of subsidiary Concentra and disposal of City Service Grupa Techniczna.

28 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	
	2017	**2016**
Net profit attributable to the shareholders	6,150	1,385
Net profit attributable to the shareholders	**6,150**	**1,385**
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)	**0.19**	**0.04**

29 Dividends per share

	2017	**2016**
Approved dividends*	19,598	3,161
Number of shares (in thousand)**	31,610	31,610
Approved dividends per share (EUR)	**0.62**	**0.10**

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

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30 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 EURIBOR, EONIA, WIBOR which create an interest rate risk (Notes 15 and 17). There are no financial instruments designated to manage the exposure to the interest rate risk outstanding as of 31 December 2017 and 2016.

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.

2017	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(211)
PLN	+100	(5)
2016		
EUR	+100	(234)
PLN	+100	(8)

(all amounts are in EUR thousand unless otherwise stated)

30 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 2017 were 1.35 and 1.31 respectively (1.71 and 1.67 as of 31 December 2016 respectively).

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2017 and 2016 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	-	-	-	14,405	489	14,894
Current portion of non-current interest bearing borrowings	-	841	2,524	-	-	3,365
Financial lease obligations	-	67	997	2,821	-	3,885
Trade payables and payables to related parties	-	14,910	-	-	-	14,910
Other current liabilities	-	4,958	1,078	-	-	6,036
Balance as of 31 December 2017	**-**	**20,776**	**4,599**	**17,226**	**489**	**43,090**
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**

(all amounts are in EUR thousand unless otherwise stated)

30 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 2017 and 2016 were as follows:

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
RUB	8,201	8,691	9,324	9,734
PLN	3,708	5,291	4,147	5,095
EUR	40,522	38,592	65,325	48,046
	52,431	**52,574**	**78,796**	**62,875**

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
2017		
EUR	+ 15.00 %	867
EUR	- 15.00 %	(867)
2016		
EUR	+ 15.00 %	821
EUR	- 15.00 %	(821)

EUR held by Polish subsidiaries:

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2017		
EUR	+ 15.00 %	(1,101)
EUR	- 15.00 %	1,101
2016		
EUR	+ 15.00 %	(997)
EUR	- 15.00 %	997

(all amounts are in EUR thousand unless otherwise stated)

30 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
2017		
EUR	+ 15.00 %	(10)
EUR	- 15.00 %	10
2016		
EUR	+ 15.00 %	(108)
EUR	- 15.00 %	108

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 categorised as Level 3.

* Subsidiary Concentra financial assets and liabilities are measured at net realizable value (forced liquidation value as of 31 December 2016) as explained in Note 2.20.

31 Commitments and contingencies

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 unreasonable and therefore no provisions are recognised 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.

The case was initiated by Vilnius City municipality based on the pre-trial investigation under the Financial Crime Investigation Service under the Ministry of the Interior. In January 2018 the pre-trial investigation was terminated. Upon termination of the pre-trial investigation, Vilnius city municipality lost the opportunity to follow it and claim that there was an act contrary to the law. Summarizing the above, in the view of the management there is no actual or legal basis for the claim and no provisions in relation to this claim is accounted in financial statements. At present, the court has appointed an independent expert to determine the losses. Before the pre-trial investigation was terminated, the court has appointed an independent expert to determine the losses. At present no conclusions are available from the expert.

UAB Mano būstas case

On 21 December 2017 UAB Mano būstas together with 9 other non-related defendants received a lawsuit from UAB BM būstas for solidarity compensation of EUR 1.6 million. UAB Mano būstas is convinced that claim on compensation of damages from the company has no grounds.

UAB Mano būstas is confident that it has properly fulfilled its contractual obligations. The expert examination carried out by the claimant revealed that defects of the building are the result of bad design and construction works which was not performed by UAB Mano būstas. Moreover, the Company started to provide its services only after the technical design and construction works of the building were completed. UAB Mano būstas provided services in the building until 14 April 2016 and after that day, new service provider UAB Inservis also did not record any defects in the building. During the services providing period, UAB Mano būstas did not receive any claims from the customer regarding the performance of the contract.

Considering the above circumstances the management believes that UAB Mano Būstas is not responsible for improperly performed design and construction works, and no provisions in relation to this claim are accounted in the financial statements.

Ongoing investigation

There is an ongoing investigation being carried out regarding Group's companies UAB Mano Būstas and UAB Mano aplinka by the Competition Council of the Republic of Lithuania. There are no information about the proceedings of the investigation and possible actions of the Competition Council towards the Group's companies. As a result, no provisions were made in these financial statements.

31 Commitments and contingencies (cont'd)

Claim against subsidiary operating in Poland

In September 2017 the Company's subsidiary operating in Poland, Zespół Zarządców Nieruchomości sp. z o.o., (herein after – ZZN) received a claim from Zarząd Komunalnych Zasobów Lokalowych sp. z o.o. (hereinafter – ZKZL). ZKZL claims that ZZN has breached an agreement and requires to compensate PLN 6 million (EUR 1.5 million) in damages. ZZN is convinced that claim on compensation of damages has no grounds as outlined below and no provisions have been recorded in financial statements.

The above mentioned claim did not contain any source of documentation or substantiated written evidence according to the contractual damages that have been calculated. ZZN is convinced that contractual damages are not supported because ZKZL did not deliver documentation confirming or explaining the legitimacy of the claim. Furthermore, in July 2015 ZKZL certified in writing that ZZN properly performed its contractual obligations. In addition, ZKZL provided a system which was necessary to for the fulfillment of the contractual obligations and which has not worked properly, so ZZN is going to initiate a civil action to claim for damages compensation.

ZZN has provided PLN 1.7 million (EUR 0.4 million) guarantee to ZKZL under the services agreement. Group management made a provision for the whole amount in these consolidated financial statements.

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 ООО 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 3,238 thousand as of 31 December 2017 (EUR 2,032 as of 31 december 2016). 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.

32 Related party transactions

The parties are considered related when one party has the possibility to control the other one or has significant influence over the other party in making financial and operating decisions. The related parties of the Group 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);
- A. Gudelis, T. Kleiva, E. Paulauskas, V. Turonis, A. Jablonskienė, I. Krasauskas, A. Górecka – Kolasa, L. Lapinskas, E. Grachiov (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.

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 AB under credit agreement. Also, UAB Mano Būstas has provided EUR 5.75 million guarantee for City Service SE to Nordea Bank AB under bank account credit agreement. Shares of UAB Mano Būstas are pledged to Nordea Bank AB as well.

Payables and receivables between related parties are non-interest bearing. Receivables and payables payment terms between the related parties are up to 15-30 days, except for the dividends and loans, which are repaid in accordance to the legal or contractual requirements, respectively.

(all amounts are in EUR thousand unless otherwise stated)

32 Related party transactions (cont'd)

2017

Group	Purchases	Sales	Receivables and prepayments	Payables and advances received
UAB ICOR	460	37	-	386
Subsidiaries of UAB ICOR				
AB Axis Industries	328	324	67	-
Other subsidiaries of UAB Lag&d	472	463	102	573
	1,260	**824**	**169**	**959**

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**

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	
2016	104	16	13	-	1	1	**135**
2017	81	43	19	23	2	1	**169**

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

The Group's management remuneration amounted to EUR 1,106 thousand in 2017 (EUR 939 thousand in 2016). In 2017 and 2016 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 2017 and 2016.

(all amounts are in EUR thousand unless otherwise stated)

33 Capital management

The primary objectives of the Group's and the Company's capital management are to ensure that the Group and the Company comply with externally imposed capital requirements and that the Group and the Company maintain healthy capital ratios in order to support the business and to 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 2017 and 2016.

The Group companies registered in Lithuania, Estonia and Spain 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, the Commercial Code of the Republic of Estonia and Corporate Enterprises Act. The Group companies registered in Russia and Poland 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 and Code of Commercial Companies. As of 31 December 2017 all Group companies met these requirements (as of 31 December 2016 Group company OAO City Service did not meet these requirements).

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 2017 and 2016 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	
	2017	**2016**
Non-current liabilities (including deferred tax)	23,347	25,830
Current liabilities	34,805	42,972
Liabilities	**58,152**	**68,802**
Equity	**55,648**	**69,132**
Debt to equity ratio	**104%**	**100%**

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(all amounts are in EUR thousand unless otherwise stated)

34 Subsequent events

On 12 January 2018 the Group, through its Polish subsidiary, established a new company Tumieszkamy Sp. z o. o. (the share capital EUR 1.2 thousand).

On 18 January 2018 the Group, through its Lithuanian subsidiary, acquired 100% stake in UAB Acta iuventus (acquisition price EUR 305 thousand) which provides security services. At the moment of issuance of these financial statements Group's management was not able to obtain reliable financial information of the newly acquired company and evaluate fair value of net assets as at the acquisition.

On 28 February 2018 reorganization of the companies City Service Poland sp. z.o.o. and City Service Polska sp. z.o.o. was completed. After the process of reorganization City Service Poland sp. z.o.o. was incorporated into City Service Polska sp. z.o.o. with all the assets, rights and obligations. City Service Poland sp. z.o.o. ceased operations and was deregistered. After reorganization City Service Polska sp. z.o.o. management and other contact details did not change.

On 16 March 2018 the Group, through its Lithuanian subsidiary, established a new company UAB Citenga (share capital EUR 2.5 thousand).

On 23 March 2018 the Group, through its Lithuanian subsidiary, established a new company UAB Šiaulių NT valdymas (share capital EUR 2.5 thousand).

On 9 April 2018 the Group, through its Lithuanian subsidiary, established a new company UAB Energijos taupymo paslaugos (share capital EUR 2.5 thousand).

35 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 2017**	**As of 31 December 2016**
ASSETS		
Non-current assets		
Property, plant and equipment	140	176
Investments into subsidiaries	30,769	31,475
Non-current receivables	22,180	21,520
Deferred income tax asset	23	68
Total non-current assets	**53,112**	**53,239**
Current assets		
Prepayments	6	52
Trade receivables	79	676
Receivables from related parties (including loans granted)	3,769	6,867
Other receivables	87	40
Cash and cash equivalents	993	15,517
Total current assets	**4,934**	**23,152**
Total assets	**58,046**	**76,391**

(all amounts are in EUR thousand unless otherwise stated)

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

Statement of financial position (cont'd)	As of 31 December 2017	As of 31 December 2016
EQUITY AND LIABILITIES		
Equity		
Share capital	9,483	9,483
Share premium	21,067	21,067
Reserves	2,686	2,686
Retained earnings	5,060	19,837
Total equity	**38,296**	**53,073**
Liabilities		
Non-current liabilities		
Non-current borrowings	13,824	16,844
Financial lease obligations	35	42
Non-current payables	1,286	1,286
Total non-current liabilities	**15,145**	**18,172**
Current liabilities		
Current portion of non-current borrowings	3,209	2,884
Current portion of financial lease obligations	7	7
Trade payables and payables to related parties	883	1,325
Advances received	353	647
Income Tax	47	-
Provisions for employee benefits	-	23
Other current liabilities	106	260
Total current liabilities	**4,605**	**5,146**
Total liabilities	**19,750**	**23,318**
Total equity and liabilities	**58,046**	**76,391**

(all amounts are in EUR thousand unless otherwise stated)

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

Statement of comprehensive income	**2017**	**2016**
Sales	1,844	3,133
Cost of sales	(1,368)	(2,389)
Gross profit	**476**	**744**
General and administrative expenses	(1,258)	(8,399)
Other operating income	63	274
Other operating expenses	(43)	(173)
Profit from operations	**(762)**	**(7,554)**
Finance income	6,332	3,755
Finance expenses	(549)	(790)
Profit before tax	**5,021**	**(4,589)**
Income tax	(200)	(12)
Net profit	**4,821**	**(4,601)**
Other comprehensive income	-	-
Total comprehensive income for the year, net of tax	**4,821**	**(4,601)**

(all amounts are in EUR thousand unless otherwise stated)

35 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)
Total comprehensive income	-	-	-	-	(4,601)	(4,601)
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 2017 and 2016 because the Company's share of losses of certain subsidiaries exceeds its interest in respective subsidiaries, accounted for based on equity method.

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(all amounts are in EUR thousand unless otherwise stated)

35 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 2017	**9,483**	**21,067**	**948**	**1,738**	**19,837**	**53,073**
Net profit for the year	-	-	-	-	4,821	4,821
Total comprehensive income	-	-	-	-	4,821	4,821
Dividends declared					(19,598)	(19,598)
Balance as of 31 December 2017	**9,483**	**21,067**	**948**	**1,738**	**5,060**	**38,296**
Book value of holdings under control or significant influence						(30,769)
Value of holdings under control of significant influence, calculated under equity method						56,389
Adjusted unconsolidated equity as of 31 December 2017*						**63,916**

* Adjusted unconsolidated equity differs from the consolidated equity as of 31 December 2017 and 2016 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)

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

Statement of cash flows	**2017**	**2016**
Cash flows from (to) operating activities		
Net profit from	4,821	(4,601)
Adjusting items:		
Income tax expenses	200	12
Depreciation and amortisation	42	147
Impairment and write-off of accounts receivable	(142)	5,187
Provisions for potential obligations from guarantees provided for subsidiary Concentra customers (see Note 2.20)	-	1,253
(Gain) on disposal of property, plant and equipment	-	(16)
Dividend (income)	(4,500)	(2,000)
(Gain) from sale of investments	(393)	(26)
Impairment of investments into subsidiaries	-	625
Interest (income)	(1,189)	(1,351)
Interest expenses	550	298
Other financial activity result, net	(251)	117
	(862)	(355)
Changes in working capital:		
Decrease in trade receivables, receivables from related parties, non-current receivables, other receivables and other current assets	4,039	6,782
Decrease in prepayments	47	4
(Decrease) increase in trade payables and payables to related parties	(583)	496
Income tax (paid)	(23)	-
(Decrease) in advances received and other current liabilities	(448)	(246)
Net cash flows from operating activities	**2,170**	**6,681**
Cash flows from (to) investing activities		
(Acquisition) of non-current assets	(6)	(10)
Proceeds from sale of non-current assets	1	287
(Acquisition) of investments in subsidiaries and associates	-	(806)
Disposal of investments in subsidiaries	1,099	1,335
Interest received	1	1,590
Dividends received	4,500	2,000
Loans (granted)	(6,326)	(7,020)
Loans repaid	6,747	2,900
Net cash flows from investing activities	**6,016**	**276**
Cash flows from (to) financing activities		
Dividends (paid)	(19,598)	(3,161)
Proceeds from loans	180	7,508
Financial lease (payments)	(7)	(45)
Loans (repaid)	(2,875)	(2,297)
Interest (paid)	(410)	(546)
Net cash flows (to) from financing activities	**(22,710)**	**1,459**
Net (decrease) increase in cash and cash equivalents	**(14,524)**	**8,416**
Cash and cash equivalents at the beginning of the year	**15,517**	**7,101**
Cash and cash equivalents at the end of the year	**993**	**15,517**

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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 consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of as the Group as at 31 December 2017, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). 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 Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the Code of Ethics.

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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated 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 consolidated 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 consolidated financial statements

1. Impairment assessment of goodwill and other intangible assets

Goodwill and other intangible assets amount to EUR 35,7 million in the statement of financial position of the Group as of 31 December 2017. 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 intangibles represent more than 31% of the total assets of the Group as of 31 December 2017.

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.

2. Contingencies related to foreign subsidiaries in Russia

As disclosed in Note 31 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 3,2 million as of 31 December 2017. 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 31 of the consolidated financial statements.

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

As of 31 December 2017 the Group had current trade accounts receivable balance amounting to EUR 30,7 million reported in the statement of financial position, part of which was overdue as disclosed in Note 12 of the financial statements, and EUR 5,8 million non-current receivables, mainly comprising receivables from residential buildings for repair works performed and restricted cash, as disclosed in Notes 11 and 13. 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 32% of the total assets of the Group in the statement of financial position as of 31 December 2017 and high level of management judgment involved in allowance calculation.

Among other procedures, we reviewed 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 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 24,1 million as of 31 December 2017. As disclosed on Note 2.20, these intangible assets are amortized over the estimated validity period of the existing contracts, which is 5 – 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

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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.

5. Contingencies related to lawsuits

As disclosed in Note 31 of the financial statements, on 21 April 2017 the parent company City Service SE 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 and external legal advisors 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 observing in the external legal advisor's letter the information about 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.

Other information

Management is responsible for the other information. Other information consists of management report, but does not consists of the financial statements and our auditor's report thereon. 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 these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing the Group'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 Group'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 International Standards on Auditing (Estonia) 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 International Standards on Auditing (Estonia), 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 Group'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 Group companies 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 companies 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 and business activities within the Group to express an opinion on the 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 are also required to 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.

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

We have been appointed to carry out the audit of the financial statements of Rubikon Apskaitos Sistemos UAB (later renamed several times to City Service SE currently) by the decision of the shareholders for the first time in 2003. Our appointment to carry out the audit of the financial statements has been periodically renewed by the shareholders and the total period of total uninterrupted engagement contains 3 years as auditors of City Service SE and 12 years of the former parent of the Group incorporated in Lithuania.

Consistence with Additional Report to Supervisory Board and Audit Committee

Our audit opinion on the annual financial statements expressed herein is consistent with the additional report to the Supervisory Board and Audit Committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non audit services

We confirm that in light of our knowledge and belief, services provided to the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Throughout our audit engagement period, we have provided to the Company non-audit services disclosed in the Company's financial statements (note 24). There were no other undisclosed services provided to the Company.

The responsible certified auditor on the audit resulting in this independent auditors' report is Olesia Abramova.

Tallinn, 30 April 2018

Olesia Abramova
Authorised Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58