CITYSERVICE

In service of your property

CONSOLIDATED ANNUAL REPORT 2019

CONSOLIDATED ANNUAL REPORT FOR 2019

Beginning of the reporting period	1 January 2019
End of the reporting period	31 December 2019
Business name	City Service SE
Registration number	12827710
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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 2020

1. Corporate profile

1.1. City Service Group

City Service SE is a holding company managing a group of facility maintenance and integrated utility companies in Europe.

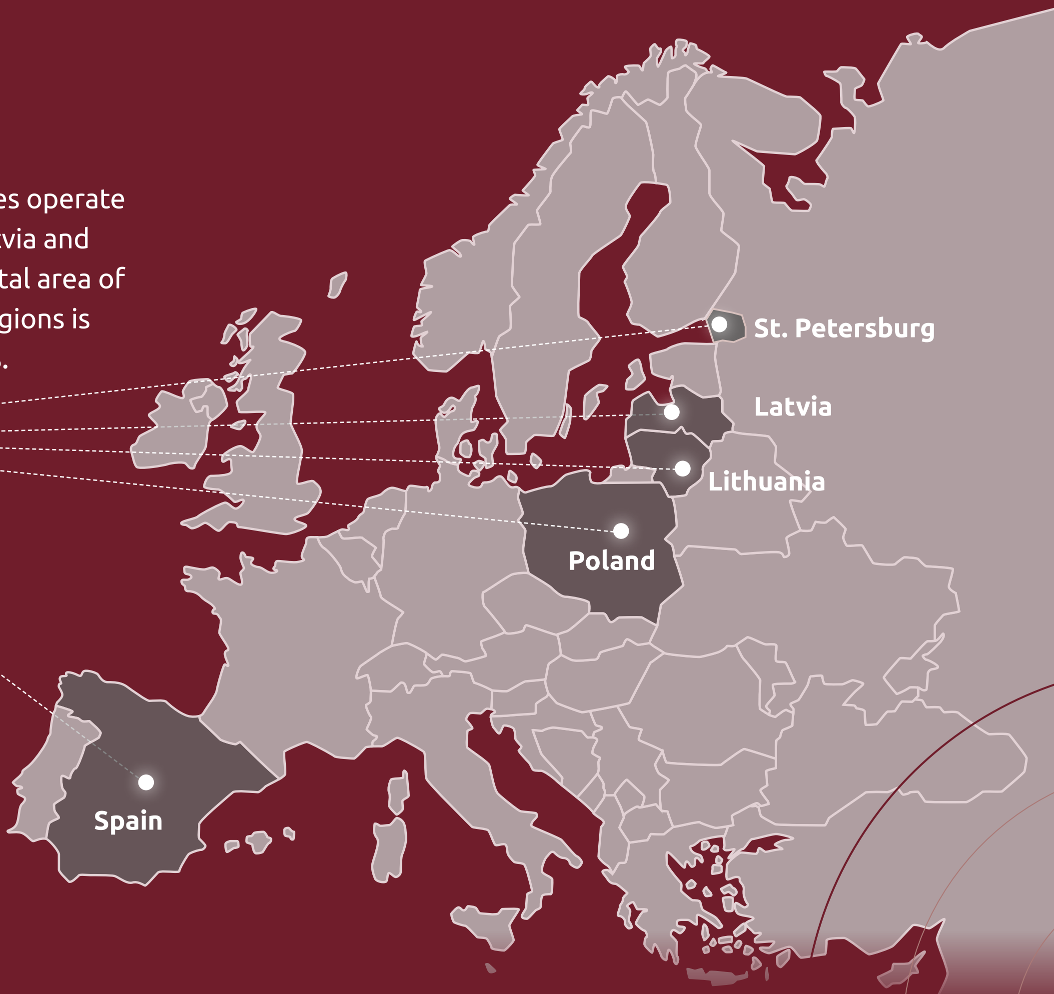
The Group companies are engaged in the administration of the facility management process, maintenance and repair of engineering systems, management and renovation of energy resources, technical and energy audit of buildings, territory management and cleaning of premises, provide security, gas station maintenance, catering and debt administration services.

The companies of the Group operate in strict accordance with environmental requirements.

Main business areas of the Group:

- Administration of apartment buildings
- Commercial facility management
- Territory cleaning and maintenance
- Other activities

Currently, the Group companies operate in Lithuania, Poland, Spain, Latvia and St. Petersburg (Russia). The total area of buildings managed in these regions is **35.2 million square meters**.



1.2. Strategy and objectives

By combining City Service global expertise with a deep understanding of local specifics, we provide our customers with modern and convenient services.

Our long-term objective is very linked with our mission – growth of commercial, public and private property management, development of integrated utility services.

1.3. Mission and vision

Our vision is to be a leader in creating value for residential property.

Our mission is to represent the interests of our customers by increasing the value of their property and improving their living environment

1.4. Structure of the Group

CITY SERVICE SE

LATVIA	LITHUANIA					POLAND		ST. PETERS-BURG	SPAIN	
100% SIA Connecto Pay	100% UAB Acta iuventus	100% UAB City Service Cleaning	100% UAB Mano aplinka plius	100% UAB Mano Būstas Šiauliai	100% UAB Pietų projektai	100% Atrium 21 sp. z o.o.	100% Parama Red sp. z o.o.	100% ОАО Сити Сервис / OAO City service	100% Administracion Urbana y Rural Chorro, S.L.U.	100% Euronamas Gestion de Fincas Sur, S.L.
100% SIA City Service	76% UAB Alytaus namų valda	100% UAB City Service Engineering	100% UAB Mano Būstas	99.84% UAB Mano Būstas Vakarai	100% UAB PortalPRO	100% Certus-Serwis sp. z o. o.	100% Parama Yellow sp. z o.o.	100% ЗАО Сити Сервис / ZAO City service	100% Afinem administración de finques, S.L.U.	Euronamas Gestion de Fincas Meseta Central, S.L.U.
100% SIA City Service Engineering	100% UAB Algos saugos tarnyba	100% UAB City Service Digital	100% UAB Mano Būstas Alytus	100% UAB Mano Būstas Vilnius	100% UAB Rinkų vystymas	100% City Service Polska sp. z o.o.	100% Parama White sp. z o.o.	100% ООО СРНУ[6]	100% Aresi administracion de fincas S. L.	100% Euronamas Gestion de Fincas Centro, S.L
100% SIA Ēku pārvaldīšanas serviss	100% UAB Baltijos būsto priežiūra	100% UAB CSG IT	100% UAB Mano Būstas Baltija	100% UAB Mano Būsto Sauga	100% UAB Saugos projektų valdymas[1]	100% Concierge-ZN[2] sp. z o.o.	100% Progresline sp. z o.o.	100% ООО МН Групп	100% Aresi Euroinmo S.L.	100% Euronamas gestion de fincas Madrid, S.L
100% SIA Laba Enerģija	100% UAB Baltijos NT valdymas	100% UAB Economus	100% UAB Mano Būstas Dainava	100% UAB Mano Būsto priežiūra	100% UAB Skolos LT	100% Dom Best sp. z o. o.	100% SANTER ZN[3] sp. z o.o.	80% ООО Жилкомсервис № 3 Фрунзенского района	100% Aresi Gestion residencial, S.L.	100% Grupo Aresi de Inversiones, S.L.
100% SIA Latvijas Namsaimnieks	100% UAB Baltijos transporto valdymas	100% UAB Energijos taupymo paslaugos	100% UAB Mano Būstas Neris	100% UAB Mano sauga LT	100% UAB Šiaulių NT valdymas	100% EnergiaOK sp. z o.o.	100% Skydas - PB[4] sp. z o.o.	100% ООО Чистый дом	100% Concentra Servicios y Mantenimiento, S.A.[7]	100% Interlift Mantenimiento y Ascensores, S.L.
100% SIA Namu serviss APSE	100% UAB Baltijos turto valdymas	100% UAB Energinio efektyvumo paslaugos	100% UAB Mano Būstas NPC	100% UAB Medžiagų tiekimo centras	100% UAB Unitechna	100% Famix sp. z o.o.	100% TED sp. z o.o	100% ООО Подъемные механизмы	100% Elche administracion de fincas, S.L.U.	100% Portalpro Gestion Integral S.L.
100% SIA Ventspils nami	57.71% UAB Biržų butų ūkis	100% UAB EPC projektai	100% UAB Mano Būstas Kaunas	100% UAB Merlangas	100% UAB Vaizdo stebėjimo sprendimai	100% Grupa Techniczna 24 sp. z o.o.	100% Tumieszkamy sp. z o. o.	100% ООО Территория комфорта	100% Eurobroker Advisors Sorreduria de Seguros, S.L.	100% Vetell dos iberica, S.L.[7]
	100% UAB Būsto aplinka	100% UAB Neries būstas	100% UAB Mano Būstas Klaipėda	100% UAB Nacionalinis renovacijos fondas	100% UAB Vilniaus turgus	50% Home Rent sp. z o.o.	100% Wolska Aparthotel sp. z o. o.		100% Euronamas Gestion de Fincas Levante, S.L.U.	
	100% UAB Būsto mokėjimai	100% UAB Karoliniškių turgus	100% Mano Būstas Aukštaitija	100% UAB Naujosios Vilnios turgavietė		100% Parama Blue sp. z o.o.s	100% ZZN[5] sp. z o.o.			
	100% UAB Citenga	100% UAB Konarskio turgelis	100% UAB Mano Būstas Radviliškis	100% UAB Pastatų priežiūra		100% Parama Group sp z o. o.	100% ZZN Inwestycje sp. z o.o.			
	100% UAB City Service	100% UAB Mano aplinka	100% UAB Mano Būstas Sostinė	100% UAB Pastatų valdymas						

The Group's investment in an associate as of 31 December 2019 included an investment in UAB Marijampolės butų ūkis (34% of the share capital).

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

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

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

[6] ООО Специализи-рованное ремонтно-наладочное управление

[7] 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.

1.5. Employees

In 2019, the Group companies continued their efforts to engage employees of all levels in the Company's operations, which resulted in organising periodic meetings with managers in all countries and presentations of the Company's strategy, objectives and performance. It also provided employees with added benefits such as valuable birthday gifts, New Year gifts, and invitations for joint celebrations to employees at all levels.

All Group companies continued to invest in in-service training and foreign language training, organising the training sessions both internally and externally. This year, special attention was dedicated to training and integration of new employees, with Newcomer Days being organised across all countries, and adaptation plans being prepared; they improved the pace of adaptation for new colleagues.

Employee engagement and satisfaction survey is ongoing in all regions where the Group companies operate, and plans are being developed and implemented to improve performance and have more motivated employees. This year, the engagement of employees in St. Petersburg, which continues to grow, is particularly promising. The Group company operating in Russia also periodically participates in payroll research and adapts its payroll systems in each country to the market trends and developments.

Unified human resource management procedures and processes have been developed and implemented in all Group companies. Some of them were automated.

The Ambasadoriai project for supporting employee initiatives has been launched in Lithuania. The project, employees of all levels organise various activities and events, sharing experience, interacting with local communities and helping to vulnerable groups in society.

In 2019 the company also held blood donation campaigns, provided assistance to the Women's Crisis Center, promoted child engagement in different activities and had other social campaigns.

The Group currently has 4,080 employees: 2,543 in Lithuania, 125 in Latvia, 597 in Poland, 162 in Spain and 653 in St. Petersburg.

Number of employees by country

2. Management and Corporate Governance report

2.1. Main areas of activity

2.1.1. Administration of apartment buildings

The companies of the Group provide administration of apartment buildings services - they perform all actions necessary for the preservation and use of the objects of common use as well as perform their constant maintenance.

The companies take care of the maintenance of mechanical durability of the basic house structures, elimination of minor defects, prevention, tuning of general engineering equipment, ensuring safe use, elimination of accidents, prevention and adjustment of heating and hot water supply systems, preparation for heating season.

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

< **10.7** million m²

In **LITHUANIA,** the Group companies increased the area of maintained apartment buildings by signing new contracts with apartment owners. Over the year, apartment buildings with a total maintained area of more than 300 thousand square meters became its new customers.

In the middle of 2019, the brand was unified and all companies, which provided administration services in Lithuania under different names, started to operate under the single brand name – Mano BŪSTAS. With the unification of the brand, the company abandoned its physical customer service centres and began serving customers through digital channels.

The Board of the Company made a strategic decision to switch from the services of its own technical support staff repairing apartment buildings to the PortalPRO system based on sharing economy which is currently gaining popularity in the world. This platform is open to all Lithuanian freelance technicians, for whom the company ensures a steady flow of orders, a free work schedule and the opportunity to work and earn money transparently.

The Group companies pay special attention to the development of digitised services through the Internet platform and the eBŪSTAS mobile application. It has seen the significant growth in the number of customers using the platform recently. In 2019, compared to 2018, the total number of unique customers of the unique self-service website and mobile app increased by 43 percent, number of visits – by 38 percent, mobile app traffic flow by 160 percent, payments through the self-service portal and the mobile application by 55 percent.

Currently, the area of maintained houses is 10.7 million square meters.

< **9.0** million m²

The Group companies operating in **POLAND** have been actively implementing smart digital solutions. In 2019 accounting centralization project was performed and the unified call centre was established; all of them are scheduled for completion during 2020. These were the first changes in the implementation of the new business model, the business management system, which provide for a unique technical audit of building maintenance in the market, both for business and resident logins through the application. Currently the number of smart customers reaches 62 thousand users. The changes will mean not only the change of structure, but will also build a new operating model, strengthen the team and improve the customer experience.

The service of home insurance agents has been underway. During the year, the Group Company operating in Poland insured 85 percent of its maintained communities. In addition, the search for certified partners has been actively pursued. Compared to the previous year, in 2019 the Group of companies has doubled the number of certified partners from 400 to 800.

Currently, the total area of managed apartment buildings in Poland is 9.0 million square meters.

The Group companies operating in **SPAIN** has begun implementing a new business model that intends to offer a unique service to the market – community service providers. A new centralised accounting and a call centre is being developed. The innovations will not only mean the change of the structure, but also the formation of a new operating model, strengthening of the team and improving the customers experience.

Currently the area of maintained residential buildings amounts to 6.7 million square meters.

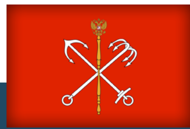
< **6.7** million m^2

The Group companies operating in **LATVIA** have been growing organically, providing services in Riga, Liepaja, Ventspils and Ogre. During the year, the area of new maintained apartment buildings increased by 23 thousand square meters. At the end of 2019, a new, modern customer billing and presentation system was launched. This will allow to perform tasks more efficiently and quickly, and allow the customers to see relevant information about the house, financial reports, and to record notices.

< **0.7** million m^2

Currently the area of maintained residential buildings amounts to 0.7 million square meters. The Group companies will continue their efforts to increase the area of serviced homes organically and through new acquisitions, and expand the coverage of operations to other cities of the country.

The activities of the Group's companies in **ST. PETERSBURG**, working under the brand name ДОМСПБ, stand out by optimisation based on IT technologies. The servers of the Group company's operating in St. Petersburg have been equipped with an ERP system with an integrated mobile app for customers. The new system combines the process of accepting applications from customers, assigning contractors, issue and write-off of consumables, as well as quality control.

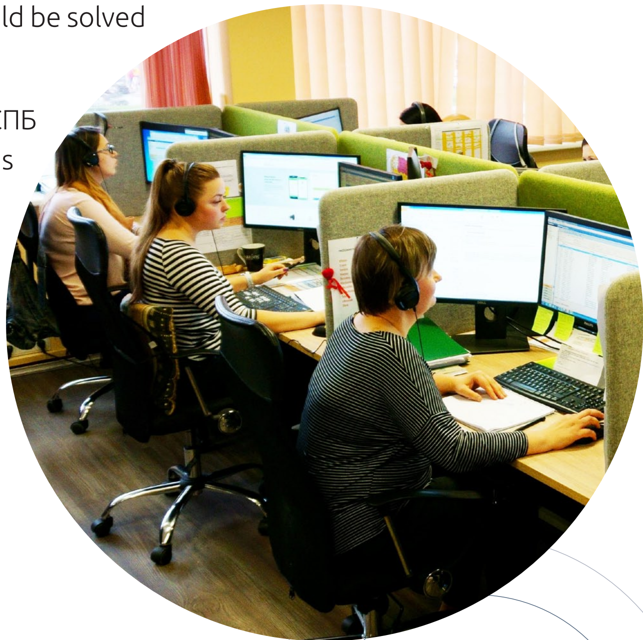


< **3.6** million m^2

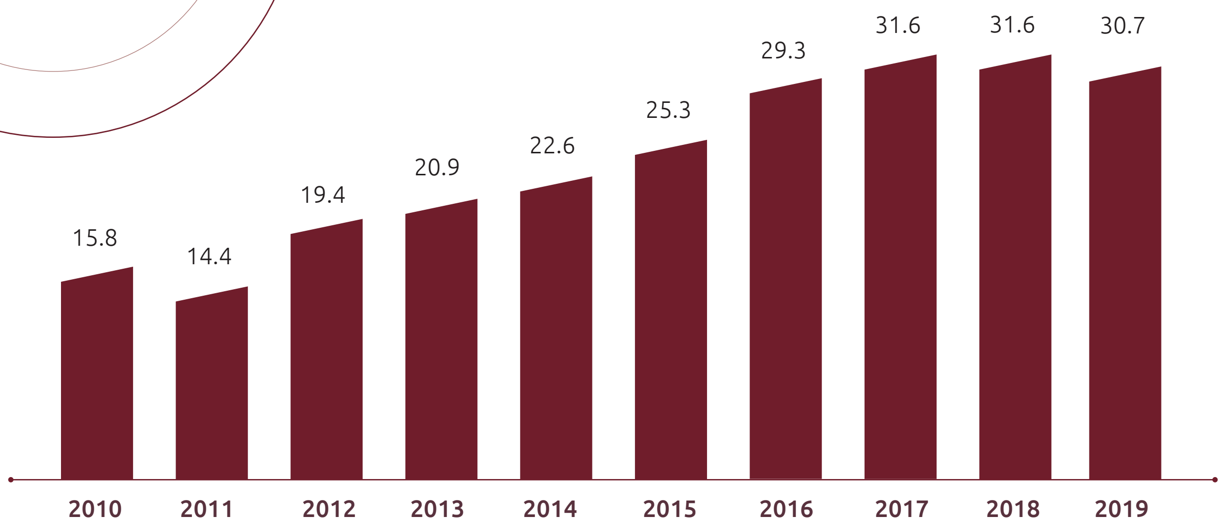
The use of new technologies and methods of work in the Customer Service Center enabled to respond to 98% of the customer calls. Meanwhile, with the help of competent specialists, the most pressing customer problems could be solved during the first interview.

The technological solutions developed by the experts of ДОМСПБ in connection with the ventilation of the apartment buildings and the maintenance of the attics allowed to improve the performance of the house and reduce the cost of work. The new solutions have been appreciated by the Administration of the Vice-Governor of St. Petersburg and can be applied as a model experience throughout the city.

Currently the total area of administered apartment buildings is 3.6 million square meters.



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



2.1.2. COMMERCIAL FACILITY MANAGEMENT

The Group companies provide commercial facility management services that ensure reliable operation of building systems and lower maintenance costs. The companies take care of the building maintenance ranging from utility equipment, energy resource management and conservation to premises cleaning and security.

The number of customers has been growing in **LITHUANIA** by 74 contracts signed: 40 contracts with new customers, 34 contracts with existing customers, and 15 on energy saving projects.

< **3.7** million m^2

In 2019, complex facility management services were launched to the Lithuanian Railway Depot in Kaunas, the IBIS Style Hotel in Vilnius, the corrugated cardboard packaging factory UAB DS Smith Packaging Lithuania, Vingės Logistics Centre in Klaipėda and the Pepco clothing shopping chain. The services of the group company are again used by Domus Galerija interior and design centre in Vilnius and Molas shopping centre in Kaunas.

A new building maintenance contract has been signed with Lietuvos Kooperatyvų Sąjunga, MTTC mobile phone repair workshop, and a business centre owned by UPS parcel company.

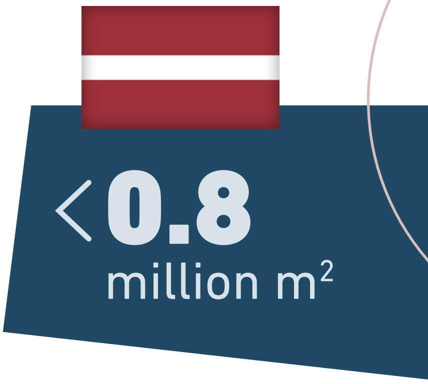
Complex services are now provided for Axioma Metering plant. In the field of industry, a contract has been concluded with Natūralus pluoštas hemp processing company and the scope of services has been expanded for Fazer Lietuva. New service agreements have also been signed with Hermitage shopping centre in Ukmergė, Light House business centre in Klaipėda, CUBE business centre in Kaunas, the business centre at Minijos str. 90 in Klaipėda.

In the second half of 2019, continuous services were started to be provided to Telia Lietuva company. The extended contract provides for the 3 times larger scope of work. This contract has become one of the largest in the commercial customer segment.

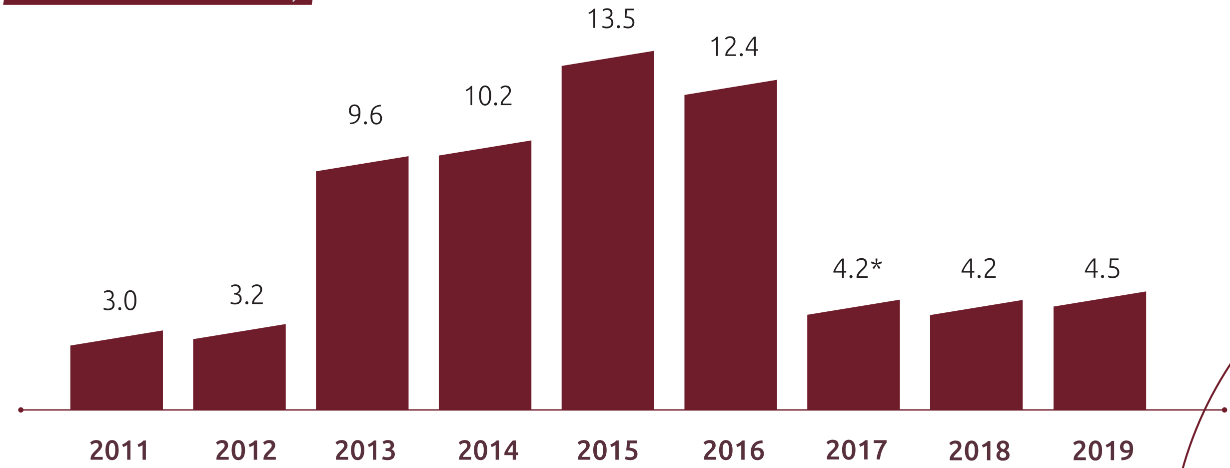
The total area of maintained buildings amounts to 3.7 million square meters.

In **LATVIA**, new complex management agreements for building facility management have been signed with Bergi logistics center, Grostonas iela 1 shopping center and Pepco clothing store chain. New contracts were concluded with Riga Technical University, the branch of State Real Estate in Daugavpils, and Sanitex company. The cart of Maxima supermarket maintenance services is continuously expanded - this time, the existing contract has been supplemented with a part of energy efficiency services.

The total area of maintained buildings amounted to 0.8 million square meters in 2019.



CHANGE IN THE AREA OF COMMERCIAL, PUBLIC AND INDUSTRIAL BUILDINGS BY GROUP'S COMPANIES, MILLION SQ. M,



* 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.

Complex services are now provided for Axioma Metering plant.

The Group's companies supervises the good order in both apartment buildings and commercial properties, as well as in urban public spaces.

2.1.3. TERRITORY MAINTENANCE AND CLEANING

The Group's companies provide all territory maintenance and cleaning services: they carry out interior and exterior cleaning, maintain private areas and public urban spaces, take care of snow, sand, leaf removal, grass cutting, special cleaning and supplies of hygiene products. Cleaning and territory maintenance services are provided in Lithuania, Latvia and St. Petersburg.

In **LITHUANIA**, the Group provides cleaning and territory maintenance services in Vilnius, Kaunas, Klaipėda, Šiauliai, Alytus, Šilutė, Radviliškis and Panevėžys.

The Group's companies supervises the good order in both apartment buildings and commercial properties, as well as in urban public spaces. The company is constantly expanding its range of services and investing in the acquisition of new equipment.

In the fall of 2019, UAB Mano aplinka, a company providing cleaning and territory maintenance services, was divided into three separate companies: UAB Būsto aplinka, UAB Mano aplinka and UAB City Service Cleaning. Such decision was made in view of the specifics of businesses. After the separation, UAB Būsto aplinka now takes care of the cleanliness of stairwells and territories of apartment buildings, UAB Mano aplinka is responsible for the public areas in Vilnius, and UAB City Service Cleaning services the commercial objects.

In **LATVIA**, the Group's companies provide cleaning and territory maintenance services for apartment buildings, shopping centres and offices. The company is constantly investing in vehicle upgrades and specialised cleaning tools and products.

In **ST. PETERSBURG**, the Group's companies provides territory maintenance and cleaning services for apartment buildings and district administrations.

The Group companies maintained 721 children's playgrounds in Lithuania

2.1.4. OTHER SERVICES

The Group companies in Lithuania, Poland, Latvia and St. Petersburg provide other services in addition to their core activities.

In 2019, in **LITHUANIA** the Group companies provided security services to 5,000 customers, carried out building renovation projects in 179 houses, maintained 721 children's playgrounds, provided maintenance services to 235 petrol stations, and recovered nearly 4 million euro of debts in judicial and pre-litigation ways in favour of its customers.

The **LATVIAN** branch of the company is continuing the renovation of apartment buildings according to a new programme. Two apartment buildings have been completely modernised during the year, and for 5 houses the renovation works are in progress. Intensive population surveys on house renovations continue.

In **POLAND**, companies are engaged in the production and supply of thermal energy, installation of heat substations, and retail trade of electricity.

In **ST. PETERSBURG**, the company provides a utility fee administration service for almost 400 apartment buildings.

2.2. Enhancing the performance efficiency

The Group of companies continued to implement LEAN methodology for efficient business process management. Projects were actively carried out across all regions. LEAN culture has become one of the Group's key competitive advantages, and as a result, the companies will continue to implement proactive improvement processes throughout the Group in 2020.

In **LITHUANIA**, 41 Kaizen ideas were presented in 2019, 40 of which were implemented. Due to Kaizen's ideas, Group companies could save almost 1,300 hours of work time. Other implemented Kaizen ideas have helped to improve the quality of services for our customers.

In 2019, a total of 24 projects were presented to the Project Board, of which 22 were approved. During the year 19 projects were successfully completed. The combined savings of the project results are 18,222 hours of working time a year. In addition, process automation solutions and ideas were implemented to achieve process efficiency.

Companies in **SPAIN** are actively implementing continuous business improvement processes that have already involved all senior executives and 50% of the company employees. In 2019, great emphasis are placed on increasing the competencies of all employees. The implementation of the building administration standard will also be a major focus.

In **POLAND,** optimisation processes are ongoing in relation to LEAN, and all senior management and the vast majority of administrative staff are involved in the relevant continuous improvement activities.

Processes in **LATVIA** are constantly reviewed and streamlined. The LEAN methodology was developed across projects, involving increasingly more company employees in the processes; staff training in this field has been conducted.

The successful implementation of operational efficiency processes in **ST. PETERSBURG** made a positive impact on bad debt portfolio by EUR 400 thousand per year. Another source of income was collaboration with telecommunication companies working in the houses maintained by the company. In total, the partners transferred about 57 thousand euro to ДОМСПБ for the use of premises in the last year. By implementing human resource optimisation processes, the company succeeded to save about 10 thousand euro per division per month. These processes will continue in 2020.

Considerable attention has been dedicated to the development of competencies of managers and employees, thus increasing the number of training in different fields and the number of managers and employees who participated in the training.

40

Kaizen ideas were implemented in Lithuania.

10 000

Euros per division per month saved due to human resource optimisation in St. Peterburg.

2.3. The most significant Investments and Events

ON 21 JANUARY 2019 the Group, through its Latvian subsidiary, acquired 100% stake in SIA Ventspils nami (acquisition price EUR 120 thousand) which manages residential facilities in Ventspils.

ON 1 FEBRUARY 2019 the Supervisory Board of the Company elected Dalius Šimaitis as a new Management Board member.

ON 5 FEBRUARY 2019 the Group, through its Spanish subsidiary, established a new company Euronamas Gestion de Fincas Meseta Central, S.L.U. (share capital EUR 3 thousand).

ON 5 FEBRUARY 2019 the the Group, through its Spanish subsidiary, established a new company Euronamas Gestion de Fincas Levante, S.L.U. (share capital EUR 3 thousand).

ON 8 MARCH 2019 Euronamas Gestion de Fincas MRC, S.L. company title was changed into Euronamas Gestion de Fincas Centro, S.L. Other contact details did not change.

ON 12 APRIL 2019 UAB Mano Būstas title was changed into UAB Mano Būsto priežiūra. Other contact details did not change.

ON 12 APRIL 2019 UAB Mano Būsto valdymas title was changed into UAB Mano Būstas. Other contact details did not change.

ON 6 MAY 2019 the Group, through its Lithuanian subsidiary, established a new company UAB PortalPRO (share capital EUR 2.5 thousand).

ON 29 MAY 2019 reorganization of UAB Namų priežiūros centras was finished. Method of reorganization was separation. After separation of property, rights and responsibilities was established a new company UAB Šilainių būstas. After reorganization UAB Namų priežiūros centras management and other contact details did not change.

ON 17 JUNE 2019 the Group, through its Lithuanian subsidiary, sold 100% stake in UAB Toirenta which provided rental of bio toilets and sewage disposal services. Value of share sale – purchase agreement is EUR 139 thousand. Net assets of disposed subsidiary at the date of disposal amounted to EUR 245 thousand.

ON 19 JUNE 2019 the Annual General Meeting of Shareholder of the Company has been held. The shareholders approved the set of consolidated annual financial statements of the Company for 2018 and renewed the term of office of the Supervisory board.

ON 26 JUNE 2019 UAB Alytaus būstas title was changed into UAB Mano Būstas Alytus. Other contact details did not change

ON 27 JUNE 2019 UAB Aukštaitijos būstas title was changed into UAB Mano Būstas Panevėžys. Other contact details did not change.

ON 27 JUNE 2019 UAB Klaipėdos būstas LT title was changed into UAB Mano Būstas Klaipėda. Other contact details did not change.

ON 27 JUNE 2019 UAB Radviliškio būstas title was changed into UAB Mano Būstas Radviliškis. Other contact details did not change.

ON 27 JUNE 2019 reorganization of the companies UAB Pietinis būstas and UAB Šiaulių būstas was completed. After the process of reorganization UAB Pietinis būstas was incorporated into UAB Šiaulių būstas with all the assets, rights and obligations. UAB Pietinis būstas ceased operations and was deregistered. After reorganization UAB Šiaulių būstas title was changed into UAB Mano Būstas Šiauliai, management and other contact details did not change.

ON 27 JUNE 2019 reorganization of the companies UAB Vilkpėdės būstas and UAB Naujamiesčio būstas was completed. After the process of reorganization UAB Vilkpėdės būstas was incorporated into UAB Naujamiesčio būstas with all the assets, rights and obligations. UAB Vilkpėdės būstas ceased operations and was deregistered. After reorganization UAB Naujamiesčio būstas title was changed into UAB Mano Būstas Vilnius, management and other contact details did not change.

ON 28 JUNE 2019 UAB Namų priežiūros centras title was changed into UAB Mano Būstas NPC. Other contact details did not change.

ON 28 JUNE 2019 reorganization of the companies UAB Lazdynų butų ūkis, UAB Justiniškių būstas, UAB Viršuliškių būstas, UAB Pašilaičių būstas and UAB Karoliniškių būstas was completed. After the process of reorganization UAB Lazdynų butų ūkis, UAB Justiniškių būstas, UAB Viršuliškių būstas and UAB Pašilaičių būstas were incorporated into UAB Karoliniškių būstas with all the assets, rights and obligations. UAB Lazdynų butų ūkis, UAB Justiniškių būstas, UAB Viršuliškių būstas and UAB Pašilaičių būstas ceased operations and were deregistered. After reorganization UAB Karoliniškių būstas title was changed into UAB Mano Būstas Sostinė, management and other contact details did not change.

ON 28 JUNE 2019 reorganization of the companies UAB Danės būstas, UAB Vėtrungės būstas and UAB Jūros būstas was completed. After the process of reorganization UAB Danės būstas and UAB Vėtrungės būstas were incorporated into UAB Jūros būstas with all the assets, rights and obligations. UAB Danės būstas and UAB Vėtrungės būstas ceased operations and were deregistered. After reorganization UAB Jūros būstas title was changed into UAB Mano Būstas Baltija, management and other contact details did not change.

ON 28 JUNE 2019 reorganization of the companies UAB Nemuno būstas and UAB Dainavos būstas was completed. After the process of reorganization UAB Nemuno būstas was incorporated into UAB Dainavos būstas with all the assets, rights and obligations. UAB Nemuno būstas ceased operations and was deregistered. After reorganization UAB Dainavos būstas title was changed into UAB Mano Būstas Dainava, management and other contact details did not change.

ON 28 JUNE 2019 reorganization of the companies UAB Antakalnio būstas and UAB Žirmūnų būstas was completed. After the process of reorganization UAB Antakalnio būstas was incorporated into UAB Žirmūnų būstas with all the assets, rights and obligations. UAB Antakalnio būstas ceased operations and was deregistered. After reorganization UAB Žirmūnų būstas title was changed into UAB Mano Būstas Neris, management and other contact details did not change.

ON 30 JUNE 2019 Ignas Krasauskas resigned from the Management Board.

ON 12 JULY 2019 UAB Mano Būstas Panevėžys title was changed into UAB Mano Būstas Aukštaitija. Other contact details did not change.

ON 16 JULY 2019, the Competition Council of the Republic of Lithuania imposed a fine on Company City Service SE and Group subsidiaries UAB Mano Būsto priežiūra, UAB City Service Engineering and UAB Būsto aplinka for the alleged violation of the competition law. The amount of the fine is EUR 381 thousand. The Company and its subsidiaries do not agree with the imposed fine and had appealed the decision of the Competition Council in accordance with the law. However, the Group has made a provision for a unfavorable court decision of EUR 381 thousand.

ON 18 JULY 2019 reorganization of UAB Mano Būsto priežiūra was finished. Method of reorganization was separation. After separation of property, rights and responsibilities was established a new company UAB EPC projektai. After reorganization UAB Mano Būsto priežiūra management and other contact details did not change.

ON 19 JULY 2019 reorganization of the companies UAB Kauno centro būstas and UAB Šilainių būstas was completed. After the process of reorganization UAB Kauno centro būstas was incorporated into UAB Šilainių būstas with all the assets, rights and obligations. UAB Kauno centro būstas būstas ceased operations and was deregistered. After reorganization UAB Šilainių būstas title was changed into UAB Mano Būstas Kaunas, management and other contact details did not change.

ON 25 JULY 2019 Vilnius County Court adopted decision in a case where Vilnius City municipality administration and General Prosecutor's office claimed the Company regarding recovery of EUR 20.6 million losses. The lawsuit was based on allegations that Vilnius City municipality might have suffered losses arising from public procurement agreements concluded in years 2002 and 2010 between Vilnius City municipality and the Company. Vilnius County Court adopted decision partially to uphold plaintiffs demands and adjudge EUR 10.3 million sum from the Company to Vilnius City municipality. City Service SE disagrees with the decision of the first instance court and is convinced that the decision is unfounded and illegal. In Company's opinion, none of civil liability conditions have been proved. The decision has not come into force and was appealed to the Court of Appeal of Lithuania. The Company reminds, that 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 compliant with the laws. Based on the above mentioned, no provision was recognized in respect of this legal case in these financial statements as the management considers that most likely outcome would be favourable to the Company.

ON 1 AUGUST 2019 the Supervisory Board of the Company elected Aivaras Šimkus as a new Management Board member.

ON 5 AUGUST 2019 UAB Lazdynų būstas title was changed into UAB Medžiagų tiekimo centras. Other contact details did not change.

ON 6 AUGUST 2019 UAB City Service Cleaning title was changed into UAB Pastatų priežiūros paslaugos. Other contact details did not change.

ON 14 AUGUST 2019 reorganization of UAB Mano aplinka was finished. Method of reorganization was separation. After separation of property, rights and responsibilities a new companies were established UAB City Service Cleaning and UAB Mano aplinka. After reorganization UAB Mano aplinka title was changed into UAB Būsto aplinka, management and other contact details did not change.

ON 16 SEPTEMBER 2019 UAB Connecto Pay title was changed into UAB City Service Digital. Other contact details did not change.

ON 16 SEPTEMBER 2019 the Group, through its Lithuanian subsidiary, sold 100% stake in UAB Pastatų priežiūros paslaugos which was dormant. Value of share sale – purchase agreement is EUR 2.5 thousand.

ON 26 SEPTEMBER 2019, the Competition Council of the Republic of Lithuania imposed a fine on Group subsidiaries UAB Mano Būsto priežiūra and UAB Būsto aplinka for the alleged violation of the competition law. The amount of the fine is EUR 1,074 thousand. The Company and its subsidiaries do not agree with the imposed fine and had appealed the decision of the Competition Council in accordance with the law. 14 February 2020 Vilnius Regional Administrative Court found that the Competition Council had unjustifiably imposed a maximum fine for the infringements committed and, therefore, the issue of the imposition of fine was referred back to the Competition Council. However, the Group has made a provision for a unfavorable court decision of EUR 347 thousand.

ON 31 OCTOBER 2019 reorganization of the companies UAB Šilutės būstas, UAB Tauragės būstas and UAB Šilalės būstas was completed. After the process of reorganization UAB Tauragės būstas and UAB Šilalės būstas was incorporated into UAB Šilutės būstas with all the assets, rights and obligations. UAB Tauragės būstas and UAB Šilalės būstas ceased operations and was deregistered. After reorganization UAB Šilutės būstas title was changed into UAB Mano Būstas Vakarai, management and other contact details did not change.

ON 8 NOVEMBER 2019 the Group, through its Lithuanian subsidiary, sold 100% stake in UAB Voverės which provided catering services. Value of share sale – purchase agreement is EUR 1. Net assets of disposed subsidiary at the date of disposal amounted to EUR 278 thousand.

ON 18 NOVEMBER 2019 UAB Birštono būstas title was changed into UAB Pietų projektai. Other contact details did not change.

ON 13 DECEMBER 2019 the Supervisory Board of the Company adopted resolution to remove Edvinas Paulauskas from the Management Board of the Company. As of 16th of December 2019, Management board member Dalius Šimaitis will be responsible for Group activities in Poland and Spain, also for technical operations and supply chain management, standardization policy within the Group in all jurisdictions.

2.4. Key risk activity types and uncertainties

In 2019 the market was stable, prices and purchasing power did not decline, in comparison with 2018. 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 2019, and neither were there any decisions providing for significant additional obligations for service providers; supervising institutions did not identify any major deficiencies in the provision of the services or inconsistencies with the legislative requirements.

CREDIT RISK

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Therefore, the management considers that its maximum exposure is reflected by the amount of trade and other receivables, net of allowance for doubtful accounts recognised at the date of the statement of financial position.

INTEREST RATE RISK

The major part of the Group's and the Company's borrowings (loans and financial lease obligations) are subject to variable rates, related to EUR LIBOR, EURIBOR, EONIA and WIBOR, which create an interest rate risk (Notes 15 and 17). There are no financial instruments designated in the financial statements to manage the exposure to the interest rate risk outstanding as of 31 December 2019 and 2018.

PANDEMIC THREAT OF COVID-19 VIRUS

The Group assessed the potential impact of COVID-19 pandemic situation, including the quarantine that has been announced in the Republic of Lithuania on 16th March as well in other countries, were Group's companies operate, on the financial statements, including going concern assumption. The management has assessed that this matter will not affect the Group's ability to continue as a going concern as the Group's core bussiness area remains less affected and it should not have a significant impact on Group's activities.

However, due to the early stage of the developments of COVID-19 pandemic, the Group currently cannot reliably assess its effect to the Group's financial situation and economic performance.

2.5. The main financial ratios concerning the financial year

KEY FINANCIAL INDICATORS*	2015	2016	2017	2018	2019
Revenue from contracts with customers	167,188	174,267	160,964	162,316	178,020
Revenue from contracts with customers in Lithuania market	65,401	70,401	76,802	85,341	95,478
Revenue from contracts with customers in foreign markets (Poland, other Baltic States, CIS and Spain)	101,787	103,866	84,162	76,975	82,542
Area under management in Lithuania (thousand sq. m)	13,030	13,693	13,896	14,074	14,420
Area under management in foreign markets (Poland, other Baltic States, St. Petersburg and Spain)	25,817	27,983	21,896	21,748	20,811
GROSS PROFIT					
EBITDA	**10,012**	**9,679**	**12,318**	**10,428**	**12,562******
EBITDA margin	**5.99%**	**5.55%**	**7.65%**	**6.42%**	**7.06%**
Operating profit (EBIT)	5,883	5,353	7,929	5,437	3,560
EBIT margin	3.52%	3.07%	4.93%	3.35%	2.00%
Earnings before tax (EBT)	7,537	5,527	7,943	4,578	2,467
EBT margin	4.51%	3.17%	4.93%	2.82%	1.39%
Net profit	6,184	1,266	6,151	3,841	1,455
Net profit in foreign markets (Poland, Latvia, Russia and Spain)	(783)	(354)	49	309	(613)
Net profit margin	3.70%	0.73%	3.82%	2.37%	0.82%
Profit per share (EUR)	0.26	0.04	0.19	0.12	0.05
Return on equity (ROE)	11%	2%	11%	8%	3%
Return on assets (ROA)	6%	1%	5%	3%	1%

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

**There was a positive effect to EBITDA result for the 2019 from adoption of IFRS 16 which resulted in EBITDA increase by EUR 2,745 thousand comparing with the result for the 2018.

EBITDA = Net profit - Income Tax - Depreciation and Amortization - finance income (expenses)

EBITDA margin = EBITDA / Revenue from contracts with customers * 100 %

Operating profit (EBIT) = Net profit - Income Tax - finance income (expenses)

EBIT margin = EBIT / Revenue from contracts with customers * 100 %

Earnings before tax (EBT) = Net profit - Income Tax

EBT margin = EBT / Revenue from contracts with customers * 100 %

Net profit = Revenue from contracts with customers - COS - OPEX - Other activity - Financial activity - Income Tax

Net profit margin = Net profit / Revenue from contracts with customers

Profit per share (EUR) = Net profit / Amount of shares

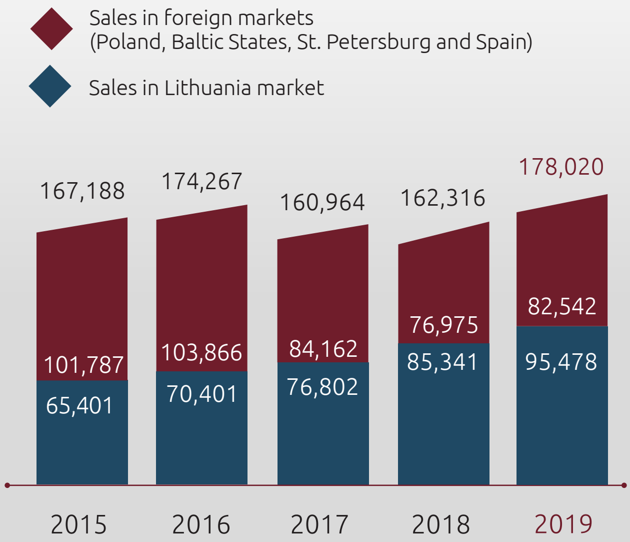
Return on equity (ROE) = Net profit / Equity * 100 %

Return on assets (ROA) =Net profit / Assets * 100%

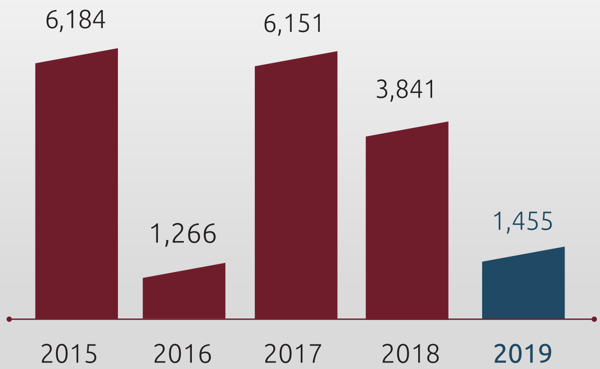
HIGHLIGHTS

AREA UNDER MANAGEMENT,
THOUSAND M²

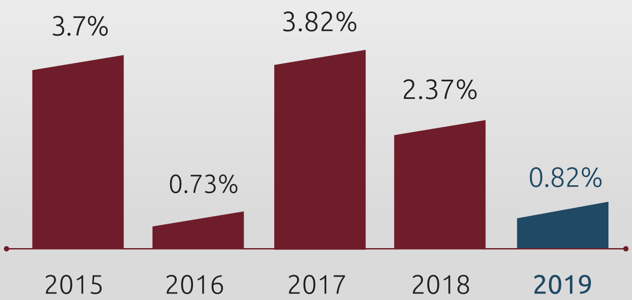
SALES,
THOUSAND EUR



NET PROFIT, THOUSAND EUR



NET PROFIT MARGIN, %



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 2019. 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 2019 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:

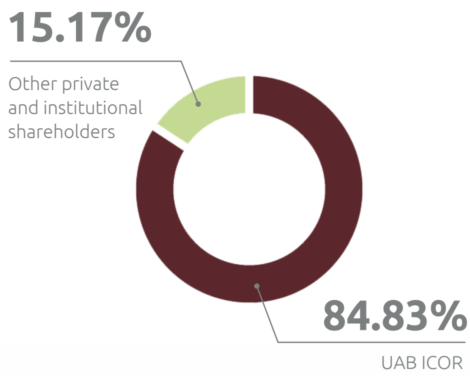
- to receive a portion of the Company's profit (dividends);
- to receive the Company's funds when the capital of the Company is reduced with a view to paying out the Company's funds to the shareholders;
- to receive shares without payment if the capital is increased from the shareholders' equity (bonus 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 2019 the total number of shareholders of the Company was 249.

Company's shares distribution among shareholders who have more than 5 % shares of the Company as of 31 December 2019 was the following:

	Number of shares held	Owned percentage of the share capital and votes, %
UAB ICOR, 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 2019.

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 2019. 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 and Management Board

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;
- to approve merger, acquisition, reorganization, separation, foundation of new legal entities or similar corporate legal actions;
- to approve acquisition of all long-term assets (including but not limited companies, real estate, cars, tools, equipment, computers, software, telephones etc.).

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;
- quarterly investment plans.

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 2019, 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	June 19, 2019	June 19, 2023
Gintautas Jaugielavičius	Member of the Supervisory Board	June 19, 2019	June 19, 2023

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

ANDRIUS JANUKONIS (born in 1971) is the Chairman of the Supervisory Board of City Service SE (since 2009 until 2015 the Chairman of the Board). He holds a Master's degree in Law. He is a member of the board of UAB ICOR (since 2004).

GINTAUTAS JAUGIELAVIČIUS (born in 1971) is a Member of the Supervisory Board of City Service SE (since 2005 until 2015 a Member of the Board). He holds a Bachelor's degree in Economics. At present, he works as a consultant for UAB ICOR and is a member of the board of UAB ICOR (since 2004).

2.9.2. COMPANY'S MANAGEMENT BOARD

Currently the Management Board of the Company comprises of four (4) members (as of December 31, 2019 comprised of 6 (six) members) who are representing and directing the Company. The members of the Management Board are elected on gender neutral basis 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 2019 and as of the date of the submission of this report, the Management Board of the Company comprises of the following persons:

Name and surname	Position within the Group	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
Vytautas Turonis	Member of the Management Board	June 26, 2017	June 26, 2021
Algė Jablonskienė	Member of the Management Board	June 26, 2017	February 12, 2020
Dalius Šimaitis	Member of the Management Board	February 1, 2019	February 1, 2023
Aivaras Šimkus	Member of the Management Board	August 1, 2019	March 25, 2020

They do not own 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 in 1979) is a Member of the Management Board of City Service SE (since 2017). Tomas Kleiva was acting CEO until new management structure of City Service SE was approved (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.

VYTAUTAS TURONIS (born in 1972) is a Member of the Management Board of City Service SE (since 2017). Vytautas Turonis works 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 matters) in Lithuania, Latvia and Estonia.

DALIUS ŠIMAITIS (born in 1977) is a Member of the Management Board of City Service SE (since 2019). Previously he worked as the maintenance department director at UAB Mano būstas (2016 - 2019). Mr. Šimaitis works in the Group since 2016. He holds a Bachelor's degree in Thermal Engineering and a Master's degree in Energy Engineering.

Dalius Šimaitis is responsible and accountable for Group activities in Poland and Spain, also for technical operations and supply chain management, standardization policy within the Group in all jurisdictions.

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 2019 by the 31st of December 2019 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, one of whom shall be independent and the other two members shall be appointed out of the non-overhead staff of the Administration of the Company or Subsidiaries of the Company. The internal auditor, a member of the Management Board of the Company or a procurator or a person performing an audit of the Company shall not be a member of the Audit Committee. At least two of the members of the Audit Committee shall be experts in accounting, finance or law. The criteria of independency and eligibility requirements to be appointed a member of the Audit Committee are determined in the Regulations of the activity of the Audit Committee.

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

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 own 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.

The Group does not have internal audit department.

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 Report, 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.

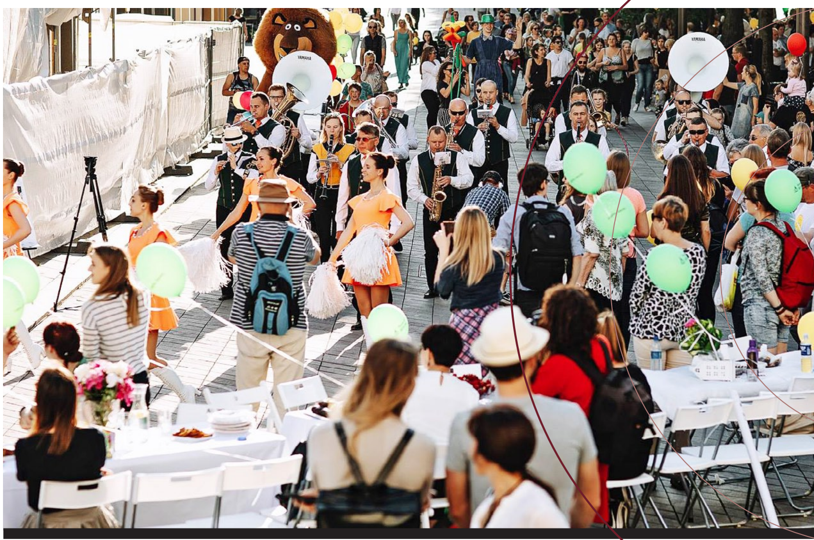
3. Social responsibility report

3.1. Overview

City Service group of companies, developing its business in Lithuania, Latvia, Poland, Spain, and St. Petersburg, every year contributes to a variety of social projects and initiatives that help improve the lives of their inhabitants, communities along with that of the employees of the company and its environment.

Although the company has leading market positions, it makes efforts to further improve the quality of its services. Therefore, we are constantly focused on developing building a personal relationship with our customers, to promote their satisfaction with the quality of our services, to ensure a better quality of the work and living environment for our customers and to communicate in a timely manner and provide comprehensive information. Customer experience evaluations ratings are widely disseminated through the Group's internal communications channels and the local media. Based on continuous analysis of customer needs, the Group develops targeted strategies and sets its performance targets.

In the field of community relations, the Group develops, supports and enhances cooperation and partnerships with communities, educational institutions, law enforcement and non-governmental organisations. The group implements initiatives that contribute to the well-being of the apartment building residents, promoting and maintaining neighborhoods, a responsible approach to shared property, developing safe



neighborhood ideas, enhancing local community relationships and creating traditions.

In the environmental field, the Group promotes the conservation of natural resources, waste sorting, contributes to projects that reduce environmental pollution, and participates in public awareness initiatives. The Group companies collaborate with green organisations and carry out projects related to waste optimisation and promotion of eco-initiatives in residential buildings.

3.2. Market

In 2019 the Group companies dedicated more attention to the ongoing strategy in interaction with the customers in order to improve the quality of service and the Group's image.

CUSTOMER RELATIONS

In 2019 the Group companies focused on developing customer attitudes and further enhanced the new Group's company's strategy streamlined two years ago, as well as the customer service standard, which helps to deliver better and higher quality services to the customers and respond accordingly to different situations.

As the entire group of companies is highly customer-oriented, new best practices and processes are developed based on the best practices of the group. In countries where the group is developing business, all customer feedback is tracked without exception, and key performance indicators are created. The Group of companies uses LEAN management processes to tailor the customer experience.

The Group continues the successful communication of the company's through media channels as well as social networks and even TV. In order to accurately identify customer needs, the Group continues to maintain and promote continuous direct contact with customers. Customer relations are supported through different channels in Lithuania, Latvia, Poland, Spain and St. Petersburg: by telephone, e-mail and newsletters, news boards, self-service portals, social networks, individual meetings, and also a special application in Lithuania and Poland.

In order to further strengthen customer relations

Market innovation – the eBŪSTAS app, allowing for easy reporting of accidents, better communication of scheduled work, direct contact with managers and, most importantly, quick and convenient payment of utility bills.

in **LITHUANIA**, in summer 2019, the brand of apartment building management company Mano BŪSTAS was unified and the company's slogan was updated – "Feel calm for my home".

Back in 2018, customers in Lithuania have adopted a market innovation – the eBŪSTAS app, allowing for easy reporting of accidents, better communication of scheduled work, direct contact with managers and, most importantly, quick and convenient payment of utility bills. The app attracted great interest in the last year.

With the launch of the new TuMieszkami brand to the customers in **POLAND** in 2018, the company's strategy in 2019 was focused on further brand development. The 24/7 call center has been further developed. A dedicated online platform has also been active.

In **SPAIN**, customers were reached through different channels: by telephone, e-mails, mail, in addition to face-to-face meetings and web portals. With social networks becoming increasingly more established in the world, this is becoming an indispensable tool for building relationships with customers.

In 2019, Group's companies operating in **ST. PETERSBURG** maintained the contact with customers using 24/7 customer service center and a self-service website.

In order to unite the employees and to provide every possibility for engagement in various self-realization activities, a staff initiative - City Service Ambassadors - was launched in Lithuania.

3.3. Relations with employees

The Group companies are constantly investing in the personal growth of their employees and encourage cooperation. Then 2019 the employees of the group suggested various solutions for efficiency improvement and applied them in practice, participated in trainings and seminars. Sharing the Group's corporate plans and strategy and engaging employees in joint discussions has become an integral part of the business.

By developing relationships with its employees, City Service aims to engage employees in the Group's business processes, promote open dialogue between different levels of management, and increase employee motivation and engagement. Much attention is paid to health and safety issues of employees. Being tolerant of age, gender, race, religion, origin and beliefs, the Group is focused on ensuring equal opportunities and rights for all employees. This is demonstrated by the wide age range of employees: their age vary from 21 to 76.

Employees can interact and share achievements and current issues in a dedicated and closed group of Facebook social networking. Once a month, employees of the Group have the possibility to read the news in the unique BŪSTINĖ electronic publication. It is also a place for sharing various achievements and hobbies of employees, not only within that also outside the workplace.

In Lithuania, all Group employees are periodically invited to the Žinių klubas (Knowledge Club) event, where presentations are made by colleagues and invited speakers. The event includes the discussions about the latest innovations in the world, books, operational efficiency processes, stories of famous people and their achievements, and the promotion of patriotism.

In Career days students enjoyed game sessions with virtual glasses with real-time views of apartment buildings.

In all countries where the Group operates, annual interviews are conducted with staff members to set goals and discuss the arising issues. In 2019, employees were interviewed and encouraged to express their views on the Company's operations, make suggestions on how to improve it.

In order to unite the employees and to provide every possibility for engagement in various self-realization activities, a staff initiative – City Service Ambassadors – was launched in Lithuania. This project is open to anyone wishing to contribute, no matter the city they work, and regardless of their position in the company: whether they are cleaning stairwells or managing a department. The Ambassadors not only organise and participate in various social initiatives, such as attending a retirement home or blood donation campaign, but also build a positive image of the Group in society.

City Service willingly collaborates with its employees not only contributing to the development of Ambassador activities. Responding to inquiries from motivated and proactive employees, the Group is always considering ways to contribute to favourite leisure activities of the employees. Last year, the Group company Mano aplinka sponsored a football team t-shirt production. One employee of the Group is a member of the football team.

In Lithuania, the City Service Group has become one of the nominees for the Top Employer 2019 competition published by CVonline.

In order to present the Group of companies and attract potential employees to it, last year City Service willingly participated in various events organised by educational institutions: career days and a career week extending to smaller regions of the country. Students and pupils were presented not only with a wide selection of job profiles, but they could also interactively familiarise with the specifics of the buildings: students enjoyed game sessions with virtual glasses with real-time views of apartment buildings.

With the utmost attention not only from the potential employees, but also of customers in 2019, the City Service company Mano BŪSTAS took part

in the release Įdarbink Mane (“Hire Me”) on the most popular TV3 channel in Lithuania. The audience had the opportunity to get the highlights of some of the Group’s employees and of the wide range of job opportunities available in the company.

Last year, on the occasion of International Housing Day, an image video was created of the technical staff working in the Group and their challenging daily routine. Not only did this justify the new promise of the Mano BŪSTAS brand – “Peace of mind about the home” – but also showed respect for the technical staff of the Group companies.

TRAINING AND SEMINARS

Various training courses and seminars have been organised in Lithuania in 2019 on time, stress management, effective communication; the Group continued language lessons and a special LEAN training program, followed by handing of a certificate. It also held special training for employees of different departments.

Once a month the company organises a Newbie’s Day. During the one-day training, new employees are introduced to the Group’s vision, mission, values, activities and the LEAN methodology. They get special knowledge of information systems, procurement and employee safety; a team game is played in accordance with the group values.

The course of the LEAN training program in Lithuania includes: Introduction to LEAN, LEAN 5S, Daily Performance Management, 5 Why and the Benefits of Standardization, Problem Solving Tools, Value Flow Map and BPMN (Process Plotting) attended by 797 employees, and as many as 30 participants have successfully completed the entire training course and received LEAN training diplomas.

It is estimated that over 800 employees took part in personnel training during the year, about 230 attended occupational safety training, 68 – energy and engineering training, and over 160 – external organiser training.

Also in 2019, the traditional LEAN Projects Day took place in Lithuania with the aim of sharing good practices, communicating changes and enjoying the results of projects or small-scale improvements with all employees. The LEAN Projects Day is an open event for all employees of the Group companies and those who are not able to watch the event on-site, can do this either via the CISCO facility or via a live Facebook broadcast.

The Newbie’s Day and intensive training in all cities where the Group is active was organised in Poland.

230

Employees in Lithuania attended occupational safety training.

68

Employees in Lithuania attended energy and engineering training

Nearly 200 festively wrapped cakes were distributed for single old people, most of them – personally by the company's employees.

3.4. Social initiatives for communities

Just like in 2018, one of the most important and largest social projects last year in Lithuania was the *Neighbours Speak* initiative. These are online news portals and Facebook pages aimed at audiences in five major cities of Lithuania, with 70% of the news of the relevant city and 30% of the news from the Group companies. Over six years, this project has grown and today enjoys nearly 100,000 followers on Facebook.

Last year, the Neighbours Speak news in the cities and the company news had 823,258 unique users, meaning the annual growth of 3.81%. 102,505 site visits were generated, i.e. 51.42% more than in 2018. As a result of this project, as many as 2,242,336 people viewed the City Service Group news in **LITHUANIA**.

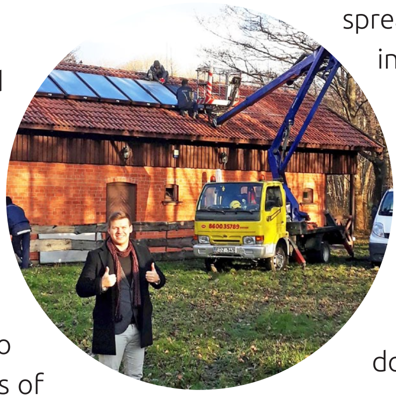
The overall engagement rate for Neighbours Speak in 2019 increased to 6.04 percent, showing 7.54 percent growth. These results indicate very good prospects for the future as the Lithuanian market average is 2-2.20 percent, therefore, the Neighbours Speak maintained a higher average engagement rate than the whole of Lithuania throughout the year.

As in the past few years, City Service has continued its successful partnership with Ataka football club. Thanks to the sponsorship of the company, the club again had the possibility to continue its football training for children from disadvantaged families.

In 2019, various events were organised for local communities at the initiative of the Group's companies in various cities of Lithuania: Christmas trees were donated and Christmas tree candle ceremonies were celebrated in different cities; the company also celebrated Mardi Gras.

In summer, the Group's company mobile application PortalPRO was created in **LITHUANIA**. This innovation was presented to the public at the largest free summer festival: The Freedom Picnic. Festival of Ideas. It was the opportunity for the visitors to the event to get to know and have hands-on experience in the role of technician, and to sign up and join the new PortalPRO team.

One of the major initiatives was the Christmas campaign, when company executives, in collaboration with Lithuania's largest non-profit Order of Malta organisation, participated in a culinary session where they baked cakes for single old people living in the houses administered by Mano BŪSTAS.



Nearly 200 festively wrapped cakes were distributed throughout Lithuania, most of them – personally by the company's employees.

At the end of the year, City Service drew attention to two of the most vulnerable groups of the society - single senior people and children in challenging conditions. On the occasion of the holiday season, it was decided to contribute to the sponsorship of the SOS Children's Village organisation and to install solar panels at their resort site in Karkle.

The group's company in **POLAND** last spring launched highly admired initiative not only by the staff but also by office visitors: in order to protect the bees, several beehives have been erected on the roof of the company's branch office in Warsaw, and honey is still savoured by employees.

Also, at the initiative of the local regional management of the City Service division in this country, the company supported a poor family with one of whose members being seriously ill. Some workers in Poland took part in charity runs and marathons, spreading the company's message by wearing a logo t-shirt.

Last year, the City Service branch in **SPAIN** installed donation boxes in the buildings it administers, and residents willingly donated to it. The funds raised, along with the company's own contribution, were donated to the abandoned animal shelters in the country.

In 2019, employees of **ST. PETERSBURG** branch of City Service Group organised special greetings for World War II veterans. Last year, the country also focused on a celebration for children and setting up a functioning children's play area in the office.

The group's company in Poland last spring launched highly admired initiative not only by the staff but also by office visitors: in order to protect the bees, several beehives have been erected on the roof of the company's branch office in Warsaw.

3.5. Environmental issues/Energy saving

In Lithuania and Poland, the aim is to refuse the use of plastic bottles in offices, therefore, water during the meetings is provided in special containers (water jugs, glass bottles).

In **POLAND**, in accordance with the laws, the company sorts waste and rents special containers for waste, litter and debris generated during repairs. Last year, they also launched the Green Office initiative: The office started using eco-friendly detergents, recycled paper and other environmentally friendly products purchased from local responsible manufacturers.

Employees and customers were informed about the new waste sorting rules and special posters and waste labels were prepared to facilitate sorting.

Waste sorting is promoted not only in Poland, but also in **LITHUANIA, LATVIA, SPAIN** and **ST. PETERSBURG**, and special battery disposal sites are installed in corporate offices and in the managed buildings. In order to reduce paper costs, many documents are moved to special systems and residents can access their bills electronically, encouraging them to opt out of paper bills.

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position

	Notes	As of 31 December 2019	As of 31 December 2018
ASSETS			
Non-current assets			
Goodwill	4	10,684	10,966
Other intangible assets	5	31,122	32,635
Property, plant and equipment	6	12,685	19,002
Right of use assets	17	10,320	-
Investment property	7	-	69
Investment into associate	1	182	170
Non-current receivables	11, 13	8,667	7,035
Deferred income tax asset	26	4,250	3,251
Total non-current assets		**77,910**	**73,128**
Current assets			
Inventories	9	1,811	2,074
Prepayments	10	1,794	2,879
Trade receivables	12	36,471	32,774
Receivables from related parties (including loans granted)	31	362	234
Other receivables	13	2,714	2,898
Prepaid income tax		960	496
Contract assets	2.18	4,398	2,563
Cash and cash equivalents	13	3,792	5,302
Total current assets		**52,302**	**49,220**
Total assets		**130,212**	**122,348**

(cont'd on the next page)

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2020 MS

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position (cont'd)

	Notes	As of 31 December 2019	As of 31 December 2018
EQUITY AND LIABILITIES			
Equity			
Share capital	1	9,483	9,483
Share premium	14	21,067	21,067
Reserves	14, 2.2	(1,753)	(1,988)
Retained earnings		21,721	20,287
Equity attributable to equity holders of the parent		**50,518**	**48,849**
Non-controlling interests	8	448	404
Total equity		**50,966**	**49,253**
Liabilities			
Non-current liabilities			
Non-current borrowings	15	18,523	17,398
Lease liabilities	17	7,857	3,047
Deferred income tax liability	26	3,259	3,608
Provisions for employee benefits	18	355	240
Provisions	16	1,748	1,864
Total non-current liabilities		**31,742**	**26,157**
Current liabilities			
Current loans	15	3,628	10,433
Current portion of non-current borrowings	15	2,717	2,712
Current portion of lease liabilities	17	3,522	1,178
Trade payables and payables to related parties	19, 31	16,207	16,159
Contract liabilities	20	7,426	6,001
Income tax payable	26	513	262
Provisions for employee benefits	18	72	193
Other current liabilities	21	13,419	10,000
Total current liabilities		**47,504**	**46,938**
Total liabilities		**79,246**	**73,095**
Total equity and liabilities		**130,212**	**122,348**

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2020 MS

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of comprehensive income

	Notes	2019	2018
Revenue from contracts with customers	3	178,020	162,316
Cost of sales	22	(133,115)	(120,997)
Gross profit		**44,905**	**41,319**
General and administrative expenses	23	(39,909)	(35,122)
Credit loss expenses on financial assets	11, 12	(1,785)	(483)
Other operating income	24	1,957	1,347
Other operating expenses	24	(1,608)	(1,624)
Profit from operations		**3,560**	**5,437**
Interest income		200	194
Other finance income	25	146	72
Interest expenses		(994)	(565)
Loss on sale of investments	1	(457)	(80)
Other finance expenses	25	-	(488)
Share of profit (loss) of associates	1	12	8
Profit before tax		**2,467**	**4,578**
Income tax	26	(1,012)	(737)
Net profit		**1,455**	**3,841**
Other comprehensive income that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		261	(440)
Total other comprehensive income for the year		**261**	**(440)**
Total comprehensive income for the year, net of tax		**1,716**	**3,401**
Net profit attributable to:			
The shareholders of the Company		1,434	3,791
Non-controlling interests		21	50
		1,455	**3,841**
Total comprehensive income attributable to:			
The shareholders of the Company		1,695	3,351
Non-controlling interests		21	50
		1,716	**3,401**
Basic and diluted earnings per share (EUR)	27	0.05	0.12

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2020 MS

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of changes in equity

		Attributable to equity holders of the parent							
Group	**Notes**	**Share capital**	**Share premium**	**Foreign currency translation reserve**	**Other reserves**	**Retained earnings**	**Subtotal**	**Non-controlling interest**	**Total**
Balance as of 1 January 2018		**9,483**	**21,067**	**(2,499)**	**2,689**	**24,554**	**55,294**	**354**	**55,648**
Net profit for the year		-	-	-	-	3,791	3,791	50	3,841
Other comprehensive income		-	-	(440)	-	-	(440)	-	(440)
Total comprehensive income		-	-	(440)	-	3,791	3,351	50	3,401
Dividends declared	28	-	-	-	-	(9,799)	(9,799)	-	(9,799)
Transfer of other reserves		-	-	-	(1,741)	1,741	-	-	-
Disposal of subsidiaries		-	-	3	-	-	3	-	3
Balance as of 31 December 2018		**9,483**	**21,067**	**(2,936)**	**948**	**20,287**	**48,849**	**404**	**49,253**
Net profit for the year		-	-	-	-	1,434	1,434	21	1,455
Other comprehensive income		-	-	235	-	-	235	26	261
Total comprehensive income		-	-	235	-	1,434	1,669	47	1,716
Dividends declared	28	-	-	-	-	-	-	(3)	(3)
Balance as of 31 December 2019		**9,483**	**21,067**	**(2,701)**	**948**	**21,721**	**50,518**	**448**	**50,966**

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

FOR IDENTIFICATION PURPOSES ONLY
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(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of cash flows

	Notes	2019	2018
Cash flows from (to) operating activities			
Net profit		1,455	3,841
Adjusting items:			
Income tax expenses	26	1,012	737
Depreciation and amortisation	5, 6, 7, 17	9,002	4,991
Impairment and write-off of inventory, prepayments and accounts receivable		1,747	462
(Gain) on disposal of property, plant and equipment	24	(593)	(20)
Loss from sale of investments	1	457	80
Impairment of goodwill, other intangible assets and right-of-use asset	4, 5, 17	1,462	623
Interest (income)	25	(200)	(194)
Interest expenses	25	994	565
Changes in provisions	16, 18, 30	(159)	(420)
Other financial activity result, net		(200)	416
Share of net loss of associate		(12)	(8)
		14,965	11,073
Changes in working capital:			
Decrease (increase) in inventories		365	(393)
(Increase) in trade receivables, receivables from related parties, contract assets, non-current receivables, other receivables and other current assets		(8,032)	(4,487)
Decrease (increase) in prepayments		1,043	(1,434)
(Decrease) increase in trade payables and payables to related parties		(790)	1,908
Income tax (paid)		(2,453)	(2,391)
Increase (decrease) in advances received, contract liabilities and other current liabilities		4,862	1,359
Net cash flows from operating activities		**9,960**	**5,635**

(cont'd on the next page)

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2020 MS

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of cash flows (cont‘d)

	Notes	2019	2018
Cash flows from (to) investing activities			
(Acquisition) of non-current assets	5, 6, 7, 17	(2,784)	(5,524)
Proceeds from sale of non-current assets		1,578	418
(Acquisition) of investments in subsidiaries and associates (net of cash acquired in the Group)	1, 4	(106)	(3,498)
Disposal of investments in subsidiaries net of cash disposed	1	122	(3)
Interest received		145	142
Loans (granted)		(114)	-
Loans repaid		263	-
Net cash flows (to) investing activities		**(896)**	**(8,465)**
Cash flows from (to) financing activities			
Dividends (paid)		(3)	(9,799)
Proceeds from loans	15	3,750	34,137
Loans (repaid)	15	(9,507)	(22,025)
Lease (payments)	15	(3,994)	(1,289)
Interest (paid)		(863)	(437)
Net cash flows (to) financing activities		**(10,617)**	**587**
Net (decrease) increase in cash and cash equivalents		**(1,553)**	**(2,243)**
Foreign exchange difference		**43**	**(252)**
Cash and cash equivalents at the beginning of the year		**5,302**	**7,797**
Cash and cash equivalents at the end of the year		**3,792**	**5,302**
Supplemental information of cash flows:			
Non-cash investing activity:			
Property, plant and equipment acquisitions financed by leases		2,400	1,659
Right of use assets recognized on adoption of IFRS 16 (Note 17)		12,673	-

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2020 MS

(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 2019 the number of employees of the Group was 4,080 (as of 31 December 2018 – 4,305).

As of 31 December 2019 and 2018 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 2019 and 2018 the shareholders of the Company were:

	2019		**2018**	
	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 authorized capital of the Company, to a bank. The right to transfer, pledge or dispose of the abovementioned shares otherwise has been restricted. All other property and non-property rights of UAB ICOR, as the shareholder, are free from any encumbrances or restrictions.

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

The share capital of the Company is EUR 9,483 thousand as of 31 December 2019 and 2018. 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 2019 and 2018.

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(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Structure of the Group

On 31 December 2019 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 2019	Share of the stock held by the Group as of 31 December 2018	Main activities
UAB Acta iuventus	Lithuania	100%	100%	Security services
UAB Alytaus namų valda	Lithuania	76%	76%	Dormant
UAB Algos saugos tarnyba	Lithuania	100%	100%	Security services
UAB Antakalnio būstas	Lithuania	-	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%	Holding company
UAB Biržų butų ūkis	Lithuania	57.71%	57.71%	Administration of dwelling-houses
UAB Būsto aplinka	Lithuania	100%	100%	Maintenance and cleaning of dwelling-houses territories and premises
UAB Būsto mokėjimai	Lithuania	100%	100%	Dormant
UAB Citenga	Lithuania	100%	100%	Holding company
UAB City Service	Lithuania	100%	100%	Holding company
UAB City Service Cleaning	Lithuania	100%	-	Maintenance and cleaning of commercial real estate, territories and premises
UAB City Service Engineering	Lithuania	100%	100%	Commercial real estate management and building maintenance
UAB City Service Digital	Lithuania	100%	100%	IT services
UAB CSG IT	Lithuania	100%	100%	IT services
UAB Danės būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Economus	Lithuania	100%	100%	Administration of buildings
UAB Energijos taupymo paslaugos	Lithuania	100%	100%	Energy saving solution services
UAB Energinio efektyvumo paslaugos	Lithuania	100%	100%	Dormant
UAB EPC projektai	Lithuania	100%	-	Dormant
UAB Neries būstas	Lithuania	100%	100%	Dormant
UAB Justiniškių būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Karoliniškių turgus	Lithuania	100%	100%	Marketplace administration services
UAB Kauno centro būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Konarskio turgelis	Lithuania	100%	100%	Marketplace administration services
UAB Lazdynų butų ūkis	Lithuania	-	100%	Administration of dwelling-houses
UAB Mano aplinka	Lithuania	100%	-	Maintenance and cleaning of public territories and premises
UAB Mano aplinka plius	Lithuania	100%	100%	Maintenance and cleaning of territories and premises
UAB Mano Būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Alytus	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Baltija	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Dainava	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Neris	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas NPC	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Kaunas	Lithuania	100%	-	Administration of dwelling-houses
UAB Mano Būstas Klaipėda	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Aukštaitija	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Radviliškis	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Sostinė	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Šiauliai	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būstas Vakarai	Lithuania	99.84%	99.84%	Administration of dwelling-houses
UAB Mano Būstas Vilnius	Lithuania	100%	100%	Administration of dwelling-houses
UAB Mano Būsto Sauga	Lithuania	100%	100%	Security services
UAB Mano Būsto priežiūra	Lithuania	100%	100%	Building maintenance
UAB Mano sauga LT	Lithuania	100%	100%	Security services
UAB Medžiagų tiekimo centras	Lithuania	100%	100%	Supply of materials
UAB Merlangas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Nacionalinis renovacijos fondas	Lithuania	100%	100%	Dormant
UAB Naujosios Vilnios turgavietė	Lithuania	100%	100%	Marketplace administration services
UAB Nemuno būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Pastatų priežiūra	Lithuania	100%	100%	Building maintenance
UAB Pastatų priežiūros paslaugos	Lithuania	-	100%	Dormant
UAB Pastatų valdymas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Pašilaičių būstas	Lithuania	-	100%	Administration of dwelling-houses

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UAB Pietinis būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Pietų projektai	Lithuania	100%	100%	Dormant
UAB PortalPRO	Lithuania	100%	-	Supply chain management
UAB Rinkų vystymas	Lithuania	100%	100%	Dormant
UAB Saugos projektų valdymas*	Lithuania	100%	100%	Security services
UAB Skolos LT	Lithuania	100%	100%	Debt collection services
UAB Šilalės būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Šiaulių NT valdymas	Lithuania	100%	100%	Dormant
UAB Tauragės būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Toirenta	Lithuania	-	100%	Rental of bio toilets and sewage disposal services
UAB Unitechna	Lithuania	100%	100%	Maintenance and construction of gas stations
UAB Vaizdo stebėjimo sprendimai	Lithuania	100%	100%	Dormant
UAB Vėtrungės būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Vilkpėdės būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Vilniaus turgus	Lithuania	100%	100%	Dormant
UAB Viršuliškių būstas	Lithuania	-	100%	Administration of dwelling-houses
UAB Voverės	Lithuania	-	100%	Catering services
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
Aresi administracion de fincas S. L.	Spain	100%	100%	Administration of dwelling-houses
Aresi Euroinmo, S.L.	Spain	100%	100%	Dormant
Aresi Gestion residencial, S.L.	Spain	100%	100%	Administration of dwelling-houses
Concentra Servicios y Mantenimiento, S.A.**	Spain	100%	100%	Commercial real estate management and building maintenance
Elche administracion de fincas, S.L.U.	Spain	100%	100%	Administration of dwelling-houses
Eurobroker Advisors Sorreduria de Seguros, S.L.	Spain	100%	100%	Insurance services
Euronamas Gestion de Fincas Levante, S.L.U.	Spain	100%	-	Dormant
Euronamas Gestion de Fincas Sur, S.L.	Spain	100%	100%	Administration of dwelling-houses
Euronamas Gestion de Fincas Meseta Central, S.L.U.	Spain	100%	-	Dormant
Euronamas Gestion de Fincas Centro, S.L.	Spain	100%	100%	Administration of dwelling-houses
Euronamas gestion de fincas Madrid, S.L.	Spain	100%	100%	Administration of dwelling-houses
Grupo Aresi de Inversiones, S.L.	Spain	100%	100%	Holding company
Interlift Mantenimiento y Ascensores, S.L.	Spain	100%	100%	Dormant
Portalpro Gestion Integral S.L.	Spain	100%	100%	Supply chain management
Vetell dos iberica, S.L.**	Spain	100%	100%	Administration of dwelling-houses
SIA Connecto Pay	Latvia	100%	100%	Dormant
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%	100%	Building maintenance
SIA Laba Enerģija	Latvia	100%	100%	Dormant
SIA Latvijas Namsaimnieks	Latvia	100%	100%	Administration of dwelling-houses
SIA Namu serviss APSE	Latvia	100%	100%	Administration of dwelling-houses
SIA Ventspils nami	Latvia	100%	-	Administration of dwelling-houses
Atrium 21 sp. z o.o.	Poland	100%	100%	Administration of dwelling-houses
City Service Polska sp. z o.o.	Poland	100%	100%	Country holding company
Certus-Serwis Sp. z o. o.	Poland	100%	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
Grupa Techniczna 24 sp. z o.o.	Poland	100%	100%	Building maintenance
Home Rent sp. z o.o.	Poland	50%	50%	Administration of dwelling-houses
Parama Blue sp. z o.o.	Poland	100%	100%	Dormant

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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%	Administration of dwelling-houses
TED sp. z o.o.	Poland	100%	100%	Real estate management
Tumieszkamy sp. z o. o.	Poland	100%	100%	Dormant
Wolska Aparthotel sp. z o. o.	Poland	100%	100%	Accommodation services
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
ООО 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%	100%	Dormant

The Group's investment in an associate as of 31 December 2019 and 31 December 2018 included an investment in Marijampolės butų ūkis UAB (34% of the share capital).
* The Group ceased to consolidate UAB Saugos projektų valdymas in its financial statements after bankruptcy administrator was appointed on 24 July 2017, as from that date the Group has lost its control.
** 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 2.20).

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1 General information (cont‘d)

Changes in the Group in 2019

On 21 January 2019 the Group, through its Latvian subsidiary, acquired 100% stake in SIA Ventspils nami (acquisition price EUR 120 thousand) which manages residential facilities in Ventspils (acquisitions in more details are disclosed in Note 4).

In 2019 there were several reorganizations (changes in the legal structure of the Group) performed as outlined below:

- On 29 May 2019 reorganization of UAB Namų priežiūros centras was finished. Method of reorganization was separation. After separation of property, rights and responsibilities a new company UAB Šilainių būstas was established. After reorganization UAB Namų priežiūros centras management and other contact details did not change.
- On 27 June 2019 reorganization of the companies UAB Pietinis būstas and UAB Šiaulių būstas was completed. After the process of reorganization UAB Pietinis būstas was incorporated into UAB Šiaulių būstas with all the assets, rights and obligations. UAB Pietinis būstas ceased operations and was deregistered. After reorganization UAB Šiaulių būstas title was changed into UAB Mano Būstas Šiauliai, management and other contact details did not change.
- On 27 June 2019 reorganization of the companies UAB Vilkpėdės būstas and UAB Naujamiesčio būstas was completed. After the process of reorganization UAB Vilkpėdės būstas was incorporated into UAB Naujamiesčio būstas with all the assets, rights and obligations. UAB Vilkpėdės būstas ceased operations and was deregistered. After reorganization UAB Naujamiesčio būstas title was changed into UAB Mano Būstas Vilnius, management and other contact details did not change.
- On 28 June 2019 reorganization of the companies UAB Lazdynų butų ūkis, UAB Justiniškių būstas, UAB Viršuliškių būstas, UAB Pašilaičių būstas and UAB Karoliniškių būstas was completed. After the process of reorganization UAB Lazdynų butų ūkis, UAB Justiniškių būstas, UAB Viršuliškių būstas and UAB Pašilaičių būstas were incorporated into UAB Karoliniškių būstas with all the assets, rights and obligations. UAB Lazdynų butų ūkis, UAB Justiniškių būstas, UAB Viršuliškių būstas and UAB Pašilaičių būstas ceased operations and were deregistered. After reorganization UAB Karoliniškių būstas title was changed into UAB Mano Būstas Sostinė, management and other contact details did not change.
- On 28 June 2019 reorganization of the companies UAB Danės būstas, UAB Vėtrungės būstas and UAB Jūros būstas was completed. After the process of reorganization UAB Danės būstas and UAB Vėtrungės būstas were incorporated into UAB Jūros būstas with all the assets, rights and obligations. UAB Danės būstas and UAB Vėtrungės būstas ceased operations and were deregistered. After reorganization UAB Jūros būstas title was changed into UAB Mano Būstas Baltija, management and other contact details did not change.
- On 28 June 2019 reorganization of the companies UAB Nemuno būstas and UAB Dainavos būstas was completed. After the process of reorganization UAB Nemuno būstas was incorporated into UAB Dainavos būstas with all the assets, rights and obligations. UAB Nemuno būstas ceased operations and was deregistered. After reorganization UAB Dainavos būstas title was changed into UAB Mano Būstas Dainava, management and other contact details did not change.
- On 28 June 2019 reorganization of the companies UAB Antakalnio būstas and UAB Žirmūnų būstas was completed. After the process of reorganization UAB Antakalnio būstas was incorporated into UAB Žirmūnų būstas with all the assets, rights and obligations. UAB Antakalnio būstas ceased operations and was deregistered. After reorganization UAB Žirmūnų būstas title was changed into UAB Mano Būstas Neris, management and other contact details did not change.
- On 18 July 2019 reorganization of UAB Mano Būsto priežiūra was finished. Method of reorganization was separation. After separation of property, rights and responsibilities a new company UAB EPC projektai was established. After reorganization UAB Mano Būsto priežiūra management and other contact details did not change.
- On 19 July 2019 reorganization of the companies UAB Kauno centro būstas and UAB Šilainių būstas was completed. After the process of reorganization UAB Kauno centro būstas was incorporated into UAB Šilainių būstas with all the assets, rights and obligations. UAB Kauno centro būstas ceased operations and was deregistered. After reorganization UAB Šilainių būstas title was changed into UAB Mano Būstas Kaunas, management and other contact details did not change.
- On 14 August 2019 reorganization of UAB Mano aplinka was finished. Method of reorganization was separation. After separation of property, rights and responsibilities two new companies UAB City Service Cleaning and UAB Mano aplinka were established. After reorganization UAB Mano aplinka title was changed into UAB Būsto aplinka, management and other contact details did not change.
- On 31 October 2019 reorganization of the companies UAB Šilutės būstas, UAB Tauragės būstas and UAB Šilalės būstas was completed. After the process of reorganization UAB Tauragės būstas and UAB Šilalės būstas were incorporated into UAB Šilutės būstas with all the assets, rights and obligations. UAB Tauragės būstas and UAB Šilalės būstas ceased operations and were deregistered. After reorganization UAB Šilutės būstas title was changed into UAB Mano Būstas Vakarai, management and other contact details did not change.

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1 General information (cont'd)

In 2019 the Group established several subsidiaries:

- On 5 February 2019 the Group, through its Spanish subsidiary, established a new company Euronamas Gestion de Fincas Meseta Central, S.L.U. (share capital EUR 3 thousand).
- On 5 February 2019 the the Group, through its Spanish subsidiary, established a new company Euronamas Gestion de Fincas Levante, S.L.U. (share capital EUR 3 thousand).
- On 6 May 2019 the Group, through its Lithuanian subsidiary, established a new company UAB PortalPRO (share capital EUR 2.5 thousand).

Group company UAB Toirenta was sold on 17 June 2019 and after that date ceased to consolidate in these financial statements. Total value of the shares sale – purchase agreement is EUR 139 thousand. Information about the disposed subsidiary is summarised below:

Date of disposal	**UAB Toirenta 17 June, 2019**
Goodwill	135
Non-current assets other than goodwill	291
Current assets other than cash and cash equivalents	84
Cash and cash equivalents	10
Non-current and current liabilities	(275)
Total net assets disposed of	
attributable to equity holders of the parent	245
attributable to non-controlling interests	-
Total consideration received, all consisting of cash and cash equivalents	139

The Group recorded the net (loss) of EUR 106 thousand from the sale of shares of the subsidiary.

Group company UAB Pastatų priežiūros paslaugos was sold on 16 September 2019 and after that date ceased to consolidate in these financial statements. Total value of the shares sale – purchase agreement is EUR 2.5 thousand. Information about the disposed subsidiary is summarised below:

Date of disposal	**UAB Pastatų priežiūros paslaugos 16 September, 2019**
Cash and cash equivalents	3
Non-current and current liabilities	(3)
Total net assets disposed of	
attributable to equity holders of the parent	-
attributable to non-controlling interests	-
Total consideration received, all consisting of cash and cash equivalents	3

The Group recorded net profit of EUR 3 thousand from the sale of shares of the subsidiary.

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1 General information (cont'd)

Group company UAB Voverės was sold on 8 November 2019 and after that date ceased to consolidate in these financial statements. Total value of the shares sale – purchase agreement is EUR 1. Information about the disposed subsidiary is summarised below:

Date of disposal	UAB Voverės 8 November, 2019
Non-current assets other than goodwill	510
Current assets other than cash and cash equivalents	217
Cash and cash equivalents	7
Non-current and current liabilities	(456)
Total net assets disposed of	
attributable to equity holders of the parent	278
attributable to non-controlling interests	-
Total consideration received, all consisting of cash and cash equivalents	-

The Group recorded the net (loss) of EUR 354 thousand from the sale of shares of the subsidiary which also reflects impairment loss for amount of EUR 76 thousand from the Group's receivables from disposed subsidiaries at the date of disposal.

Changes in the Group in 2018

In 2018 the Group acquired several subsidiaries (acquisitions in more details are disclosed in Note 4):

- On 18 January 2018 the Group, through its Lithuanian subsidiary, acquired 100% stake in UAB Acta iuventus (acquisition price EUR 289 thousand) which provides security services.
- On 5 July 2018 the Group, through its Lithuanian subsidiary, acquired 100% stake in UAB Merlangas (acquisition price EUR 257 thousand) which manages residential facilities in Panevėžys.
- On 5 July 2018 the Group, through its Lithuanian subsidiary, acquired 100% stake in UAB Pastatų valdymas (acquisition price EUR 340 thousand) which manages residential facilities in Panevėžys.
- On 25 July 2018 the Group, through its Lithuanian subsidiary, acquired 100% stake in UAB Voverės (acquisition price EUR 571 thousand) which provides catering services.
- On 9 August 2018 City Service SE, through its Lithuanian subsidiary, acquired 100% stake in UAB Unitechna (acquisition price EUR 2,035 thousand). UAB Unitechna provides gas station construction, equipment trading and technical maintenance services for the main gas stations operating in Lithuania.
- On 15 November 2018 City Service SE, through its Lithuanian subsidiary UAB Vaizdo stebėjimo sprendimai, acquired 100% stake in UAB ALGOS saugos tarnyba (acquisition price EUR 450 thousand). UAB ALGOS saugos tarnyba provides security services.

In 2018 there were several reorganizations (changes in the legal structure of the Group) performed as outlined below:

- 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 27 July 2018 OAO Специализи-рованное ремонтно-наладочное управление legal form was reorganized into OOO Специализи-рованное ремонтно-наладочное управление.
- On 1 August 2018 reorganization of Zespół Zarządców Nieruchomości sp. z o.o. was completed. Method of reorganization was separation. After separation of property, rights and responsibilities was established a new company Wolska Aparthotel sp. z o.o. After reorganization Zespół Zarządców Nieruchomości sp. z o.o. management and other contact details did not change.

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1 General information (cont'd)

In 2018 the Group established several subsidiaries:

- In 2018 the Group, through its Lithuanian subsidiaries, established new companies UAB Citenga, UAB Šiaulių NT valdymas, UAB Energijos taupymo paslaugos, UAB Energinio efektyvumo paslaugos, UAB City Service, UAB CSG IT, UAB Būsto aplinka (changed its legal name to UAB Connecto Pay), UAB City Service Cleaning, UAB Mano Būsto valdymas, UAB Būsto mokėjimai (share capital EUR 2.5 thousand);
- In 2018 the Group, through its Polish subsidiary, established new company Tumieszkamy sp. z o. o. (the share capital EUR 1.2 thousand);
- In 2018 the Group, through its Latvian subsidiary, established a new company SIA Connecto Pay (share capital EUR 2.8 thousand);
- In 2018 the Group, through its Spanish subsidiary, established a new company Portalpro Gestion Integral S.L. (share capital EUR 3 thousand).

Group company Gerente - Serwis Nieruchomości sp. z o.o. was sold on 31 July 2018 and after that date ceased to consolidate in these financial statements. Total value of the shares sale – purchase agreement is PLN 80 thousand (EUR 19 thousand). Information about the disposed subsidiary is summarised below:

Date of disposal	**Gerente – Serwis Nieruchomości sp. z o.o. 31 July, 2018**
Goodwill	35
Current assets other than cash and cash equivalents	132
Cash and cash equivalents	31
Non-current and current liabilities	(77)
Total net assets disposed of	
attributable to equity holders of the parent	121
attributable to non-controlling interests	-
Currency translation reserve realised on sale	(2)
Total consideration received, all consisting of cash and cash equivalents	19

The Group recorded the net loss of EUR 104 thousand from the sale of shares of the subsidiary.

Group company Hoone – Usługi Budowlane sp. z o.o. was sold on 31 July 2018 and after that date ceased to consolidate in these financial statements. Total value of the shares sale – purchase agreement is PLN 40 thousand (EUR 9 thousand). Information about the disposed subsidiary is summarised below:

Date of disposal	**Hoone – Usługi Budowlane sp. z o.o. 31 July, 2018**
Goodwill	-
Non-current assets other than goodwill	1
Current assets other than cash and cash equivalents	122
Cash and cash equivalents	-
Non-current and current liabilities	(139)
Total net assets disposed of	
attributable to equity holders of the parent	(16)
attributable to non-controlling interests	-
Currency translation reserve realised on sale	(1)
Total consideration received, all consisting of cash and cash equivalents	9

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(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

The Group recorded the net profit of EUR 24 thousand from the sale of shares of the subsidiary.

Investment into associates

The Group's investments in associates as of 31 December 2019 and 2018 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 associate's results attributable to the Group amounting to respectively EUR 12 thousand and EUR 8 thousand in the statement of comprehensive income for the year ended 31 December 2019 and 2018. In 2019 and 2018 the Group had not received any dividends from the associate.

Summarised financial information of the associate as of 31 December (unaudited):

	UAB Marijampolės butų ūkis 2019	**UAB Marijampolės butų ūkis 2018**
Non-current assets	79	68
Current assets	586	548
Non-current liabilities	(10)	(3)
Current liabilities	(530)	(527)
Net assets	125	86
Revenue	1,130	1,129
Net profit (loss)	35	23
Group's carrying amount of the investment	**182**	**170**

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2 Accounting policies

2.1. Basis of preparation

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

The consolidated financial statements have been prepared on a historical cost basis.

The Company's management authorised these financial statements on 30 April 2020. 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.

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 2019:

IFRS 16: Leases

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 have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group applied IFRS 16 using modified retrospective approach, with an initial application date of 1 January 2019. The Company applies practical expedient for leases for which the underlying asset is of low value (assets with a value of EUR 5,000 or less when new). Adoption of the standard had impact on the Group's financial statements which is described in Note 2.14.

IFRS 9: Prepayment features with negative compensation (Amendment)

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 amortized cost or at fair value through other comprehensive income. The implementation of this amendment had no impact on the financial statements of the Group as the Group has no such prepayments.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

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. Management has assessed that implementation of the amendment had no impact on the financial statements of the Group.

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

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. Management has assessed that implementation of the interpretation had no impact on the financial statements of the Group.

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2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

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. Management has assessed that implementation of amendment had no impact on the financial statements of the Group.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. Management has adopted improvements and they had no impact.

- **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 recognized according to where the past transactions or events that generated distributable profits has been recognized.
- **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.

Standards issued but not yet effective

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

Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. 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 have not yet been endorsed by the EU. The Group management has preliminary assessed the possible application of the amendment and concluded that it would have no effect for consolidated financial statements.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These

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2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Amendments have not yet been endorsed by the EU. The amendment will be relevant to the Group, if the Group has such business combination transactions in the future.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The Group management has preliminary assessed the possible application of the amendment and concluded that it would have no effect for consolidated financial statements.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Group management has preliminary assessed the possible application of the amendment and concluded that it would have no effect for consolidated financial statements.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The Group management has preliminary assessed the possible application of the amendment and concluded that it would have no effect for consolidated financial statements.

The Group will adopt the above described new accounting pronouncement once they become effective, 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.

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2 Accounting policies (cont'd)

2.2. Measurement and presentation currency (cont'd)

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

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

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

Non-current receivables from or loans granted to foreign subsidiaries that are neither planned nor likely to be settled in the future are considered to be a part of the Company's net investment in the foreign operation. In the Group's consolidated financial statements the exchange differences 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 (bankruptcies, 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.

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2 Accounting policies (cont'd)

2.3. Principles of consolidation (cont'd)

Business combinations

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 IFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

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

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

2.4. Investments in subsidiaries and associates (the Company)

Investments in subsidiaries and associates in the Company's separate financial statements (Note 34) 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 are measured the higher of 1) expected credit loss under IFRS 9 and 2) the amount initially recognised (i.e. fair value) less any cumulative amount of income/amortisation recognised.

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.

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2 Accounting policies (cont'd)

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.

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.

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2 Accounting policies (cont'd)

2.8. Financial assets

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

- **Financial assets**

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

A regular way purchases or sales of financial assets are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

After initial recognition, the Group measures a financial asset at:

- Amortised cost (debt instruments);
- Fair value through OCI with recycling of cumulative gains and losses (debt instruments). The Group did not have such items as at 31 December 2019 and 2018;
- Fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments). The Group did not have such items as at 31 December 2019 and 2018;
- Fair value through profit or loss. The Group did not have such items as at 31 December 2019 and 2018.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade receivables and non-current receivables. Non-current receivables mainly comprise of long-term part of receivables for residential buildings' repair works performed and are received in from 1 to 3 years period.

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2 Accounting policies (cont'd)

2.8. Financial assets (cont'd)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income. The Group did not have such items as at 31 December 2019 and 2018.

Impairment of financial assets

Following IFRS 9, in common case scenario, the Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Impairment of trade receivables

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established the provision matrixes for each separate market, where the Group operates. Such matrixes are based on their historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment, including GDP growth and unemployment rates. The provision matrixes has been structured based on homogeneous customers' groups. Impairment of non-current receivables are calculated in the same way as not overdue accounts receivable, because no non-current receivables are overdue as at 31 December 2019 and 31 December 2018.

For material individual customers the Group performs an assessment of specifically expected credit losses, taking into account the customer's credit history as well as forward looking factors and risk factors specific to the debtor. The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Impairment of loans granted (including intercompany)

Following IFRS 9, in common case scenario, the Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At the end of every reporting period it is assessed whether credit risk significantly increased from initial recognition taking into account change in probability of default during the maturity of the instrument. During this process the Group summarizes debt instruments into stages 1, 2 and 3:

• Stage 1: on initial recognition the Group/Company recognizes a 12-month ECL. Stage 1 debt instruments include instruments which credit risk improved and which were transferred back from Stage 2.

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2 Accounting policies (cont'd)

2.8. Financial assets (cont'd)

• Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group/Company records an allowance for the lifetime ECL. Stage 2 debt instruments include instruments which credit risk improved and which were transferred back from Stage 3. Group/Company considers that significant increase in credit risk when debt is overdue more than 60 days for intercompany loans and 30 days for external loans granted or when it is visible from financial information that debtor is experiencing financial difficulties.

• Stage 3: For loans considered credit-impaired, the Group recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the probability of default set at 100%.

- **Financial liabilities**

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans, borrowings and payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and lease liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income. The Group did not have such items as at 31 December 2019 and 2018.

Loans, borrowings and other payables

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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2 Accounting policies (cont'd)

2.9. 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.

2.10. Fair value measurements

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.

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.

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.

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2 Accounting policies (cont'd)

2.10. Fair value measurements (cont'd)

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.

2.11. 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 2019 and 2018 and disclosed in Note 13.

2.13. Borrowing costs

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 2019 and 2018.

2.14. Right of use assets and lease liabilities

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>IFRS 16 adoption impact as of 1 January 2019</u>

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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2 Accounting policies (cont'd)

2.14. Right of use assets and lease liabilities (cont'd)

i) Right-of-use assets

Initial measurement of right-of-use assets

At the commencement date, the Group measures the right-of-use asset at cost. The cost of the right-of-use asset comprises: the amount equal to the lease liability at its initial recognition, lease payments made at or before the commencement of the lease (less any lease incentives received), any initial direct costs incurred by the Company, and an estimate of costs to be incurred by the Company in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Company incurs obligation for these costs either at the commencement date or as a consequence of having used the underlying asset during a particular period The Company recognizes these costs as part of the cost of right-of-use asset when the Company incurs an obligation for these costs.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

• Buildings 1 to 10 years
• Vehicles 4 to 10 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

Subsequent measurement of right-of-use assets

Subsequent to initial recognition, the Company measures the right-of-use asset at cost. Under the cost model, the Company measures a right-of-use asset at cost: less any depreciation and any accumulated impairment losses adjusted for any remeasurement of the lease liability. The right-of-use assets depreciated by the Company under the depreciation requirements of IAS 16, Property, Plant and Equipment. If the lease transfers ownership of the underlying asset to the Company/Group by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the Company depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company presents rights-of-use assets separately from intangible and tangible assets in the statement of financial position.

ii) Lease liabilities

Initial measurement of lease liability

At the commencement date, the Company measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If the interest rate implicit in the lease cannot be readily determined, the Company applies incremental borrowing rate. At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date: fixed payments, less any lease incentives receivable; variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; amounts expected to be payable by the lessee under residual value guarantees; the exercise price of a purchase option if the Company is reasonably certain to exercise that option; payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates.

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2 Accounting policies (cont'd)

2.14. Right of use assets and lease liabilities (cont'd)

Subsequent measurement of lease liability

After the commencement date, a lessee shall measure the lease liability by: increasing the carrying amount to reflect interest on the lease liability; reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. The periodic rate of interest is the discount rate or if applicable the revised discount rate.

After the commencement date, the Company shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset under the other applicable Standards, both: interest on the lease liability; and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggered those payments occurred.

Remeasurement of lease liability

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments. The Company recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

Revised discount rate

The Company remeasures the lease liability by discounting the revised lease payments using a revised discount rate, if there is a change in the lease term. The Company determines the revised lease payments on the basis of the revised lease term or when there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances. The Company determines the revised lease payments to reflect the change in amounts payable under the purchase option.

If there is a change in the lease term or in the assessment of an option to purchase, the Company shall determine the revised discount rate as the interest rate implicit in the lease for the of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Unchanged discount rate

The Company remeasures the lease liability by discounting the revised lease payments, if either:

- there is a change in the amounts expected to be payable under a residual value guarantee. The Company determines the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
- there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The Company remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows (i.e. when the adjustment to the lease payments takes effect). The Company determines the revised lease payments for the remainder of the lease term based on the revised contractual payments.

The Company uses an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the lessee shall use a revised discount rate that reflects changes in the interest rate.

Lease modifications

A lessee shall account for a lease modification as a separate lease if both:
- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that standalone price to reflect the circumstances of the particular contract.

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(all amounts are in EUR thousand unless otherwise stated)

2 Accounting policies (cont'd)

2.14. Right of use assets and lease liabilities (cont'd)

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Company:
- allocates the consideration in the modified contract;
- determines the lease term of the modified lease; and
- remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

For a lease modification that is not accounted for as a separate lease, the Company accounts for the remeasurement of the lease liability by:
- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. The Company recognises in profit or loss any gain or loss relating to the partial or full termination of the lease.
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company presents lease liabilities in the statement of financial position separately from other liabilities. Interest expense on the lease liability are presented separately from the depreciation charge for the right-of-use asset. Interest expense on the lease liability is a component of finance costs, which is presented in the statement of comprehensive income.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

<u>Adoption of IFRS 16</u>

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) was, as follows:

Assets	**Thousand, EUR**
Right-of-use assets	15,985
Property, plant and equipment	(3,312)
Total asets	**12,673**
Liabilities	
Lease liabilities	10,246
Current portion of lease liabilities	2,427
Total liabilities	**12,673**

The lease liabilities of the Group as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	As at 01 January 2019
The future minimum lease payments under irrevocable operating lease agreements as at 31 December 2018:	**12,896**
The weighted average interest rate as at 1 January 2019.	1.76%
The lease liability is recognised on 1 January 2019 by applying the interest rate	12,673
Add: Financial lease obligations recognised on 31 December 2018	4,225
Lease liabilities as at 1 January 2019	**16,898**
Of which:	
Current lease liabilities	3,605
Non-current lease liabilities	**13,293**

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2 Accounting policies (cont'd)

2.14. Right of use assets and lease liabilities (cont'd)

The Group has lease contracts for various items of plant, machinery, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Leases previously classified as finance leases
The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

<u>Financial and operating lease (until 1 January 2019)</u>

<u>Financial lease</u>

The Group recognised 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 was the interest rate of financial lease payment, when it was possible to determine it, in other cases Company's incremental interest rate on borrowings applies. Directly attributable initial costs were included into the asset value. Lease payments were 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 was accounted for financial lease. The depreciation policy for leased assets was consistent with that for depreciable assets that are owned. The leased assets could not 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.

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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 2019 and 2018. Income tax rate in 2019 in Russia, Latvia, Poland and Spain was 20%, 20%, 19% and 25% respectively (in 2018 - 20%, 20%, 19% and 25%). Standard income tax rate in 2019 in Estonia was 20% and reduced rate of 14% for certain regular dividends (in 2018 – 20%).

The change of corporate income tax in Latvia came into effect 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. The tax rate in 2019 was 20/80 of the amount distributed as the net dividend (20/80 in 2018) 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 2018.

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 2019 was 20/80 of the amount distributed as the net dividend (20/80 in 2018). The reduced rate of 14/86 is applied on regular net dividend, calculated as an average of taxable dividend paid during the previous three calendar years (2018 is the first year included in the calculation). As the object of taxation is dividends, not profit, there are no differences between the carrying amounts and tax bases of assets and liabilities which could give rise to deferred tax assets or liabilities. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared.

As at 31 December 2019, the Group's retained earnings amounted to EUR 21,721 thousand. Income tax upon the payment of dividends is 20/80 or 14/86 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 of such distribution, no additional material 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

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2 Accounting policies (cont'd)

2.17. Income tax

taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.18. Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements (except for utilities payment collection services provided in Latvia as described further) even in the cases when subcontractors are used in the process of provisions of the services, because it typically controls the goods or services before transferring them to the customer, Group companies also are responsible for the quality of services and have the right to use flexible pricing. In Latvia the Group is providing services of utility services invoicing and collection of respective fees and for these transactions the Group is acting as an agent of the utilities suppliers based on the assessment of the management as the Group does not control the services before they are transferred to the customer, including their pricing. Therefore, 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. Also, funds collected from residents on behalf of the residential communities as community fund for future repairs and maintenance, are not reported as the Group's revenue.

The Group is in the business of providing administration of apartment buildings and commercial facility management services. The Group concluded that it transfers control of administration of apartment buildings and commercial facility management services over-time, because the customer simultaneously receives and consumes the benefits provided by the Group's performance. Sales revenue for these services are invoiced and accounted on a monthly basis and it relates to one agreed performance obligation.

The Group also provides territory cleaning and maintenance services and other on demand services to its customers. Revenue from contracts with customers is recognised when these services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. The Group concluded that it transfers control over these services over time depending on the level of performance obligation fulfilment.

Group provides repair or construction works for the clients when required. The Group concluded that it transfers control over these services over-time, because the customer simultaneously receives and consumes the benefits provided by the Group's performance. Also, Group's performance does not create an assets with alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. When the Group can reasonably measure its progress towards complete satisfaction of the performance obligation, the Group recognizes revenue and expenses in relation to each repair or construction contract over time, based on the progress of performance. The progress of performance is assessed based on the proportion of the costs incurred in fulfilling the contract up to date over to the total estimated costs of the contract. In such cases, Group has one agreed performance obligation.

Revenue from other than described above services or sales of inventory is recognised when services are rendered or inventory transferred to the clients and this type of revenue is relatively not material to the financial statements.

Due to the Group's business nature, apart from what is described in this note, the management did not make any other significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers recognition, as there are no complex/multi-elemental goods or services, no variable consideration, financing component, volume rebates, discounts, rights of return, contract cost or amounts payable to the customers.

Dividend income from subsidiaries is recognised in the Company's unconsolidated financial statements (Note 34) 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.

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2 Accounting policies (cont'd)

2.18. Revenue recognition (cont'd)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Accrued income representing estimated amount of services which has been performed but not have been agreed with and accepted by the customer until the last day of the month and for which invoice is issued next month is presented as Contract assets and are reclassified to the account receivable as soon as services are accepted and sales invoices are issued in subsequent month.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group satisfied performance obligation under the contract.

2.19. Impairment of non-financial assets

Non-financial assets (excluding goodwill)

Non-financial 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), provision for employee benefits (Note 2.15 and Note 18), impairment evaluation of goodwill, including allocation of Group assets to cash generating units (Note 2.3 and Note 4), trade receivables allowance and trade receivable classification to current and non-current (Note 2.19, Note 12), other assets impairment (Note 2.19, Note 5, Note 9, Note 10 and Note 11), recognition and realization of deferred tax asset (Note 26), contingencies related to the Group's subsidiaries (Note 16), assessment of the potential impact of COVID-19 pandemic situation on the financial statements, including going concern assumption as described further below and in Note 33. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

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

The management made the following important judgments in the preparation of these financial statements:

Estimated useful life of customer relationships intangible assets, which are accounted for under other intangible assets and their acquisition value amounts to EUR 31,224 thousand as of 31 December 2019 and EUR 31,376 thousand as of 31 December 2018. The management amortises these customer relationship intangible assets over the estimated validity period of existing contracts, which is 5-40 years.

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2 Accounting policies (cont'd)

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

The management estimated the expected validity term of customer relationships based on the current development of the operations, i.e. already concluded contracts as well as current rate of terminated contracts, which is insignificant. Should the circumstances change in the future, the estimate may need to be revised and the size of such revision cannot be reasonably estimated at the date of these financial statements. The net book value of these intangible assets of the Group amount to EUR 23,763 thousand as of 31 December 2019 and EUR 26,983 thousand as of 31 December 2018 (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 2018 and 2019 (see Note 26).

In addition, as disclosed in Note 12 as of 31 December 2019 the Group has EUR 3,236 thousand (EUR 2,515 thousand as of 31 December 2018) 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 estimate is based on the analysis of individual material overdue balances as well as analysis of general collection periods in a respective country and taking into account forward looking estimations.

The Group's management has applied probability-weighted expected value measurement for estimating provisions to be accounted for probable tax and legal risks as well as contingencies associated with subsidiaries operating in the City of St. Petersburg in Russia and in Lithuania (Note 16 and 30).

In 2019, the Group acquired several client portfolios in Spain for the amount EUR 1,7 million (EUR 2.1 million in 2018). 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 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 1,7 million) solely.

As disclosed in Note 4 and Note 5, as of 31 December 2019 the Group has goodwill and other intangible assets (contracts with the clients) in amount of EUR 34,448 thousand (EUR 37,949 thousand – as of 31 December 2018). This management judgement is based on the cash generating units impairment testing performed as of 31 December 2019 and 31 December 2018 (Note 4). If significant assumptions used in impairment testing differed from the actual results achieved, the results of the testing would change (for Spain, Latvian and Poland cash generating unit testing sensitivity analysis, please refer to Note 4).

As of 31 December 2019 the Group decided not to reclassify buildings with a net book value of EUR 2,898 thousand, which are posted publicly on sale to assets held for sale, as they are still in use (own use) and management estimates that there is an uncertainty that the realisation of such assets could be completed within 12 months.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

The Group currently is being reviewed by State Tax Inspectorate and discussion of income tax deductibility is held. In case of unfavorable decision, estimate regarding EUR 330 thousand of deferred tax recognized in these financial statements could be changed. The management believes that the discussion with State Tax Inspectorate will be ultimately resolved in the favor of the Group.

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2 Accounting policies (cont'd)

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

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates).

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.

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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 2019	**Buildings' administration**				
	Baltic states	**St. Petersburg**	**Poland**	**Spain**	**Total**
Revenue from contracts with customers	101,570	46,210	24,570	5,670	178,020
Total revenue from contracts with customers					**178,020**
Segment results	5,723	1,933	(102)	(2,733)	4,821
Unallocated expenses					(1,261)[1]
Profit from operations					3,560
Net financial income					(1,093)[2]
Profit / (loss) before income tax					2,467
Income tax expenses					(1,012)[2]
Net profit for the year					**1,455**
Other segment information					
Capital expenditure	914	71	226	2,200	**3,411**

[1]Unallocated expenses include general and administrative expenses (EUR 1,261 thousand) identifiable as costs managed on a group basis.
[2]Financing of the Group and income taxes are managed on a group basis and are not allocated to operating segments.

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3 Segment information (cont'd)

Year ended 31 December 2018	**Buildings' administration**				
	Baltic states	**St. Petersburg**	**Poland**	**Spain**	**Total**
Revenue from contracts with customers	91,156	42,208	25,061	3,891	162,316
Total revenue from contracts with customers					**162,316**
Segment results	4,979	2,184	(598)	(237)	6,328
Unallocated expenses					(891)[1]
1Profit from operations					5,437
Net financial income					(859)[2]
Profit / (loss) before income tax					4,578
Income tax expenses					(737)[2]
Net profit for the year					**3,841**
Other segment information					
Capital expenditure	4,022	472	535	2,154	**7,183**

[1]Unallocated expenses include general and administrative expenses (EUR 891 thousand) identifiable as costs managed on a group basis.
[2]Financing of the Group and income taxes are managed on a group basis and are not allocated to operating segments.

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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:

2019	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Revenue					
Sales to external customers	5,670	24,570	101,570	46,210	178,020
Segment revenue	**5,670**	**24,570**	**101,570**	**46,210**	**178,020**

2018	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Revenue					
Sales to external customers	3,891	25,061	91,156	42,208	162,316
Segment revenue	**3,891**	**25,061**	**91,156**	**42,208**	**162,316**

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

As of 31 December 2019	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Non-current assets					
Segment assets	8,532	15,675	49,445	4,258	77,910
Total non-current assets	**8,532**	**15,675**	**49,445**	**4,258**	**77,910**

As of 31 December 2018	**Spain**	**Poland**	**Baltic states**	**St. Petersburg**	**Total**
Non-current assets					
Segment assets	7,357	15,455	47,881	2,435	73,128
Total non-current assets	**7,357**	**15,455**	**47,881**	**2,435**	**73,128**

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 2019 and 2018.

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4 Goodwill

	Group
Cost:	
Balance as of 1 January 2018	11,681
Additions	138
Disposals	(35)
Exchange differences	(111)
Balance as of 31 December 2018	11,673
Disposals	(135)
Exchange differences	86
Balance as of 31 December 2019	11,624
Impairment:	
Balance as of 1 January 2018	84
Impairment recognised	623
Balance as of 31 December 2018	707
Exchange differences	6
Impairment recognised	227
Balance as of 31 December 2019	940
Net book value as of 31 December 2019	**10,684**
Net book value as of 31 December 2018	**10,966**

Acquisitions during 2019

As described in Note 1, during 2019 the Group acquired the following entity:

Name of entity acquired	Acquisition cost	Notes
SIA Ventspils Nami	EUR 120 thousand	All paid in cash

Acquisitions during 2018

As described in Note 1, during 2018 the Group acquired the following entities:

Name of entity acquired	Acquisition cost	Notes
UAB Acta iuventus	EUR 289 thousand	All paid in cash
UAB Merlangas	EUR 257 thousand	All paid in cash
UAB Pastatų valdymas	EUR 340 thousand	All paid in cash
UAB Voverės	EUR 571 thousand	All paid in cash
UAB Unitechna	EUR 2,035 thousand	All paid in cash
UAB Algos saugos tarnyba	EUR 450 thousand	All paid in cash

At the acquisition of these subsidiaries a total goodwill of EUR 138 thousand has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from horizontal expansion of business.

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4 Goodwill (cont'd)

The fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2019 were as follows:

Fair value of assets, liabilities and contingent liabilities **Date of acquisition**	**SIA Ventspils Nami** **21 January**
Intangible assets	123
Other non-current assets	65
Trade receivables	32
Other current assets	14
Total assets	**234**
Long-term liabilities	95
Current portion of long-term liabilities	15
Trade payables	1
Other current liabilities	3
Total liabilities	**114**
Total identifiable net assets at fair value	**120**
attributable to equity holders of the parent	120
attributable to non-controlling interests	

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

Book value **Date of acquisition**	**SIA Ventspils Nami** **21 January**
Other non-current assets	65
Trade receivables	32
Other current assets	14
Total assets	**111**
Long-term liabilities	95
Current portion of long-term liabilities	15
Trade payables	1
Other current liabilities	3
Total liabilities	**114**

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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 2019 were as follows:

	SIA Ventspils Nami
Date of acquisition	**21 January**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	120
Goodwill	-
Total purchase consideration	**120**
Fair value of non-controling interest acquired	**-**
Cash acquired	14
Total purchase consideration, net of cash acquired	**106**

	SIA Ventspils Nami
Date of acquisition	**21 January**
Profit (loss) incurred since acquisition date to 31 December 2019	35
Total revenue since acquisition date to 31 December 2019	213
Total revenue for the year 2019 (unaudited)	213
Total net result for the year 2019 (unaudited)	35

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4 Goodwill (cont'd)

The fair values (calculated in 2018, remained the same and no adjustments were required in 2019) of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2018 were as follows:

Fair value of assets, liabilities and contingent liabilities	**Acta iuventus**	**Merlangas**	**Pastatų valdymas**	**Voverės**	**Unitechna**	**Algos saugos tarnyba**
Date of acquisition	**18 January**	**5 July**	**5 July**	**25 July**	**9 August**	**15 November**
Intangible assets	378	563	76	527	1,847	420
Property, plant and equipment	160	-	11	90	85	18
Deferred tax asset	-	-	-	4	-	-
Trade receivables	27	7	272	173	357	40
Other current assets	9	16	2	12	604	93
Total assets	**574**	**586**	**361**	**806**	**2,893**	**571**
Long-term liabilities	133	128	-	10	-	-
Current portion of long-term liabilities	53	162	-	-	339	-
Deferred tax liability	55	84	12	79	277	62
Trade payables	20	28	4	48	138	4
Other current liabilities	24	44	5	98	125	55
Total liabilities	**285**	**446**	**21**	**235**	**879**	**121**
Total identifiable net assets at fair value	**289**	**140**	**340**	**571**	**2,014**	**450**
attributable to equity holders of the parent	289	140	340	571	2,014	450
attributable to non-controlling interests	-	-	-	-	-	-

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

Book value	**Acta iuventus**	**Merlangas**	**Pastatų valdymas**	**Voverės**	**Unitechna**	**Algos saugos tarnyba**
Date of acquisition	**18 January**	**5 July**	**5 July**	**25 July**	**9 August**	**15 November**
Intangible assets	11	-	-	2	-	-
Property, plant and equipment	160	-	11	90	85	18
Deferred tax asset	-	-	-	4	-	-
Trade receivables	27	7	272	173	357	40
Other current assets	9	16	2	12	604	93
Total assets	**207**	**23**	**285**	**281**	**1,046**	**151**
Long-term liabilities	133	128	-	10	-	-
Current portion of long-term liabilities	53	162	-	-	339	-
Trade payables	20	28	4	48	138	4
Other current liabilities	24	44	5	98	125	55
Total liabilities	**230**	**362**	**9**	**156**	**602**	**59**

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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 2018 were as follows:

	Acta iuventus	Merlangas	Pastatų valdymas	Voverės	Unitechna	Algos saugos tarnyba
Date of acquisition	**18 January**	**5 July**	**5 July**	**25 July**	**9 August**	**15 November**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	289	140	340	571	2,014	450
Goodwill	-	117	-	-	21	-
Total purchase consideration	**289**	**257**	**340**	**571**	**2,035**	**450**
Cash acquired	2	-	1	4	359	78
Total purchase consideration, net of cash acquired	**287**	**257**	**339**	**567**	**1,676**	**372**

	Acta iuventus	Merlangas	Pastatų valdymas	Voverės	Unitechna	Algos saugos tarnyba
Date of acquisition	**18 January**	**5 July**	**5 July**	**25 July**	**9 August**	**15 November**
Profit (loss) incurred since acquisition date to 31 December 2018	(23)	8	(10)	(116)	(79)	(12)
Total revenue since acquisition date to 31 December 2018	207	194	28	746	1,686	72
Total revenue for the year 2018 (unaudited)	207	356	54	1,613	3,720	438
Total net result for the year 2018 (unaudited)	(23)	(215)	59	(116)	36	5

For the purpose of impairment evaluation, the goodwill as of 31 December 2019 and 2018 was allocated to the following CGU:

Cash generating unit	Carrying value of allocated goodwill as of 31 December 2019	Carrying value of allocated goodwill as of 31 December 2018
Subsidiaries operating in Lithuania	9,031	9,166
Subsidiaries operating in Latvia	897	897
Subsidiaries operating in Poland	388	468
Subsidiaries operating in St. Petersburg, Russia	368	316
Subsidiaries operating in Spain	-	119
	10,684	**10,966**

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4 Goodwill (cont'd)

The recoverable amount of each cash generating unit as of 31 December 2019 and 2018 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 2019 and 2018 are described further.

The forecasted revenues for CGU involved in administration of dwelling houses in Lithuania, Latvia and Russia were estimated based on the area of the dwelling-houses administered as of 31 December 2019 and 2018 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. Forecasted EBITDA growth in Spain and Poland will be higher comparing to 2019 (for Spain – higher than its peer businesses in the market forecast) due to structural changes in those businesses implemented until the end of the financial year 2019. Cash flows beyond the five-year period were extrapolated using 2% growth rate (2% in 2018) that reflects the best estimate of the management based on the current situation in the respective industry. All these elements and their trends constitute the EBITDA projections applied by the Group for CGU testing. 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 10.47% for cash generating units located in Lithuania (10.47% in 2018), 11.86% for cash generating unit located in Latvia (11.16% in 2018), 17.59% for cash generating units located in Poland (14.32% in 2018) and 22.38% for cash generating unit in St. Petersburg (22.38% was used in 2018). In Spain CGU testing were performed by two scenarios and the following pre-tax discount rates were used 14.41% and 17.27% (in 2018 one scenario was performed with the pre-tax discount rate 14%).

In the opinion of the Group's management, the most important and most change-like assumptions are the forecasted level of EBITDA and discount rate. Based on management's estimations, a reasonable change in these assumptions in Lithuanian, Latvia and Russian cash generating units would not result in any impairment as of 31 December 2019 and 2018. At the moment of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used, except for potential effect of COVID-19 situation on the future EBITDA, which cannot be reasonably estimated at the date of the release of these financial statements as disclosed in Note 33.

In Poland and 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 2019:

- **Poland**

- A decrease in annual EBITDA margin by 0.5 p.p. would result in EUR 1,098 thousand additional impairment loss to goodwill and customer contracts reported under intangible assets;
- An increase in pre-tax WACC (discount rate) by 0.5 p.p. would result in EUR 420 thousand additional impairment loss to goodwill and customer contracts reported under intangible assets.

- **Spain**

- A decrease in annual EBITDA margin by 0.5 p.p. would result in EUR 562 thousand additional impairment loss to goodwill and customer contracts reported under intangible assets;
- An increase in pre-tax WACC (discount rate) by 0.5 p.p. would result in EUR 443 thousand additional impairment loss to goodwill and customer contracts reported under intangible assets.

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5 Other intangible assets

Movement of other intangible assets in 2019 and 2018 is presented below:

	Other intangible assets
Cost:	
Balance as of 1 January 2018	33,770
Additions arising from acquisitions of subsidiaries	3,810
Additions	2,476
Exchange differences	(451)
Disposals and retirements	(248)
Reclassifications from property, plant and equipment	289
Balance as of 31 December 2018	39,646
Additions arising from acquisitions of subsidiaries (Note 4)	123
Additions	2,648
Disposals of subsidiaries	(701)
Exchange differences	303
Disposals and retirements	(32)
Reclassifications from property, plant and equipment	54
Balance as of 31 December 2019	42,041
Accumulated amortisation and impairment:	
Balance as of 1 January 2018	5,900
Charge for the year	1,409
Exchange differences	(63)
Disposals and retirements	(235)
Balance as of 31 December 2018	7,011
Charge for the year	2,901
Impairment recognised	1,081
Disposals and retirements	(32)
Disposals of subsidiaries	(117)
Exchange differences	75
Balance as of 31 December 2019	10,919
Net book value as of 31 December 2019	**31,122**
Net book value as of 31 December 2018	**32,635**

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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 2019 net book value of such intangible assets constituted EUR 23,763 thousand (EUR 26,983 thousand as of 31 December 2018). Other part of intangible assets consist of licenses, software and other intangible assets.

The Group has 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 2019 and 2018. Significant assumptions used for the assessment of the recoverable value are the same as presented in Note 4.

Part of the other intangible assets of the Group with the acquisition value of EUR 1,219 thousand as of 31 December 2019 was fully amortised but still in use (EUR 957 thousand of the Group as of 31 December 2018).

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6 Property, plant and equipment

Movement of property, plant and equipment in 2019 and 2018 is presented below:

	Buildings	Vehicles	Other property, plant and equipment	Construct-ion in progress	Total
Cost:					
Balance as of 1 January 2018	9,053	9,642	12,854	276	31,825
Additions arising from acquisitions of subsidiaries	-	78	286	-	364
Additions	14	1,973	2,332	388	4,707
Disposals and retirements	(350)	(194)	(601)	-	(1,145)
Exchange differences	(62)	(105)	(331)	(7)	(505)
Reclassifications	342	-	4	(635)	(289)
Balance as of 31 December 2018	8,997	11,394	14,544	22	34,957
Reclassification to right of use assets (IFRS 16 application)	-	(5,200)	-	-	(5,200)
Additions	-	54	663	46	763
Disposals and retirements	(2,153)	(438)	(904)	-	(3,495)
Disposals of subsidiaries	-	(9)	(337)	-	(346)
Exchange differences	21	92	188	-	301
Reclassifications	180	16	(29)	(46)	121
Balance as of 31 December 2019	7,045	5,909	14,125	22	27,101
Accumulated depreciation and impairment:					
Balance as of 1 January 2018	2,630	5,539	5,193	-	13,362
Charge for the year	358	1,336	1,878	-	3,572
Disposals and retirements	(80)	(107)	(572)	-	(759)
Exchange differences	(3)	(68)	(149)	-	(220)
Balance as of 31 December 2018	2,905	6,700	6,350	-	15,955
Reclassification to right of use assets (IFRS 16 application)	-	(1,888)	-	-	(1,888)
Charge for the year	319	596	1,848	-	2,763
Disposals and retirements	(1,177)	(428)	(905)	-	(2,510)
Disposals of subsidiaries	-	(2)	(161)	-	(163)
Exchange differences	-	61	92	-	153
Reclassifications	106	11	(11)	-	106
Balance as of 31 December 2019	2,153	5,050	7,213	-	14,416
Net book value as of 31 December 2019	**4,892**	**859**	**6,912**	**22**	**12,685**
Net book value as of 31 December 2018	**6,092**	**4,694**	**8,194**	**22**	**19,002**

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6 Property, plant and equipment (cont'd)

The depreciation charge of the Group's property, plant and equipment for the year 2019 amounts to EUR 2,763 thousand (EUR 3,572 thousand in the year 2018). Amount of EUR 1,652 thousand for the year 2019 (EUR 2,486 thousand for the year 2018) 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 8,100 thousand was fully depreciated as of 31 December 2019 (EUR 7,757 thousand as of 31 December 2018), but were still in active use.

As of 31 December 2019 buildings of the Group with a net book value of EUR 2,223 thousand (EUR 2,662 thousand as of 31 December 2018) were pledged to banks as collateral for the loans (Note 15).

As of 31 December 2019 buildings of the Group with a net book value of EUR 2,898 thousand are posted publicly on sale. However, Group management decided not to reclassify those assets to 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 12 months.

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7 Investment property

Movement of the Group's investment property during 2019 and 2018 is presented below:

	Buildings
Cost:	
Balance as of 1 January 2018	175
Balance as of 31 December 2018	175
Reclassification to property, plant and equipment	(175)
Balance as of 31 December 2019	-
Accumulated depreciation:	
Balance as of 1 January 2018	94
Charge for the year	12
Balance as of 31 December 2018	106
Reclassification to property, plant and equipment	(106)
Balance as of 31 December 2019	-
Net book value as of 31 December 2019	**-**
Net book value as of 31 December 2018	**69**

Investment property consisted of office buildings in Vilnius and that were leased out by UAB Baltijos NT valdymas to other entities outside the Group. The expenses related to investment property comprising of depreciation charge in 2018 were included under the other operating expenses caption in the statement of comprehensive income.

The fair value of investment property as of 31 December 2018 was estimated by the management to be approximately EUR 241 thousand (3rd level by fair value hierarchy). The fair value of investment property as of 31 December 2018 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 2018 no investment property of the Group was pledged to banks as collateral for the loans.

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8 Material partly-owned subsidiaries

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

Name	Region of incorporation and operation	2019	2018
ООО Жилкомсервис № 3 Фрунзенского района	St. Petersburg	80%	80%

	As of 2019 December 31	As of 2018 December 31
Summarised statement of financial position		
Inventories, trade receivables and cash	4,123	3,292
Property, plant and equipment and other non-current assets	2,253	2,095
Deferred income tax, net	(350)	(406)
Liabilities	(4,229)	(3,397)
Total equity	**1,797**	**1,584**
Attributable to:		
Equity holders of parent	1,438	1,267
Non-controlling interest	359	317

	2019	2018
Summarised statement of profit or loss		
Sales	17,977	16,392
Cost of sales	(16,144)	(11,438)
General and administrative expenses	(1,420)	(617)
Credit loss expenses on financial assets	(232)	198
Other activity (net)	(122)	(4,190)
Financial activity (net)	12	37
Profit (loss) before tax	**71**	**382**
Income tax	(19)	(178)
Profit (loss) for the year	**52**	**204**
Attributable to non-controlling interests	10	41

Summarised cash flow information

	2019	2018
Net cash flows from operating activities	3	137
Net cash flows from investing activities	33	(70)
Net cash flows from financing activities	-	-
Net increase (decrease) in cash flows	**36**	**67**

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9 Inventories

	Group	
	As of 31 December 2019	**As of 31 December 2018**
Raw and auxiliary materials	1,061	1,596
Goods for resale	239	132
Other	573	443
	1,873	2,171
Less: net realizable value allowance	(62)	(97)
	1,811	**2,074**

Change in allowance for inventories for the year 2019 and 2018 has been included into general and administrative expenses.

10 Prepayments

Prepayments of the Group amount to EUR 1,794 thousand (net of EUR 347 thousand allowance) as of 31 December 2019 (EUR 2,879 thousand (net of EUR 277 thousand allowance) as of 31 December 2018) 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 5,207 thousand (net of EUR 74 thousand allowance) as of 31 December 2019 (EUR 4,958 thousand (net of EUR 54 thousand allowance) as of 31 December 2018) and long-term part of restricted cash amounting to EUR 2,396 thousand as of 31 December 2019 (EUR 802 thousand as of 31 December 2018).

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12 Trade receivables

	Group	
	As of 31 December 2019	**As of 31 December 2018**
Trade receivables, gross	48,658	42,179
Less: allowance for doubtful trade receivables	(12,187)	(9,405)
	36,471	**32,774**

Change in allowance for doubtful trade receivables for the year 2019 and 2018 has been included into Credit loss expenses on financial assets in the statement of comprehensive income.

During 2018, due to first time application of IFRS 9 “Financial instruments” trade receivables allowance estimations in Russia were changed and part of allowance for doubtful trade receivables were reversed.

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 2018	1,652	7,664	9,316
Charge for the year	213	714	927
Disposal of subsidiaries	-	(33)	(33)
Exchange differences	(57)	(767)	(824)
Reversed during the year	(217)	(373)	(590)
Written off during the year	(77)	686	609
Balance as of 31 December 2018	**1,514**	**7,891**	**9,405**
Charge for the year	151	1,280	1,431
Exchange differences	75	691	766
Reversed during the year	(174)	(182)	(356)
Written-off during the year	-	1,020	1,020
Disposals of subsidiaries	(9)	(70)	(79)
Reclassification	(667)	667	-
Balance as of 31 December 2019	**890**	**11,297**	**12,187**

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**
2018	20,443	5,166	1,164	833	2,653	2,515	**32,774**
2019	24,264	3,097	1,334	815	3,725	3,236	**36,471**

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13 Cash and cash equivalents

	Group	
	As of 31 December 2019	**As of 31 December 2018**
Cash at bank	3,751	5,295
Cash on hand	11	7
Short-term deposits	30	-
	3,792	**5,302**

The fair value of cash as of 31 December 2019 of the Group was EUR 3,792 thousand (EUR 5,302 thousand as of 31 December 2018) (1st level).

As of 31 December 2019 the Group had restricted cash of EUR 2,878 thousand (EUR 2,183 thousand as of 31 December 2018) held in the bank as guarantee provided to customers: EUR 2,396 thousand is accounted in non-current receivables caption (EUR 802 thousand as of 31 December 2018) while EUR 482 thousand – in other receivables caption in the statement of financial position as of 31 December 2019 (EUR 1,381 thousand as of 31 December 2018).

As of 31 December 2019 and 2018 part of bank accounts of the Company and its subsidiaries are pledged to banks for loans (Note 15).

Management of the Company considered potential impairment losses on cash held in banks as per IFRS 9 requirements. Assessment is based on official Standard & Poor's long–term credit ratings of the banks parent entities available online. Group management concluded that no impairment of cash accounts exists.

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 2019 the reserve was fully composed and reached the required amount – EUR 948 thousand (as of 31 December 2018 the reserve was fully composed and amounted to EUR 948 thousand).

Other reserves

Based on the shareholders' meeting decision other reserves of EUR 1,738 thousand were transferred to the retained earnings, during the 2018.

Foreign currency translation reserve

The Group accounts for foreign currency translation reserve (Note 2.2). 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 2019 it amounted to EUR (2,701) thousand (as of 31 December 2018 EUR (2,936) 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 2019 (EUR 21,067 thousand as of 31 December 2018).

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15 Borrowings

The list of borrowings of the Group as of 31 December 2019 and 2018 are as follows:

		Group	
	Currency of the loan	**As of 31 December 2019**	**As of 31 December 2018**
Current loans			
Bank loans	EUR	3,432	9,937
Bank loans	PLN	196	496
Current loan balance		**3,628**	**10,433**
Non-current loans			
Bank loans	EUR	21,240	20,110
Less: current portion of long term loans		(2,717)	(2,712)
Non-current loan balance		**18,523**	**17,398**

For the loans of the Group variable interest rates apply. Actual interest rates are close to effective interest rates. As of 31 December 2019 the weighted average annual interest rate of borrowings outstanding was 1.48% (1.46% as of 31 December 2018). In 2019 and 2018 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 2019 amounted to EUR 7,311 thousand (EUR 497 thousand as of 31 December 2018).

For the loans and overdraft the Company and its subsidiaries have pledged to the bank real estate (Note 6) and bank accounts (Note 13) of the Company and its subsidiaries in Lithuania. Zespół Zarządców Nieruchomości sp. z o.o. also has pledged part of its fixed assets for overdraft agreement. Shares of UAB Mano Būsto priežiūra and UAB City Service are pledged to AB SEB bankas as well.

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

	Group	
Term	**As of 31 December 2019**	**As of 31 December 2018**
Within one year	2,717	2,712
From one to five years	18,523	17,398
	21,240	**20,110**

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15 Borrowings (cont'd)

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

	1 January 2019	**Cash flows from proceeds from loans**	**Cash flows to loans repaid**	**Initial IFRS 16 application**	**New leases**	**IFRS 16 lease modification effect**	**Borrowings of acquired companies**	**Foreign exchange effect**	**31 December 2019**
Current interest-bearing loans and borrowing (excluding items listed below)	10,433	-	(6,805)	-	-		-	-	3,628
Non-current interest-bearing loans and borrowings (excluding items listed below)	20,110	3,750	(2,702)	-	-		80	2	21,240
Non-current obligations under lease contracts	4,225	-	(3,994)	12,673	2,400	(3,718)	-	(207)	11,379
Total liabilities from financing activities	**34,768**	**3,750**	**(13,501)**	**12,673**	**2,400**	**(3,718)**	**80**	**(205)**	**36,247**

	1 January 2018	**Cash flows from proceeds from loans**	**Cash flows to loans repaid**	**New leases**	**Borrowings of acquired companies**	**Foreign exchange effect**	**31 December 2018**
Current interest-bearing loans and borrowing (excluding items listed below)	-	10,433	-	-	-	-	10,433
Non-current interest-bearing loans and borrowings (excluding items listed below)	17,901	23,704	(22,025)	-	534	(4)	20,110
Non-current obligations under finance leases and hire purchase contracts	3,712	-	(1,289)	1,659	164	(21)	4,225
Total liabilities from financing activities	**21,613**	**34,137**	**(23,314)**	**1,659**	**698**	**(25)**	**34,768**

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16 Provisions

As of 31 December 2019 EUR 61 thousand provision was outstanding for City Service SE guarantees provided to former subsidiary Concentra Servicios y Mantenimiento S.A. customers and other possible claims arising from bankruptcy process (EUR 348 thousand as of 31 December 2018). The amount of EUR 287 thousand were reversed during the year due to change in estimate.

As 31 December 2019 The Group's subsidiaries operating in the region of St. Petersburg, namely ZAO City Service, OAO City Service and OOO Жилкомсервис № 3 Фрунзенского района has outstanding provisions for possible tax risks related with contradictory court practice and disputed legal interpretations for the amount of EUR 550 thousand (EUR 687 as of 31 December 2018) as further described in Note 30. The amount of EUR 137 thousand were reversed during the year due to change in estimate.

As 31 December 2019 the Group's subsidiaries UAB Mano Būsto priežiūra and UAB Būsto aplinka has outstanding provisions for amount of EUR 728 thousand for probable unfavorable court decisions related to the investigations carried out by The Competition Council of the Republic of Lithuania (EUR 478 as of 31 December 2018) as further described in Note 30.

As 31 December 2019 the Group's subsidiaries has outstanding provisions related to various contingencies and other non-current liabilities which as the best estimate of the management amounts of EUR 409 thousand.

17 Lease

As of 31 December 2019 the interest rate on the lease liabilities obligations is 6 month EURIBOR + 1.6-1.75%, 3 Month EURIBOR + 1.7-2.5%, 1 month WIBOR + 1.56-1.66% (as of 31 December 2018 – is 6 month EURIBOR + 1.7-1.75%, 3 Month EURIBOR + 1.4-2.5%, 1 month WIBOR + 1.6%). Interest is paid monthly. The terms of the lease agreements are from 1 to 10 years. The currencies of the financial lease agreements are EUR, PLN and RUB.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Right of use asset	**Buildings**	**Vehicles**	**Total**
Acquisition cost			
Initial IFRS 16 application	12,673	-	12,673
IFRS 16 application – reclassification from property, plant and equipment	-	5,200	5,200
Additions	1,353	388	1,741
Disposals	(5,110)	(339)	(5,449)
Exchange differences	215	-	215
Balance as of 31 December 2019	9,131	5,249	14,380
Accumulated depreciation and impairment			
IFRS 16 application – reclassification from property, plant and equipment	-	(1,888)	(1,888)
Charge for the year	(2,624)	(714)	(3,338)
Disposals	1,248	84	1,332
Impairment	(155)	-	(155)
Exchange differences	(11)	-	(11)
Balance as of 31 December 2019	(1,542)	(2,518)	(4,060)
Right of use assets as of 31 December 2019	**7,589**	**2,731**	**10,320**

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17 Lease (cont'd)

Maturity analysis of lease payments under the above mentioned lease contracts as of 31 December 2019 and under lease contracts as of 31 December 2018 are as follows:

	Group	
	As of 31 December 2019	**As of 31 December 2018**
Within one year	3,515	1,252
From one to five years	7,936	3,161
Total lease obligations	11,451	4,413
Interest	(72)	(188)
Present value of lease obligations	**11,379**	**4,225**
Lease obligations are accounted as:		
- current	3,522	1,178
- non-current	7,857	3,047

As of 31 December 2019 EUR 3,561 thousand lease obligations were treated as lease obligations according to IAS 17 and IFRIC 4 until the 31 December 2018 and EUR 7,818 thousand is related to IFRS 16 standard application after the 1 January 2019.

Set out below are IFRS 16 impact to profit (loss) statement

	2019
Depreciation expenses	(2,624)
Rent expenses (which would have been recognized if IFRS 16 would not be applied)	2,745
Impairment	(155)
Profit from operations	**(34)**
Interest and other finance income (expenses)	(195)
Profit (loss) before tax	**(229)**

18 Provision for employee benefits

As of 31 December 2019 and 2018 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 2019	**As of 31 December 2018**
As of 31 December of the previous year	433	284
Change during the year	(7)	151
Currency exchange effect	1	(2)
As of 31 December of the financial year	**427**	**433**

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18 Provision for employee benefits (cont'd)

Main assumptions applied while evaluating the Group's provision for employee benefits as of 31 December 2019 and 2018 are as follows:

	Group	
	As of 31 December 2019	**As of 31 December 2018**
Discount rate	0.9%	1.8%
Anticipated annual salary increase	3.0%	2.7%

19 Trade payables and payables to related parties

	Group	
	As of 31 December 2019	**As of 31 December 2018**
Trade payables	15,736	15,988
Payables to related parties (Note 31)	471	171
	16,207	**16,159**

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

20 Contract liabilities - advances received

As of 31 December 2019 and 2018 amount represents advances received from the owners of commercial and residential buildings administrated by the Group for repair and other works.

21 Other current liabilities

	Group	
	As of 31 December 2019	**As of 31 December 2018**
Salaries and social security	3,868	1,823
Vacation pay accrual	2,999	2,801
Accrued expenses	1,998	1,081
Other current liabilities	4,554	4,295
	13,419	**10,000**

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

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22 Cost of sales

	Group	
	2019	**2018**
Services of subcontractors and materials used	85,772	77,764
Wages and salaries and social security	42,382	38,630
Depreciation	1,111	1,086
Cost of goods sold	317	207
Other	3,533	3,310
Total cost of sales	**133,115**	**120,997**

23 General and administrative expenses

	Group	
	2019	**2018**
Wages and salaries and social security	19,763	17,549
Depreciation and amortisation	7,891	3,895
Consulting and similar expenses*	2,097	1,821
Impairment of goodwill and other intangible assets (Note 4)	1,307	623
Taxes other than income tax	978	681
Computer software maintenance	928	670
Transportation and fuel expenses	667	621
Commissions for collection of payments	585	677
Rent of premises and other assets	553	1,996
Representational costs	500	683
Advertising	464	757
Business trips and training	458	473
Insurance	391	515
Communication expenses	348	367
Utilities	214	394
Bank payments	207	195
Charity and support	56	132
Other	2,502	3,073
Total general and administrative expenses	**39,909**	**35,122**

* Includes EUR 61 thousand of vendor financial and tax due diligence services expenses incurred during the audit period of 2019 from audit company Ernst & Young Baltic AS (EUR 8 thousand incurred during the audit period of 2018).

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24 Other operating income and expenses

	Group	
	2019	**2018**
Gain on disposal of property, plant and equipment	767	93
Fines and penalties	405	234
Income from rent	54	106
Other income	731	914
Total other operating income	**1,957**	**1,347**
Legal claims	344	255
Fines and penalties	180	153
Loss on disposal of property, plant and equipment	174	73
State duties	80	63
Rent expenses	10	28
Depreciation of rented assets	-	10
Other expenses	820	1,042
Total other operating expenses	**1,608**	**1,624**

25 Other finance income and (expenses)

	Group	
	2019	**2018**
Foreign currency exchange gain	146	72
Total finance income	**146**	**72**
Foreign currency exchange (loss)	-	(488)
Total finance (expenses)	**-**	**(488)**
Financial activity, net	**(146)**	**(416)**

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26 Income tax

	Group	
	2019	**2018**
Components of the income tax expenses		
Current income tax	2,238	2,057
Deferred income tax expenses (income)	(1,226)	(1,320)
Income tax expenses recorded in the statement of comprehensive income	**1,012**	**737**

	Group	
	As of 31 December 2019	**As of 31 December 2018**
Deferred income tax asset		
Allowance for accounts receivable	1,670	1,264
Tax loss carry forward	1,839	1,029
Accruals and similar temporary differences	688	753
Tax goodwill	564	614
Allowance for inventories	72	70
Deferred income tax asset before valuation allowance	4,833	3,730
Less: valuation allowance	(583)	(479)
Deferred income tax asset, net of valuation allowance	4,250	3,251
Deferred income tax liability		
Property, plant and equipment and intangible assets	(3,259)	(3,548)
Accrued income	-	(60)
Deferred income tax liability	(3,259)	(3,608)
Deferred income tax, net	**991**	**(357)**

Tax loss carry forward can be utilised as follows: in Lithuania (EUR 5,077 thousand as of 31 December 2019, EUR 2,661 thousand as of 31 December 2018) – indefinitely, in Russia (EUR 418 thousand as of 31 December 2019, EUR 498 thousand as of 31 December 2018) – indefinitely, in Poland (EUR 545 thousand as of 31 December 2019, EUR 599 thousand as of 31 December 2018) – mainly until the year 2023 and in Spain (EUR 3,527 thousand as of 31 December 2019, EUR 1,664 thousand as of 31 December 2018) – indefinitely.

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15% rate in 2019 and 2018. The deferred tax of companies operating in Russia, Poland and Spain was calculated using 20%, 9-19% and 25% tax rates, respectively in 2019 (same as in 2018).

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26 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 2018	**Recognised in profit or loss**	**Exchange differences**	**Disposed subsidiaries**	**Acquired subsidiaries**	**Balance as of 31 December 2019**
Allowance for accounts receivable	7,577	1,162	255	(56)	-	8,938
Allowance for inventories	350	(34)	45	-	-	361
Accruals and similar temporary differences	4,490	524	203	(58)	-	5,159
Tax loss carry forward	5,428	4,224	97	(113)	-	9,636
Tax goodwill	4,088	(328)	1	-	-	3,761
Property, plant and equipment and intangible assets	(21,527)	1,464	84	686	-	(19,293)
Accrued income	(314)	316	(2)	-	-	-
Total temporary differences before valuation allowance	92	7,328	683	459	-	8,562
Valuation allowance	(2,343)	(412)	(350)	-	-	(3,105)
Total temporary differences	**(2,251)**	**6,916**	**333**	**459**	**-**	**5,457**
Deferred income tax, net	(357)	1,226	69	53	-	991

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26 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 2017	Recognised in profit or loss	Exchange differences	Disposed subsidiaries	Acquired subsidiaries	Balance as of 31 December 2018
Allowance for accounts receivable	7,990	130	(543)	-	-	7,577
Allowance for inventories	533	(130)	(53)	-	-	350
Accruals and similar temporary differences	3,469	1,118	(129)	-	32	4,490
Deferred income	3	(3)	-	-	-	-
Tax loss carry forward	2,833	2,686	(91)	-	-	5,428
Tax goodwill	4,620	(530)	(2)	-	-	4,088
Property, plant and equipment and intangible assets	(22,210)	4,338	142	-	(3,797)	(21,527)
Accrued income	(324)	-	10	-	-	(314)
Total temporary differences before valuation allowance	(3,086)	7,609	(666)	-	(3,765)	92
Valuation allowance	(3,202)	483	376	-	-	(2,343)
Total temporary differences	**(6,288)**	**8,092**	**(290)**	**-**	**(3,765)**	**(2,251)**
Deferred income tax, net	(1,054)	1,320	(58)	-	(565)	(357)

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	
	2019	**2018**
Income tax expenses computed at 15% in 2019 and 2018	(370)	(687)
Effect of different tax rates applicable to foreign subsidiaries	(108)	(31)
Change in deferred tax asset valuation allowance and write-off of deferred tax asset	(104)	152
Permanent differences	(430)	(171)
Income tax expenses reported in the statement of comprehensive income	**(1,012)**	**(737)**

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27 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	
	2019	**2018**
Net profit attributable to the shareholders of the Parent	1,434	3,791
Net profit attributable to the shareholders of the Parent	**1,434**	**3,791**
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)	**0.05**	**0.12**

28 Dividends per share

	2019	**2018**
Approved dividends*	3***	9,799
Number of shares (in thousand)**	31,610	31,610
Approved dividends per share (EUR)	**0.00**	**0.31**

* The year when the dividends are approved.
** At the date when dividends are approved.
*** Includes dividends paid to minority shareholders by the Company's subsidiaries.

29 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 assets and contract assets. Therefore, the management considers that its maximum exposure is reflected by the amount of non-current receivables, trade receivables 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 2019 and 2018.

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

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.

2019	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(283)
PLN	+100	(3)
2018		
EUR	+100	(340)
PLN	+100	(33)

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 2019 were 1.10 and 1.06 respectively (1.05 and 1.00 as of 31 December 2018 respectively).

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

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2019 and 2018 based on contractual undiscounted payments:

	On demand	Less than 1 year	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings	-	-	18,974	-	18,974
Current portion of non-current interest bearing borrowings	-	2,782	-	-	2,782
Current loans	-	3,672	-	-	3,672
Lease liabilities	-	1,094	2,539	-	3,633
Trade payables and payables to related parties	-	16,207	-	-	16,207
Other current liabilities	-	6,552	-	-	6,552
Balance as of 31 December 2019	**-**	**30,307**	**21,513**	**-**	**51,820**
Non-current interest bearing borrowings	-	-	17,336	333	17,669
Current portion of non-current interest bearing borrowings	-	2,778	-	-	2,778
Current loans	-	10,559	-	-	10,559
Lease liabilities	-	1,251	3,162	-	4,413
Trade payables and payables to related parties	-	16,159	-	-	16,159
Other current liabilities	-	5,611	-	-	5,611
Balance as of 31 December 2018	**-**	**36,358**	**20,498**	**333**	**57,189**

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29 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 2019 and 2018 were as follows:

	2019		2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
RUB	10,444	11,902	8,350	9,047
PLN	4,664	5,693	3,634	4,236
EUR	46,492	54,128	42,570	53,813
	61,600	**71,723**	**54,554**	**67,096**

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**
2019		
EUR	+ 15.00 %	851
EUR	- 15.00 %	(851)
2018		
EUR	+ 15.00 %	842
EUR	- 15.00 %	(842)

EUR held by Polish subsidiaries:

	Increase/ decrease in exchange rate	**Effect on the profit before the income tax**
2019		
EUR	+ 15.00 %	(837)
EUR	- 15.00 %	837
2018		
EUR	+ 15.00 %	(837)
EUR	- 15.00 %	837

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

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.

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30 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.

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. Before the pre-trial investigation was terminated, the court has appointed an independent expert to determine the losses, but the expert concluded that losses couldn't be determined due to lack of information.

In 2019 Vilnius County Court adopted decision partially to uphold plaintiffs demands and adjudge EUR 10.3 million sum from the Company to Vilnius City municipality. City Service SE disagrees with the decision of the first instance court and is convinced that the decision is unfounded and illegal. In the Company's opinion, none of civil liability conditions have been proved. The decision has not come into force and was appealed to the Court of Appeal of Lithuania. The Company's management considering that in 2013 the Supreme Court of Lithuania ruled in favor of ESCO model in above-mentioned agreements between City Service SE and Vilnius city municipality and both public procurement agreements and ESCO model itself were declared as compliant with the laws as well as other facts and circumstances known when preparing the financial statements as outlined above believes that is more likely than not that the case will be ultimately resolved in the favor of the Group and therefore no provision was recognized in respect of this legal case in these financial statements.

UAB Mano Būsto priežiūra case

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

UAB Mano Būsto priežiūra 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 Būsto priežiūra. Moreover, the Company started to provide its services only after the technical design and construction works of the building were completed. UAB Mano Būsto priežiūra 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 Būsto priežiūra did not receive any claims from the customer regarding the performance of the contract. At present, the court has appointed an independent expert to determine the causes of the losses and evaluate responsibilities of the defendants.

Considering the above circumstances the management believes that UAB Mano Būsto priežiūra is not responsible for improperly performed design and construction works, and expects favorable outcome of this uncertainty, thus no provisions in relation to this claim are accounted in the financial statements.

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30 Commitments and contingencies (cont'd)

Cases vs. The Competition Council

There are two ongoing court cases against the Competition Council. Regarding Case 1, the Competition Council of the Republic of Lithuania imposed a fine on the Group subsidiaries UAB Mano Būsto priežiūra and UAB Būsto aplinka for the violation of the competition law. The amount of the fine is EUR 1,074 thousand. The Company and its subsidiaries did not agree with the imposed fine and had appealed the decision of the Competition Council in accordance with the law. On 14 February 2020 Vilnius Regional Administrative Court adopted a decision in which the court stated that the Competition Council had unjustifiably imposed a maximum fine for the infringements committed and, therefore, the issue of the imposition of fine and whole resoluton was referred back to the Competition Council. The Group has made a provision for an unfavorable court decision of EUR 347 thousand (Note 16) based on the management's assessment of the probable outcomes of this case. Regarding Case 2, the Competition Council of the Republic of Lithuania imposed a fine on the Company City Service SE and the Group's subsidiaries UAB Mano Būsto priežiūra, UAB City Service Engineering and UAB Būsto aplinka for the alleged violation of the competition law. The amount of the fine is EUR 381 thousand. The Company and its subsidiaries did not agree with the imposed fine and had appealed the decision of the Competition Council in accordance with the law. However, the Group has made a provision for an unfavorable court decision of EUR 381 thousand (Note 16). There is no decision in this case yet.

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 thus expects favorable resolution and no provisions have been recorded in these 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 initiated a civil action and has filed a lawsuit against ZKZL to the District Court in Poznań for payment PLN 0.8 million (EUR 0.2 million) with interest due to unpaid invoices and disagrees with the applied contractual fine. The case has not yet been finally settled by the court, ZZN and ZKZL had a mediation proceeding, but no consensus was reached. There were also several court hearings, during which witnesses were questioned. There is a significant probability that the case will be completed peacefully. Regardless of the outcome of the case, filling a lawsuit against ZKZL does not give rise to ZKZL claims against ZZN.

ZZN had provided PLN 1.7 million (EUR 0.4 million) guarantee to ZKZL under the services agreement. ZKZL has addressed to Interrisk, which had issued insurance guarantee, to pay the guarantee amount, despite questioning the existence of claims by ZZN. InterRisk, in the light of the formal fulfillment of the conditions set out in paragraphs 4 and 5 of the Guarantee, paid the entire amount requested. Next, InterRisk has addressed to ZZN to return the abovementioned amount and filed an application for issuing a payment order to the District Court in Warsaw. District Court in Warsaw issued a payment order on 28 March 2018. ZZN has filed charges against the order and filed for dismissal of the claim. The case has not yet been finally settled by the court.

There were no any new facts, circumstances in the legal process of the claim during the 2019 thus no accounting estimates were changed.

Contingencies related to foreign subsidiaries

Group subsidiaries, carrying out business operations in the region of St. Petersburg, namely ZAO City Service, OAO City Service and OOO Жилкомсервис № 3 Фрунзенского района, due to contradictory court practice and disputed legal interpretations may be exposed to additional income tax and VAT risk. The Group's management estimates that the maximum exposure of such risk, including penalties, may amount to EUR 5,186 thousand as of 31 December 2019 (EUR 5,364 as of 31 December 2018). The management of the Group estimate most of these risks to be not probable considering known court practices and other relevant information. The Group has made a provision for amount of EUR 550 thousand as of 31 December 2019 related to the above mentioned risks which were assessed as probable (Note 16).

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31 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, V. Turonis, D. Šimaitis, A. Šimkus (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 Būsto priežiūra, Zespół Zarządców Nieruchomości sp. z o.o., SIA Latvijas Namsaimnieks and UAB City Service have provided surety EUR 42 million for City Service SE to AB SEB bankas under credit agreement. Companies are liable to the extent of all its assets to the Bank with respect to the same amount as the City Service SE. Shares of UAB Mano Būsto priežiūra and UAB City Service are pledged to AB SEB bankas 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.

2019

Group	**Purchases**	**Sales**	**Receivables and prepayments**	**Payables and advances received**
UAB ICOR	419	96	31	248
Subsidiaries of UAB ICOR				
AB Axis Industries	-	47	5	-
Other subsidiaries of UAB Lag&d	414	1,080	326	223
	833	**1,223**	**362**	**471**

2018

Group	**Purchases**	**Sales**	**Receivables and prepayments**	**Payables and advances received**
UAB ICOR	409	115	2	75
Subsidiaries of UAB ICOR				
AB Axis Industries	17	65	12	1
Other subsidiaries of UAB Lag&d	356	1,016	220	95
	782	**1,196**	**234**	**171**

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31 Related party transactions (cont'd)

The ageing analysis of the Group's receivables from related parties 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**
2018	116	25	14	28	19	32	**234**
2019	143	35	50	20	77	37	**362**

Remuneration of the management and other payments

The Group's management remuneration amounted to EUR 1,288 thousand in 2019 (EUR 1,055 thousand in 2018). In 2019 and 2018 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 2019 and 2018.

32 Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains 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 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 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 2019 and 2018.

The Group companies registered in Lithuania, Estonia and Spain are obliged to upkeep their equity (as per statutory financial statements) 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 2019 and as of 31 December 2018 all Group companies met 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 2019 and 2018 the Group was not in breach of the above mentioned requirements.

The Group monitors capital using debt to equity ratio. There is no target debt to equity ratio set out by the Group's management, however, current ratio presented below is considered as good performance indicator, taking into account the changes in the Group (Note 1).

	Group	
	2019	**2018**
Non-current liabilities (including deferred tax)	31,742	26,157
Current liabilities	47,504	46,938
Liabilities	**79,246**	**73,095**
Equity	**50,966**	**49,253**
Debt to equity ratio	**155%**	**148%**

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33 Subsequent events

On 12 February 2020 the Supervisory Board of the Company adopted resolution to recall Algė Jablosnkienė from the Management Board of the Company.

On 10 March 2020 the Group, through its Lithuanian subsidiary, sold 100% stake in UAB Būsto mokėjimai, which intended to carry out payment activity. Value of share sale – purchase agreement is EUR 231 thousand. The carrying value of the net assets of the subsidiary disposed included in the consolidated financial statements as of 31 December 2019 amounted to EUR 146 thousand.

On 25 March 2020 the Supervisory Board of the Company adopted resolution to recall Aivaras Šimkus from the Management Board of the Company.

On 30 March 2020 the Group, through its Polish subsidiary has submitted a petition for bankruptcy of Wolska Aparthotel sp. z o. o. to official institutions in Poland. The bankruptcy was determined by the state of pandemic threat of SARS-CoV-2 virus which resulted the significant loss of revenues in subsidiary, after the Company was forced to stop running the Aparthotel. The carrying value of the assets and liabilities of this subsidiary included in the consolidated financial statements as of 31 December 2019 amounted to EUR 510 thousand and EUR 888 thousand respectively.

The Group assessed the potential impact of COVID-19 pandemic situation, including the quarantine that has been announced in the Republic of Lithuania on 16th March as well as in other countries, where the Group‘s companies operate, on the financial statements, including going concern assumption. The management has assessed that this matter will not affect the Group’s ability to continue as a going concern as the Group‘s core bussiness area remains less affected and it should not have a significant impact on Group‘s activities, except the event described above. In addition, the management has concluded that event of COVID-19 pandemic situation is a non-adjusting subsequent event and therefore it’s potential impact was not considered when making significant estimates as of 31 December 2019 as disclosed in Note 2.20. This matter might have a significant impact on these estimates in the next financial period, which cannot be reasonably quantified at this stage by the management due to great level of uncertainty associated with further development of COVID-19 pandemic situation in the countries of operation.

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34 Parent company's unconsolidated financial statements

The unconsolidated 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 unconsolidated 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 2019**	**As of 31 December 2018**
ASSETS		
Non-current assets		
Other intangible assets	35	54
Property, plant and equipment	55	100
Investments into subsidiaries*	1,812	30,776
Non-current receivables*	111,265	24,601
Deferred income tax asset	77	73
Total non-current assets	**113,244**	**55,604**
Current assets		
Prepayments	4	14
Trade receivables	34	31
Receivables from related parties (including loans granted)	4,975	3,764
Other receivables	115	87
Cash and cash equivalents	13	4,618
Total current assets	**5,141**	**8,514**
Total assets	**118,385**	**64,118**

*during the financial year, the part of subsidiaries of the Company were sold internally to another subsidiary of the Group.

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(all amounts are in EUR thousand unless otherwise stated)

34 Parent company's unconsolidated financial statements (cont'd)

Statement of financial position (cont'd)	As of 31 December 2019	As of 31 December 2018
EQUITY AND LIABILITIES		
Equity		
Share capital	9,483	9,483
Share premium	21,067	21,067
Reserves	948	948
Retained earnings	56,633	2,539
Total equity	**88,131**	**34,037**
Liabilities		
Non-current liabilities		
Non-current borrowings	16,318	16,690
Lease obligations	-	28
Non-current payables	61	348
Total non-current liabilities	**16,379**	**17,066**
Current liabilities		
Current loans	3,432	9,937
Current portion of non-current borrowings	2,631	2,632
Current portion of lease obligations	28	7
Trade payables and payables to related parties	7,436	110
Contract liabilities	97	96
Income Tax	52	-
Other current liabilities	199	233
Total current liabilities	**13,875**	**13,015**
Total liabilities	**30,254**	**30,081**
Total equity and liabilities	**118,385**	**64,118**

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34 Parent company's unconsolidated financial statements (cont'd)

Statement of comprehensive income	**2019**	**2018**
Revenue from contracts with customers	278	275
Cost of sales	(1)	(6)
Gross profit	**277**	**269**
General and administrative expenses	(900)	(328)
Other operating income	2	-
Profit from operations	**(621)**	**(59)**
Gain on sale of investments	53,112	-
Interest income	1,654	1,368
Other finance income	861	5,000
Interest expenses	(910)	(650)
Other finance expenses	(1)	(169)
Profit before tax	**54,095**	**5,490**
Income tax	(1)	50
Net profit	**54,094**	**5,540**
Other comprehensive income	-	-
Total comprehensive income for the year, net of tax	**54,094**	**5,540**

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34 Parent company's unconsolidated 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 2018	**9,483**	**21,067**	**948**	**1,738**	**5,060**	**38,296**
Net profit for the year	-	-	-	-	5,540	5,540
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	5,540	5,540
Transfer of other reserves	-	-	-	(1,738)	1,738	-
Dividends declared	-	-	-	-	(9,799)	(9,799)
Balance as of 31 December 2018	**9,483**	**21,067**	**948**	**-**	**2,539**	**34,037**
Book value of holdings under control or significant influence						(30,776)
Value of holdings under control of significant influence, calculated under equity method						54,579
Adjusted unconsolidated equity as of 31 December 2018*						**57,840**

* Adjusted unconsolidated equity differs from the consolidated equity as of 31 December 2018 and 2017 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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34 Parent company's unconsolidated 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 2019	**9,483**	**21,067**	**948**	-	2,539	**34,037**
Net profit for the year	-	-	-	-	54,094	54,094
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	54,094	54,094
Transfer of other reserves	-	-	-	-	-	-
Dividends declared					-	-
Balance as of 31 December 2019	**9,483**	**21,067**	**948**	**-**	**56,633**	**88,131**
Book value of holdings under control or significant influence						(1,812)
Value of holdings under control of significant influence, calculated under equity method						(20,459)
Adjusted unconsolidated equity as of 31 December 2019*						**65,860**

* Adjusted unconsolidated equity differs from the consolidated equity as of 31 December 2019 and 2018 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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34 Parent company's unconsolidated financial statements (cont'd)

Statement of cash flows	**2019**	**2018**
Cash flows from (to) operating activities		
Net profit	54,094	5,540
Adjusting items:		
Income tax expenses	1	(50)
Depreciation and amortisation	67	52
Impairment and write-off of accounts receivable	-	(46)
Dividend (income)	(800)	(5,000)
(Gain) from sale of investments	(53,112)	-
Interest (income)	(1,654)	(1,368)
Interest expenses	910	650
Changes in provisions	(287)	(939)
Other financial activity result, net	(61)	169
	(842)	(992)
Changes in working capital:		
Decrease in trade receivables, receivables from related parties, non-current receivables, other receivables and other current assets	4,868*	945
Decrease (increase) in prepayments	9	(12)
(Decrease) increase in trade payables and payables to related parties	159	(801)
Income tax (paid)	47	-
Increase in contract liabilities	-	96
Increase (decrease) in advances received and other current liabilities	33	(224)
Net cash flows from operating activities	**4,274**	**(988)**
Cash flows from (to) investing activities		
(Acquisition) of non-current assets	(10)	(68)
Proceeds from sale of non-current assets	10	1
Disposal of investments in subsidiaries	-*	-
Interest received	365	472
Dividends received	800	5,000
Loans (granted)	(3,956)	(3,233)
Loans repaid	827	643
Net cash flows from investing activities	**(1,964)**	**2,815**
Cash flows from (to) financing activities		
Dividends (paid)	-	(9,799)
Proceeds from loans	3,139	33,636
Lease (payments)	(7)	(7)
Loans (repaid)	(9,137)	(21,410)
Interest (paid)	(910)	(622)
Net cash flows (to) from financing activities	**(6,915)**	**1,798**
Net (decrease) increase in cash and cash equivalents	**(4,605)**	**3,625**
Cash and cash equivalents at the beginning of the year	**4,618**	**993**
Cash and cash equivalents at the end of the year	**13**	**4,618**

* Non-cash activity of EUR 82,076 thousand related to sale of subsidiaries is excluded.

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INDEPENDENTAUDITOR'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 2019, 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 2019, 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.

Key audit matters

How the matter was addressed in the audit

1. Impairment assessment of goodwill and other intangible assets

Goodwill and customer relationship intangible assets (accounted under other intangible assets) amount to EUR 34.4 million in the statement of financial position of the Group as of 31 December 2019. The Group performed an impairment test of these assets based on the value in use estimation as disclosed in Notes 2.20 and 4 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 customer relationship intangible assets represent more than 26% of the total assets of the Group as of 31 December 2019.

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 (forecasted growth of EBIDA, 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 30 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 5.2 million and related provisions of EUR 550 thousand recorded as of 31 December 2019. 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 30 and Note 16 of the consolidated financial statements.

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

As of 31 December 2019 the Group had current trade accounts receivable balance amounting to EUR 36.5 million reported in the statement of financial position, part of which was overdue as disclosed in Note 12 of the financial statements, and EUR 8.7 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 34% of the total assets of the Group in the statement of financial position as of 31 December 2019 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 23.8 million as of 31 December 2019. As disclosed on Note 5, 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 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 30 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 and Corporate Governance report, Social Responsibility report and Declaration of Management, but does not consists of the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 5 years as auditors of City Service SE and 13 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 22). There were no other undisclosed services provided to the Company.

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

Tallinn, 30 April 2020

Stan Nahkor
Authorised Auditor's number 508
Ernst & Young Baltic AS
Audit Company's Registration number 58