Consolidated Annual Report 2018

CITYSERVICE

In service of your property

CONSOLIDATED ANNUAL REPORT FOR 2018

Beginning of the reporting period	1 January 2018
End of the reporting period	31 December 2018
Business name	City Service SE
Registration number	12827710
Legal address	Narva mnt. 5, 10117 Tallinn, the Republic of Estonia
Telephone	+370 5 239 49 00
Fax	+370 5 239 48 48
E-mail	info@cityservice.eu
Website	http://www.cityservice.eu
Auditor	Ernst & Young Baltic AS

Contents

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 2019

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.

Main business areas of the Group:

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

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

At present the Group companies perform their activities in Lithuania,Poland, Spain, Latvia and St. Petersburg (Russia).

The Total area of buildings administered in these regions is
35.8 million sq. m.

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 – to be a leader in value creation for residential properties.

Our mission – representation of clients’ interest 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. PETERSBURG	SPAIN	
100% SIA Connecto Pay	100% UAB Acta iuventus	100% UAB City Service	100% UAB Karoliniškių turgus	100% UAB Namų priežiūros centras	99.84% UAB Šilutės būstas	100% Atrium 21 sp. z o.o.	100% Parama Red sp. z o.o.	100% ОАО Сити Сервис / ОАО City service	100% Administracion Urbana y Rural Chorro, S.L.U.	100% Euronamas Gestion de Fincas Sur, S.L.
100% SIA City Service	100% UAB Alytaus būstas	100% UAB City Service Cleaning	100% UAB Kauno centro būstas	100% UAB Naujamiesčio būstas	100% UAB Šiaulių NT valdymas	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.	100% Euronamas Gestion de Fincas Mrc, S.L.
100% SIA City Service Engineering	76% UAB Alytaus namų valda	100% UAB City Service Engineering	100% UAB Klaipėdos būstas LT	100% UAB Naujosios Vilnios turgavietė	100% UAB Tauragės būstas	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 Madrid, S.L.
100% SIA Ēku pārvaldīšanas serviss	100% UAB Algos saugos tarnyba	100% UAB Connecto Pay	100% UAB Konarskio turgelis	100% UAB Nemuno būstas	99.84% UAB Toirenta	100% Concierge-ZN[2] sp. z o.o.	100% Progresline sp. z o.o.	100% ООО МН Групп	100% Aresi Euroinmo S.L.	100% Grupo Aresi de Inversiones, S.L.
100% SIA Laba Enerģija	100% UAB Antakalnio būstas	100% UAB CSG IT	100% UAB Lazdynų butų ūkis	99.84% UAB Pastatų priežiūra	100% UAB Unitechna	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% Interlift Mantenimiento y Ascensores, S.L.
100% SIA Latvijas Namsaimnieks	100% UAB Aukštaitijos būstas	100% UAB Dainavos būstas	100% UAB Lazdynų būstas	100% UAB Pastatų valdymas	100% UAB Vaizdo stebėjimo sprendimai	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% Portalpro Gestion Integral S.L.
100% SIA Namu serviss APSE	100% UAB Baltijos būsto priežiūra	100% UAB Danės būstas	100% UAB Mano aplinka	100% UAB Pašilaičių būstas	100% UAB Vėtrungės būstas	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% Vetell dos iberica, S.L.[7]
	100% UAB Baltijos NT valdymas	100% UAB Economus	100% UAB Mano aplinka plius	100% UAB Pietinis būstas	100% UAB Vilkpėdės būstas	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% UAB Baltijos transporto valdymas	100% UAB Energijos taupymo paslaugos	100% UAB Mano Būstas	100% UAB Radviliškio būstas	100% UAB Vilniaus turgus	50% Home Rent sp. z o.o.	100% Wolska Aparthotel sp. z o. o.			
	57,71% UAB Baltijos turto valdymas	100% UAB Energinio efektyvumo paslaugos	100% UAB Mano Būsto Sauga	100% UAB Rinkų vystymas	100% UAB Viršuliškių būstas	100% Parama Blue sp. z o.o.	100% ZZN[5] sp. z o.o.			
	100% UAB Birštono būstas	100% UAB Neries būstas	100% UAB Mano būsto valdymas	100% UAB Saugos projektų valdymas[1]	100% UAB Voverės	100% Parama Group sp z o. o.	100% ZZN Inwestycje sp. z o.o.			
	57.71% UAB Biržų butų ūkis	100% UAB Justiniškių būstas	100% UAB Mano sauga LT	100% UAB Skolos LT	100% UAB Žirmūnų būstas					
	100% UAB Būsto mokėjimai	100% UAB Jūros būstas	100% UAB Merlangas	100% UAB Šiaulių būstas						
	100% UAB Citenga	100% UAB Karoliniškių būstas	100% UAB Nacionalinis renovacijos fondas	100% UAB Šilalės būstas						

The Group's investment in an associate as of 31 December 2018 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 2018, the Group companies focused on unifying and improving the working conditions of all employees, reducing the divide between the various staff members. Facilities in Lithuania, Poland and Russia have been renovated, with additional possibilities offered to enjoy coffee and fruit free of charge in the workplace.

Main attention was devoted to the development of staff competencies and awareness of the company's long-term strategy and objectives. A unified Internal and External Customer Service Standard has been introduced in all countries, along with the internal trainings for all chain staff. In the second half of the year, the European Union funding for employee training was approved in Lithuania. The project is valued at about 500 thousand EUR, it's duration is 3 years. This money is invested in intensive training of all levels of staff from technical training in professional skills, teaching of foreign languages, to strengthening of leadership competencies.

In all regions where the Group companies operate, the involvement and opinion of employees started to be investigated. In Lithuania, where this study has been conducted since 2012, the highest level of employees engagement and satisfaction index during the period has been achieved.

At the end of 2018, the Lithuanian Association of Personnel Management Professionals presented the Company with the Visit of the Year award, which proves that the company has the most modern human resource management practices.

Currently, the Group of companies employs 4,305 employees in total. In Lithuania it has 2,736 employees, in Latvia – 117 employees, in Poland – 678 employees, in Spain – 126 employees, in St. Petersburg – 648 employees.

Number of employees by country

2. Management report

2.1. Main areas of activity

2.1.1. APARTMENT BUILDINGS ADMINISTRATION

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

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

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

In LITHUANIA, the Group companies increased the area of maintained apartment buildings by signing new contracts with apartment owners. Over the year, the area of multi-apartment blocks maintained house increased by 117 thousand. sq. meters. The geography of activities has also expanded

10.6
million m²

– the apartment buildings administration has been started in Šakiai, Pasvalys and Tauragė. In the Group's companies, special attention was dedicated to customer relations and quality control. Throughout Lithuania, a project has been carried out to better identify the needs of customers, reviewing the standard policy, dealing with emerging issues more quickly and proposing appropriate solutions.

A significant increase in the number of customers using the online platform and mobile application eBūstas has been noted. The number of unique users has increased to almost 80 thousand, and the number of payers to 20 thousand.

At present, the area of housing maintained by the enterprise is 10.6 million sq. meters.

Group companies operating IN POLAND started to provide services under the brand of Tumieszkamy. There has been an active deployment of business activity optimisation processes that have begun to provide a home insurance agent service. The Group company also launched a certification of contractors, to guarantee high-quality works and services for the clients.

At present, the total area of administered apartment buildings in Poland is 9.5 million. sq. meters.

9.5
million m²

In SPAIN, the Group's holding company Grupo Aresi de Inversiones S.L. has expanded its housing business in the regions of Levantes, Murcia, Madrid and Malaga. The new portfolios purchased in 2018 increased the area of maintained apartment buildings to 7.4 million. sq. meters.

In 2019, it is planned to start providing legal services and further increase the market share of the residential maintenance market through organic development and acquisitions.

7.4
million m²

Active development has taken place IN LATVIA. The area of maintained buildings has been increased organically, and services are provided in Riga and Liepāja. Currently, the area of maintained residential buildings reaches 680 thousand. sq. meters. The Group companies will continue to strive to increase the serviced home area organically and through new acquisitions, and to expand the geography of activities in other cities of the country.

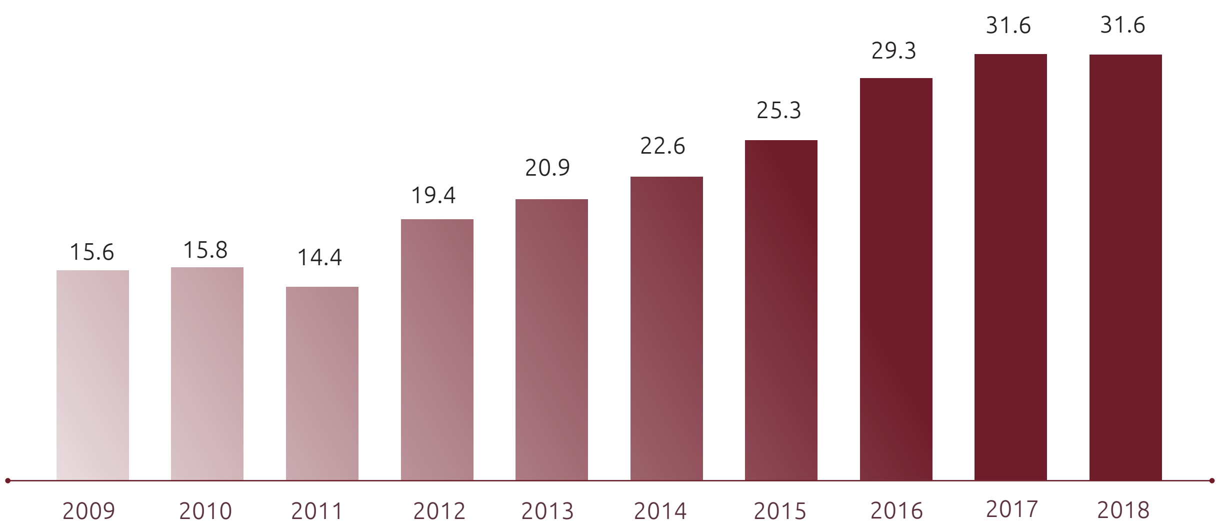
0.7
million m²

The Group's companies operating in ST. PETERSBURG increased the area of maintained apartment buildings by 19 thousand. sq. meters a year. For customer convenience it opened 4 new offices, where services and consulting is provided to the residents of apartment buildings. The companies of the Group started to develop new service packages such as the Smart House and Safe City, and will invest in the development of these services in 2019. Cooperation with telecommunication service providers who work in the homes served by the Group companies has also been expanded.

3.4
million m²

At present, the total area of administered apartment buildings is 3.4 million. sq. 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 services that ensure reliable functioning of building systems and lower maintenance costs.

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

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

LITHUANIA has expanded its customer base by signing 75 contracts: 38 contracts with new customers, 37 contracts with existing customers.

Integrated building management services were launched to the German factory HELLA Lithuania, located in the territory of Kaunas FEZ, to the international clothing trade company H&M, which operates stores throughout Lithuania, industrial business centre Minsko 7, new glass unit factory Glass Lt, and Klaipeda Central Terminal in Klaipeda seaport. The agreement on the maintenance of street lighting in Tauragė was signed, and contract with the NT Holding for maintenance of all their buildings in Lithuania was extended. The maintenance contracts were signed with the Booking.com for the maintenance of their new office in Vilnius, with AB Telia for ventilation and air conditioning maintenance, with AB Lietuvos Paštas for asset management of all objects in Lithuania, with French sports giant Decathlon for the maintenance of their first shop in Lithuania, maintenance of Quadrum business Centre, with DS Smith Packaging factory for property management services.

The total area of the maintained buildings amounts to 3.5 million. sq. meters.

3.5

million m²

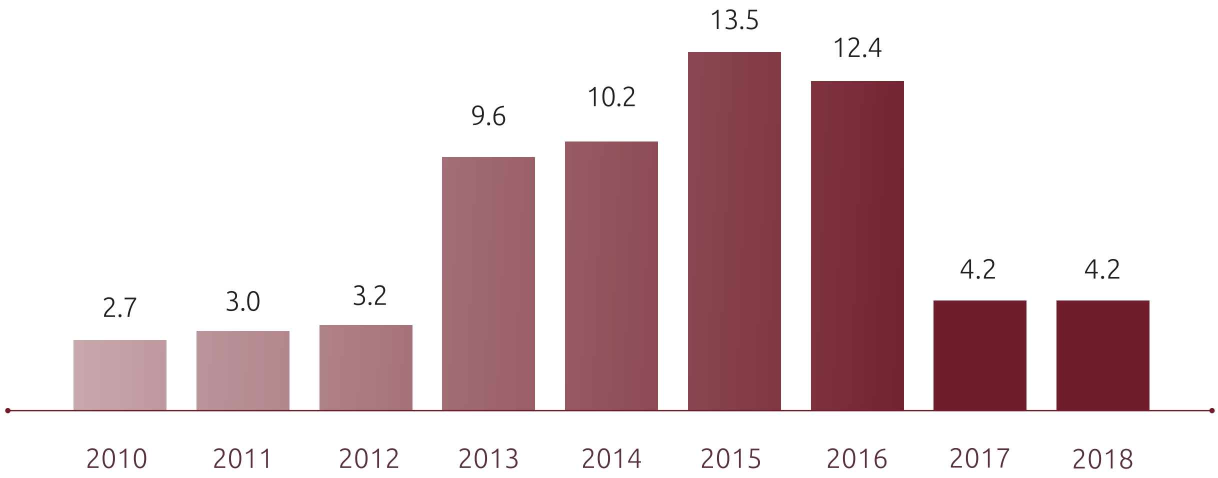
IN LATVIA, the number of customer of the commercial segment and the amount of objects being served was expanded in 2018. New commercial facility management contracts were signed with the Alojas Biznesa centrs, Pillar Business centre, new Lemon Gym sports club, a service contract with McDonald's. Other major projects have been successfully implemented as well: reconstruction of existing Maxima stores and installation of new ones, installation of Lemon Gym sports club. Energy saving projects are continuing.

In 2018, the total area of maintained buildings amounted to almost 680 thousand. sq. meters.

0.7

million m²

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



2.1.3. TERRITORY MAINTENANCE AND CLEANING

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

IN LITHUANIA, the Group's company provides cleaning and territory maintenance services in Vilnius, Kaunas, Klaipėda, Šiauliai, Biržai, Alytus, Šilutė, Radviliškis, Rokiškis and Panevėžys. The company is responsible for clean environment and order both in apartment buildings and commercial objects, as well as in the public areas of the cities. This year, the contract for the central part of Vilnius was renewed – with over 13 million euro of income secured for 3 years. The company is constantly expanding its range of services and investing in the acquisition of new equipment: currently, it has purchased 7 new tractors, more than 40 motorised sweepers, as well as various other modern equipment for indoor cleaning. In 2019, it is planning to launch a window cleaning service, landscaping and cleaning of private holdings and premises.

IN LATVIA, the Group companies provide cleaning and territory maintenance services for apartment houses, supermarkets and offices. In 2018 the company invested in the renovation of vehicles and specialised cleaning tools.

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

2.1.4. OTHER SERVICES

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

> In Lithuania the Group companies provided security services to
> **5,000 customers**

IN LITHUANIA in 2018, the Group companies provided security services to 5,000 customers, carried out house renovation projects in 166 homes, maintained 631 children's playgrounds and 513 outdoor exercise machines, provided maintenance services to 221 service stations, judicial and pre-litigation recovery of debts for nearly 4 million euro, and the food supply service to 37 companies and organizations.

The company operating IN LATVIA continues renovation of apartment buildings under the new programme. Two apartments have been fully modernized during the year, and two more are undergoing renovation. Intensive residents surveys on home renovation are continued.

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

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

2.2. Enhancing the performance efficiency

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

In 2018, LEAN training program was prepared and standardised IN LITHUANIA. Over 350 employees of the Group companies participated in various trainings according to this programme. In terms of usefulness, readiness and clarity, participants rated the training program in 4.7 points out of 5. Last year, 71 per cent of the top executives participated in the project activities.

Automation or robotization processes are implemented in 4 projects. This allowed to save over 3600 hours in a year.

Process architecture was created in 2018. Over 800 processes have been identified and over 200 processes have been modelled and aligned with owners. Standardised processes and their clear architecture allows for easier management of changes in our daily business.

Companies IN SPAIN are actively implementing processes for continuous improvement, which have already involved all top-level executives and 50% of other personnel. In 2019, great attention will be paid to increasing the competences of all employees. Also, significant attention will be dedicated to the implementation of the building management standard.

Companies IN POLAND also continue to implement performance optimization solutions. Through LEAN, development and optimisation processes are being actively pursued, and all top management and the vast majority of administrative staff have been involved in continuous improvement activities. There is a high potential in these regions, and the focus on increasing the efficiency of Operations will continue.

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

IN ST. PETERSBURG, the successful implementation of operational efficiency processes has resulted in the reduction of the bad debt portfolio by 80,000 thousand euro. Great emphasis was made on the development of managerial and employee competencies, thus the number of different trainings and the number of managers and employees participating in training increased. More than 150 employees of various levels took part in the training during the year.

The LEAN standard has become one of the main competitive advantages of the Group, therefore, all the Group companies will continue to actively implement processes that improve their performance in 2019.

> The LEAN standard has become one of the main competitive advantages of the Group, therefore, all the Group companies will continue to actively implement processes that improve their performance in 2019.

2.3. The most significant Investments and Events

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 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 11 JUNE 2018 Eurodrauda Correguria de Seguros, S.L.U. company title was changed into Eurobroker Advisors Sorreduria de Seguros, S.L. Other contact details did not change.

ON 28 JUNE 2018 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 2017 and distributed the Companies profit for the year 2017.

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 27 JULY 2018 OAO Специализи-рованное ремонтно-наладочное управление legal form was reorganized into OOO Специализи-рованное ремонтно-наладочное управление.

ON 31 JULY 2018 the Group, through its Polish subsidiary, sold 100% stake in Gerente - Serwis Nieruchomości sp. z o.o. which provided commercial real estate management and building maintenance services. Value of share sale – purchase agreement is PLN 80 thousand. Net assets of disposed subsidiary at the date of disposal amounted to PLN 374 thousand.

ON 31 JULY 2018 the Group, through its Polish subsidiary, sold 100% stake in Hoone - Usługi Budowlane sp. z o.o. which provided Construction and engineering services. Value of share sale – purchase agreement is PLN 40 thousand. Net assets of disposed subsidiary at the date of disposal amounted to PLN (54) thousand.

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.

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 4 SEPTEMBER 2018 the Company signed a financing agreements with AB SEB bankas, enterprise code 112021238, which allows the Company to borrow up to EUR 42 million. The loan shall be used to finance active expansion of City Service group through acquisitions and to refinance existing loans.

ON 29 AUGUST 2018 UAB Būsto aplinka company title was changed into UAB Connecto Pay. Other contact details did not change.

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.

ON 16 NOVEMBER 2018 the Extraordinary General Meeting of Shareholder of the Company has been held. The shareholders elected Ernst & Young Baltic AS, as the audit company which shall perform the Company's and the Company's set of consolidated financial statements audit for the years 2018-2020 and shall evaluate Company's consolidated annual reports for the years 2018-2020. Shareholders also have set a renumeration for the audit listed above.

ON 19 NOVEMBER 2018 UAB Grindos būstas company title was changed into UAB Neries būstas. Other contact details did not change.

ON 3 DECEMBER 2018 Euronamas Gestion de Fincas Madr, S.L. company title was changed into Euronamas Gestion de Fincas Sur, S.L. Other contact details did not change.

LATEST EVENTS

ON 21 JANUARY 2019 the Group, through its Lithuanian subsidiary, acquired 100% stake in SIA Ventspils nami (acquisition price EUR 120 thousand) which manages residential facilities in Ventspils. At the moment of issuance of these financial statements Group's management was not able to obtain reliable financial information of the newly acquired company and evaluate fair value of net assets as at the acquistion.

ON 1 FEBRUARY 2019 the Supervisory Board of the Company elected Dalius Šimaitis as a new Management Board member. Management Board consists of 7 management board members including chairman of the Management Board.

2.4. Key risk activity types and uncertainties

In 2018 the market was stable, prices and purchasing power did not decline, in comparison with 2017. 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 2018, 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 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 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 to manage the exposure to the interest rate risk outstanding as of 31 December 2018 and 2017.

2.5. The main financial ratios concerning the financial year

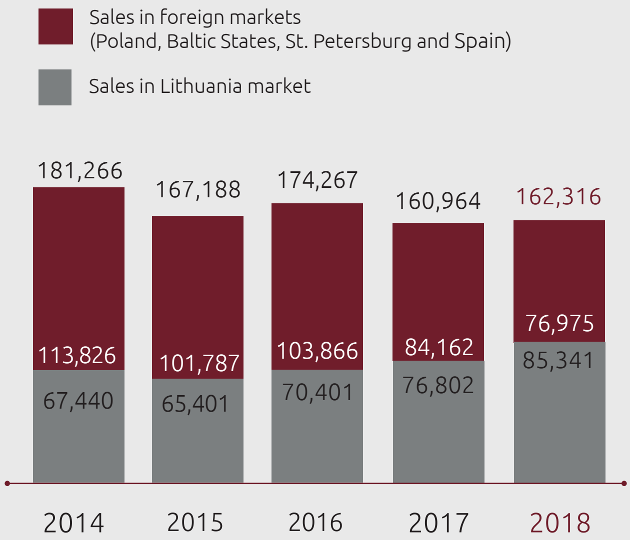
KEY FINANCIAL INDICATORS*	2014	2015	2016	2017	2018
Sales	181,266	167,188	174,267	160,964	162,316
Sales in Lithuania market	67,440	65,401	70,401	76,802	85,341
Sales in foreign markets (Poland, Baltic States, St. Petersburg and Spain)	113,826	101,787	103,866	84,162	76,975
Area under management in Lithuania (thousand sq. m)	12,500	13,030	13,693	13,896	14,074
Area under management in foreign markets (Poland, Baltic States, St. Petersburg and Spain)	20,234	25,817	27,983	21,896	21,748
GROSS PROFIT					
EBITDA	12,314	10,012	9,679	12,318	10,428
EBITDA margin	6.79%	5.99%	5.55%	7.65%	6.42%
Operating profit (EBIT)	8,914	5,883	5,353	7,929	5,437
EBIT margin	4.92%	3.52%	3.07%	4.93%	3.35%
Earnings before tax (EBT)	6,932	7,537	5,527	7,943	4,578
EBT margin	3.82%	4.51%	3.17%	4.93%	2.82%
Net profit	5,119	6,184	1,266	6,151	3,841
Net profit in foreign markets (Poland, Latvia, Russia and Spain)	(831)	(783)	(354)	49	309
Net profit margin	2.82%	3.70%	0.73%	3.82%	2.37%
Profit per share (EUR)	0.20	0.26	0.04	0.19	0.12
Return on equity (ROE)	9%	11%	2%	11%	8%
Return on assets (ROA)	4%	6%	1%	5%	3%

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

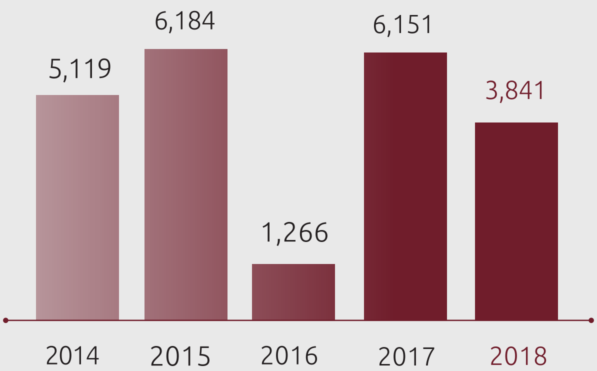
HIGHLIGHTS

AREA UNDER MANAGEMENT, THOUSAND M²

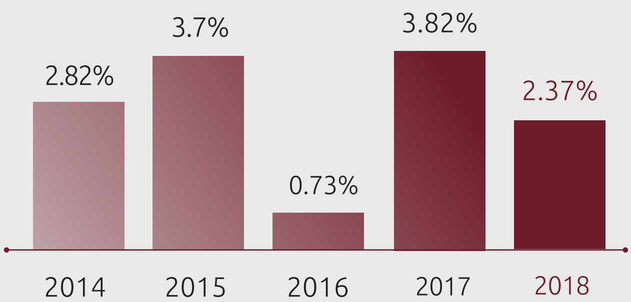
SALES, THOUSAND EUR



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 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 paid up.

On 31 December 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.

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 2018 the total number of shareholders of the Company was 254.

Company's shares distribution among shareholders who have more than 5 % shares of the Company as of 31 December 2018 was the following:

	Number of shares held	Owned percentage of the share capital and votes, %
ICOR UAB, legal entity code 300021944, address: Ozo str. 12A, Vilnius, Lithuania	26,813,293	84.83 %
Other private and institutional shareholders	4,796,707	15.17 %
TOTAL	31,610,000	100 %

2.8. Restrictions on the transfer of securities and restrictions on voting rights

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

To the best knowledge of the Company and its management, the transfer of the shares was free from any restrictions, except for the above mentioned restriction on the transfer of the Company's shares in 2018.

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 2018.

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

2.9. Company's Supervisory Board, Management Board and Management

2.9.1. COMPANY'S SUPERVISORY BOARD

The Supervisory Board is a collegial management body of the Company. The Supervisory Board shall consist of one (1) to seven (7) members elected for a term of 4 (four) years by the General meeting in accordance with the procedure provided for by the Law on Companies of the Republic of Estonia. Only a natural person may be elected to serve on the Supervisory Board. There is no limitation on the number of terms of offices a member of the Supervisory Board may serve. The Supervisory Board shall elect its chairman from among its members. The General Meeting may remove from office the entire Supervisory Board or its individual members before the expiry of their term of office. A member of the Supervisory Board may resign from office prior to the expiry of his term of office by giving a written notice thereof to the Company. **The powers of the Supervisory Board shall cover consideration of the following issues and taking of the following decisions:**

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

- to approve operating strategy, annual report, interim report, management structure of the Company, as well as positions of employees, positions to which employees are recruited by holding competitions;
- to determine the methods used by the Company to calculate the depreciation of tangible assets and the amortization of intangible assets;
- 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 2018, the Supervisory Board of the Company comprises of the following persons:

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

* The Supervisory Board will continue its activities until new Supervisory Board is elected.

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

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

2.9.2. COMPANY'S MANAGEMENT BOARD

The Management Board of the Company comprises of seven (7) members who are representing and directing the Company. The members of the Management Board are elected by Supervisory Board for a term of four (4) years. Supervisory Board has right to elect and remove from the office the members of the Management Board, set their remuneration, other terms of office (employment), approve Management Board regulations. A member of the Management Board may resign from office prior to the expiry of his term of office by giving a written notice.

Management Board members are authorized to represent the Company in all legal acts which do not fall within competence of other Management bodies. The individual members of the Management Board have competence, be accountable and responsible within the following jurisdictions and areas of activity of the Company and its directly controlled subsidiaries under Management Board regulations. Management Board member isn't authorized to issue or repurchase shares of the Company. Also there is no agreements between the Company and its Management Board or employees.

As of 31 December 2018 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	Start of term	End of term
Artūras Gudelis	Chairman of the Management Board	June 26, 2017	June 26, 2021
Tomas Kleiva	Member of the Management Board	June 26, 2017	June 26, 2021
Edvinas Paulauskas	Member of the Management Board	June 26, 2017	June 26, 2021
Vytautas Turonis	Member of the Management Board	June 26, 2017	June 26, 2021
Algė Jablonskienė	Member of the Management Board	June 26, 2017	June 26, 2021
Ignas Krasauskas	Member of the Management Board	October 17, 2017	October 17, 2021
Dalius Šimaitis	Member of the Management Board	February 1, 2019	February 1, 2023

They do not control any shares of the Company.

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

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

TOMAS KLEIVA (born 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.

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

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

VYTAUTAS TURONIS (born 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 but except for HR matters) in Lithuania, Latvia and Estonia.

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

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

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

Ignas Krasauskas is responsible for the Group's information technology policy and its enforcement, e-commerce and legal issues in countries.

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 City Service SE since year 2016. He holds a Bachelor's degree in Thermal Engineering and a Master's degree in Energy Engineering.

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

2.9.3. COMPANY'S MANAGEMENT

As of 31 December 2018, the Company's Managements comprises of the following persons:

Name and surname	Position within the Company	Start of employment
Larijus Lapinskas	Chairman of the Board of the Group companies operating in St. Petersburg	2017
Evgenij Grachiov	Head of the Group companies, operating in Spain (residential building administration)	2012

They do not control any shares of the Company.

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

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

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

Evgenij Grachiov is responsible for the Group's residential buildings administration activities in Spain.

2.10. Dividend policy

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

2.11. Procedure of amendment of the Statutes of the Company

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

In the period since the 1st of January 2018 by the 31st of December 2018 and the day of Annual Report is released Company's Statutes are valid in wording registered in Estonian Commercial register on Register of Legal Entities. The relevant Statutes of the Company is available on its website at www.cityservice.eu.

2.12. Material agreements concluded by the Company which may be important after change of control of the Company

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

2.13. Auditing system and description of the main features of internal audit and risk management systems in connection with the process of the preparation of the annual accounts

The Company has the Audit Committee in place. The Regulations of the activity of the Audit Committee were approved by the Supervisory Board. According to the Regulations of the activity of the Audit Committee the main functions of this committee are as follows:

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

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

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

Members of the Audit Committee of the Company:

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

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

MR. MATAS LIKAUSKAS – financial controller of the Company.

Audit Committee members do not control shares of the Company.

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

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

2.14. Information on compliance with the Corporate Governance Code

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

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

- Rule I.Z.1.20., according to which the Company should publish on its corporate website a record of the Shareholders' Meeting in audio or video format. Currently the Company does not comply with this rule. However, it does not rule out applying thereof in the future;
- Rule II.Z.3., according to which at least two members of the Supervisory Board should be independent. Currently the Company does not comply with this rule. However, taking into consideration that following the Statutes of the Company the Supervisory Board is comprised of three to five members, depending on circumstances, the Company does not rule out proposing to the General Meeting to elect one or two independent members to the Supervisory Board in the future;
- Rule II.Z.4., according to which annex II to the Commission Recommendation of 15 February 2005 on the role of non–executive or supervisory directors of listed companies and on the committees of the (supervisory) council should apply to the tasks and the operation of the committees of the Supervisory Board. As at the date of this 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 develops social projects aimed at contributing to the well-being of residents, communities, employees and residents.

Group's companies are developing various initiatives in Lithuania, Latvia, Poland, Spain and St. Petersburg that promote community, neighbourhood and a responsible view to a jointly managed assets.

Although we have a leading or similar position ON THE MARKET, we endeavour to further improve the quality of services. Therefore, we constantly attempt to build an individual relationship with our clients, to promote their satisfaction with the quality of the services, to ensure better quality of our clients performance at work and living environment, as well as timely interaction and comprehensive provision of information.

Customer experience and evaluations are widely publicised through the Group's internal communication channels and the local media. In the light of the continuous analysis of customer needs, the Group develops targeted strategies and sets operational targets.

In the area of COMMUNITY RELATIONS, the Group develops, supports and enhances collaboration and partnerships with communities, educational institutions, law enforcement and non-governmental organisations. The Group implements initiatives that contribute to the well-being of apartment buildings residents, promotes and supports neighbourhood, a responsible approach to jointly managed assets, develops safe neighbourhood ideas, strengthens local community relations and builds traditions.

In the ENVIRONMENTAL FIELD, the Group promotes the sparing of natural resources, encourages waste sorting, contributes to projects aimed at reducing environmental pollution, and participates in public awareness initiatives. The Group companies collaborate with green organisations and are engaged in the projects related to waste optimisation and promotion of eco-initiatives in residential buildings

3.2. Market

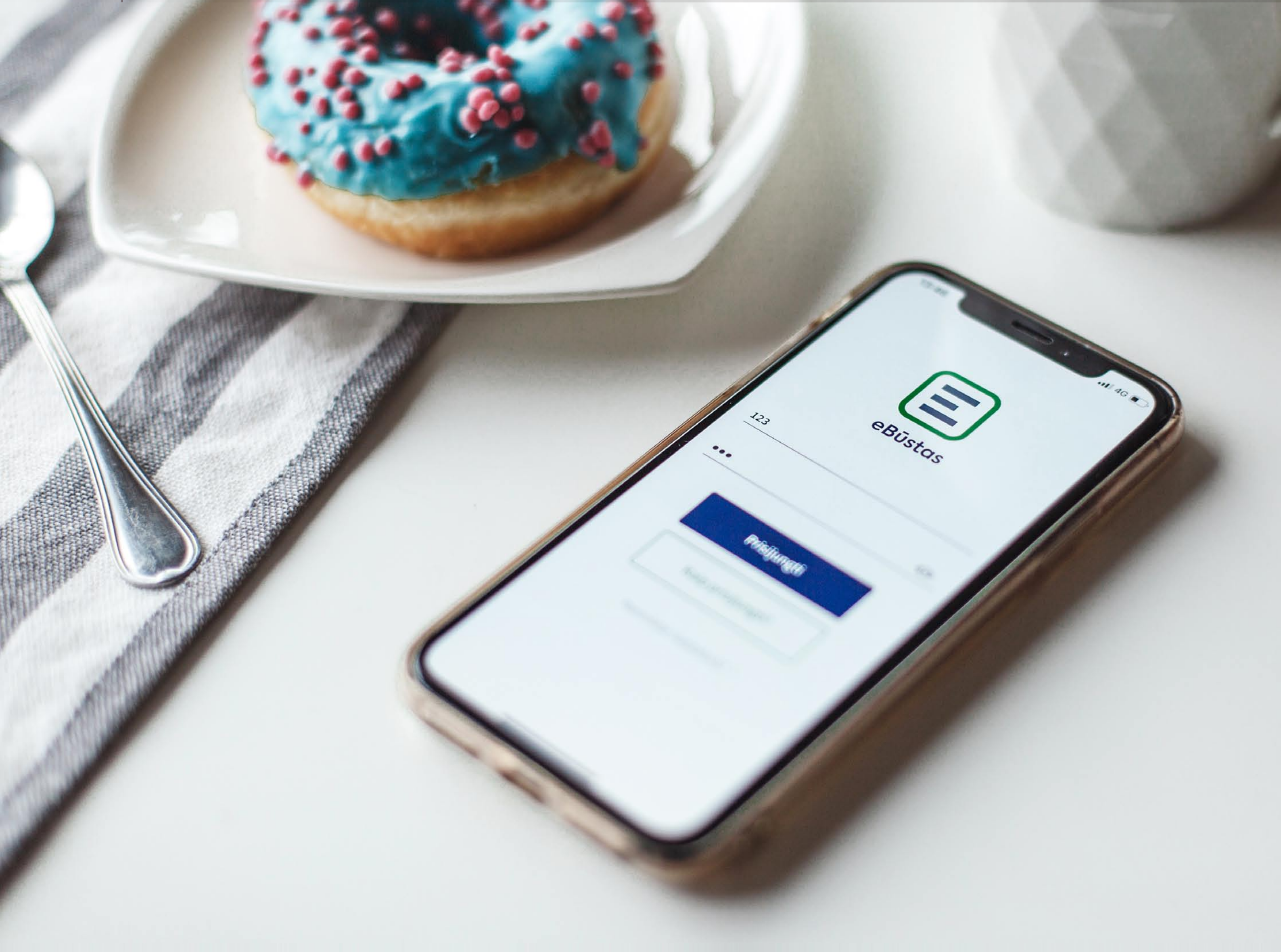
in 2018, the Group companies focused more on the new strategy for customer interaction in order to improve the quality and image of services.

CUSTOMER RELATIONS

In 2018, the Group companies have focused on developing a new approach to customer by not only creating a new strategy, but also the Customer Service Standard, which was introduced to employees of the Group companies across all countries, to help improve the quality of customer service and respond appropriately to different situations.

The Group continues the successful business communication in the media channels, including social networks and even TV. In order to accurately identify customer needs, the Group promotes continuous direct customer relations. For this purpose, the Group has created a platform – an app – allowing customers not only to submit reports but also to facilitate communication with the assigned managers. Customer relations are supported in Lithuania, Latvia, Poland, Spain and St. Petersburg through different channels: by phone, email and newsletters, news boards, self-service portals, social networks, and individual meetings.

IN LITHUANIA, customers have accepted the market innovation – the eBūstas app which allows for convenient reporting of accidents, learning about scheduled works, communicating more directly with managers and, above all, quickly and conveniently paying utility bills. Over the year, the number of loyal app users has reached 70,000. In addition, there are also web pages (self-service portals), and contacts in the Customer Service Centre and Facebook.



> In Lithuania, customers have accepted the market innovation – the eBūstas smart app which allows for convenient reporting of accidents, learning about scheduled works, communicating more directly with managers and, above all, quickly and conveniently paying utility bills.

Over the year, the number of loyal app users has reached

70,000

In 2018, a new trademark TuMieszkami was introduced to customers IN POLAND, thus the whole company's strategy is focused on brand development. One of the areas – introduction of the 24/7 call centre. Over the year, the staff has received 93,486 calls and 4,164 emails from customers. There is also a special online platform with as many as 65,617 active users.

In 2018, the Group company was elected as the Administrator of the Year.

IN SPAIN, customers are accessed through different channels: by phone, e-mails, post, individual meetings and online portals. Social networks are gaining ground, and becoming an indispensable tool for building relationships with customers.

THE ST. PETERSBURG-BASED Groups' company was renamed to domSPB in 2018. They opened the 24/7 Customer Service Centre, a self-service website, and started servicing customers in a new, modern office.

Over the year the Call centre in Poland has received

93,486

calls

3.3. Employee relations

The Group companies are constantly focused on investing in personal growth of their employees, and promotion of cooperation. In 2018, the employees of the Group offered various solutions for increasing operational efficiency and applied them in practice. They also participated in trainings and seminars. Sharing the plans and strategies of the Group companies and the involvement of employees in the joint discussions has become an integral part of the business. Conferences are organised twice a year in Vilnius, Kaunas, Klaipėda and Šiauliai, involving staff at all levels, including top-level management.

EMPLOYEE RELATIONS

In developing its relationship with employees, City Service aims to engage its employees in the Group's business processes, to promote open dialogue between different levels of management and to increase employee motivation and participation in various processes. Staff training is provided to increase the professional competence of employees. A lot of attention is paid to employees health and work safety. The Group is tolerant towards age, gender, race, religion, origin and belief of its personnel, and therefore attempts to ensure equal opportunities and rights for all employees. Staff can communicate and share achievements and issues in dedicated closed social network groups on Facebook. Also, Facebook and LinkedIn profiles of the Group's companies have been created to meet the employer's brand image strategy and enable employees to learn about the company's activities in different countries.

The company started annual interviews with employees, by setting goals and discussing ongoing issues. For the first time in the company's history, it was implemented not only in Lithuania, but also in St. Petersburg, Poland, Latvia and Spain.

Employees were also interviewed for the first time in all countries, encouraging to express their views on the company's activities and making suggestions on how to improve their performance. More than 1000 employees participated in the survey, from technicians to the directors.

The Association of Personnel Management Professionals, having visited the Group company operating in Lithuania, announced it is to be a visit of the Year.

TRAINING AND SEMINARS

In 2018, various training courses and seminars on time, stress management and effective communication were organised in Lithuania; a special LEAN training program was launched, after completion of which the graduates are issued a certificate. Also specialised training for employees of different units were held. In total, more than 70 days have been dedicated to improving knowledge and expertise for nearly 400 employees.

IN LITHUANIA, a newcomer's day is organised once a month in different cities. During full-time training, new employees are introduced to the vision, mission, values, activities and the LEAN methodology of the Group. They get special knowledge of information systems, procurement and employee safety; a team game is played in accordance with the group values.

IN POLAND, an initiative was launched in 2018 to develop the knowledge of its business partners and to inspire them to be more open to new solutions and a modern approach to equipment management.

To this end, a biannual event called The Academy of the Management Boards of the Communities of TuMieszkamy was launched. The event is organised by the employees on a voluntary basis. It presents the latest trends in facility management, maintenance, development, renovation, and energy saving solutions.

Poland has also begun organising a newcomer's and intensive training in all cities where the Group is active.

In 2018, SPAIN invested substantially in human capital through various courses and trainings for management teams, focusing on improvement of customer relationships.

Practical training for sales promotions for employees who are in direct contact with customers is also being offered.

400 **employees in Lithuania participated in LEAN training program.**

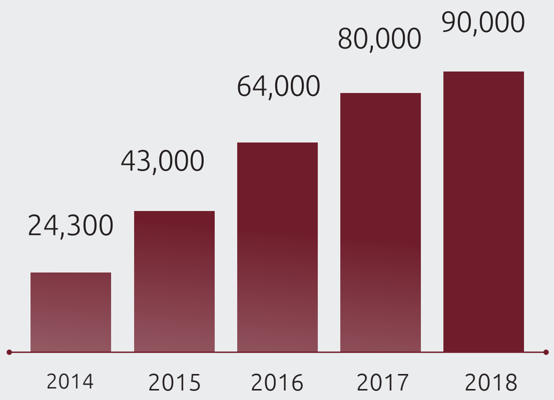
3.4. Social initiatives for communities

One of the most important and biggest social projects in Lithuania is the "Neighbours talk". These are online news portals and social networking sites on Facebook, dedicated to the audience of the five major Lithuanian cities sharing news from both the city and the company.

The fact that the project was important and promising was demonstrated by the nomination of Digital Communication Awards in 2017. Over five years, this project has evolved and today has over 90,000 followers on Facebook. In 2018, nearly 700 articles were written for five cities, of which 20 percent were various corporate news.

In 2018, various events were organised in various cities IN LITHUANIA: Christmas tree festivities, Mardi Gras celebrations, children's festival is at the beginning of summer and other similar initiatives, but one of the biggest was The Neighbour of the Year 2018. The latter initiative, which invites you to notice your neighbour and invite the active people share information about their activities, brought together nearly 40 participants.

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



In 2018, City Service continued its successful cooperation with Ataka football club and contributed to the activities. Thanks to our sponsorship, the club hosted a series of redefining competitions involving children from different childcare homes, led by renowned public figures of the country.

At the end of the year, poor, and socially disadvantaged customers were visited. During the holiday season, the employees of the company delighted them with gifts and a sincere conversation.

Throughout the year in 2018, employees in Lithuania were invited not to rush to close the office door, but to stay in an informal environment – in various events (such as birthday parties for employees born in a particular month), meetings with interesting people.

Special educational sessions and cinema evenings for the children of the staff were also organised.

IN LATVIA, the group of companies successfully carried out TV projects not only telling about the company's activities, but also encouraging to contribute to energy saving solutions. The staircases of the residents were decorated during the Christmas period.

IN POLAND, the Group of companies participated in Poland's largest annual charity Wielka Orkiestra Świątecznej Pomocy (Great Christmas Charity Orchestra). The central unit also contributed to charity aimed at helping orphans.

The branch in Lodz contributed to the publishing of the book Sistine Chapel. It is a unique piece of art with only 200 copies worldwide. Contributing to the promotion of the sales of this publication, the company supports the documentation of highly depreciated frescoes created by Sandro Boticelli and Michaeł Angelo in the Vatican Sistine Chapel. For this purpose, a special fund account has been donated. The Lodz division donated a fund account. The request for support was made by the board of one of Lodz's communities.

3.5. Environment/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).

According to the law IN POLAND, the company sorts waste and, when performing repairs, rents special containers for waste, litter and chips.

IN SPAIN, in order to improve the energy efficiency, more than 50 certificates for sustainable building maintenance were issued. Furthermore, in order to comply with national environmental commitments, modernisation of various installations has been carried out in the buildings under supervision, in order to adapt the installation for solar cells. Group companies in Spain are developing the OMS (Open Metering System) installation.

Waste sorting is promoted IN LITHUANIA, LATVIA, POLAND, SPAIN AND ST. PETERSBURG, and special battery disposal sites are installed. In order to reduce paper costs, many documents are uploaded in special systems, the bills are also accessed electronically by residents, thus encouraging customers to refuse from paper bills.

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position

	Notes	As of 31 December 2018	As of 31 December 2017
ASSETS			
Non-current assets			
Goodwill	4	10,966	11,597
Other intangible assets	5	32,635	27,870
Property, plant and equipment	6	19,002	18,463
Investment property	7	69	81
Investment into associate	1	170	162
Non-current receivables	11, 13	7,035	5,791
Deferred income tax asset	27	3,251	2,693
Total non-current assets		**73,128**	**66,657**
Current assets			
Inventories	9	2,074	1,493
Prepayments	10	2,879	1,703
Trade receivables	12	32,774	30,657
Receivables from related parties (including loans granted)	32	234	169
Other receivables	13	2,898	2,505
Prepaid income tax		496	795
Contract assets	2.18	2,563	-
Accrued income		-	2,024
Cash and cash equivalents	13	5,302	7,797
Total current assets		**49,220**	**47,143**
Total assets		**122,348**	**113,800**

(cont'd on the next page)

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position (cont'd)

	Notes	As of 31 December 2018	As of 31 December 2017
EQUITY AND LIABILITIES			
Equity			
Share capital	1	9,483	9,483
Share premium	14	21,067	21,067
Reserves	14, 2.2	(1,988)	190
Retained earnings		20,287	24,554
Equity attributable to equity holders of the parent		**48,849**	**55,294**
Non-controlling interests	8	404	354
Total equity		**49,253**	**55,648**
Liabilities			
Non-current liabilities			
Non-current borrowings	15	17,398	14,611
Financial lease obligations	17	3,047	2,717
Deferred income tax liability	27	3,608	3,747
Provisions for employee benefits	19	240	160
Provisions	16	1,864	2,112
Total non-current liabilities		**26,157**	**23,347**
Current liabilities			
Current loans	15	10,433	-
Current portion of non-current borrowings	15	2,712	3,290
Current portion of financial lease obligations	17	1,178	995
Trade payables and payables to related parties	20, 32	16,159	14,910
Contract liabilities	21	6,001	-
Advances received	21	-	5,275
Income tax payable	27	262	495
Provisions for employee benefits	19	193	124
Other current liabilities	22	10,000	9,716
Total current liabilities		**46,938**	**34,805**
Total liabilities		**73,095**	**58,152**
Total equity and liabilities		**122,348**	**113,800**

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

FOR IDENTIFICATION PURPOSES ONLY
30.04.2019
GO

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of comprehensive income

	Notes	2018	2017
Revenue from contracts with customers	3	162,316	-
Sales	3	-	160,964
Cost of sales	23	(120,997)	(121,690)
Gross profit		**41,319**	**39,274**
General and administrative expenses	24	(35,122)	(30,181)
Credit loss expenses on financial assets		(483)	(665)
Other operating income	25	1,347	1,800
Other operating expenses	25	(1,624)	(2,299)
Profit from operations		**5,437**	**7,929**
Interest and other finance income	26	266	1,025
Interest and other finance expenses	26	(1,133)	(989)
Share of profit (loss) of associates	1	8	(22)
Profit before tax		**4,578**	**7,943**
Income tax	27	(737)	(1,792)
Net profit		**3,841**	**6,151**
Other comprehensive income that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(440)	(89)
Total other comprehensive income for the year		**(440)**	**(89)**
Total comprehensive income for the year, net of tax		**3,401**	**6,062**
Net profit attributable to:			
The shareholders of the Company		3,791	6,150
Non-controlling interests		50	1
		3,841	**6,151**
Total comprehensive income attributable to:			
The shareholders of the Company		3,351	6,061
Non-controlling interests		50	1
		3,401	**6,062**
Basic and diluted earnings per share (EUR)	28	0.12	0.19

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(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 2017		**9,483**	**21,067**	**(2,426)**	**2,689**	**38,002**	**68,815**	**317**	**69,132**
Net profit for the year		-	-	-	-	6,150	6,150	1	6,151
Other comprehensive income		-	-	(89)	-	-	(89)	-	(89)
Total comprehensive income		-	-	(89)	-	6,150	6,061	1	6,062
Dividends declared	29	-	-	-	-	(19,598)	(19,598)	-	(19,598)
Acquisition of non-controlling interest	4	-	-	-	-	-	-	36	36
Disposal of subsidiaries		-	-	16	-	-	16	-	16
Balance as of 31 December 2017		**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	29	-	-	-	-	(9,799)	(9,799)	-	(9,799)
Transfer of other reserves		-	-	-	(1,741)	1,741	-	-	-
Disposal of subsidiary	1	-	-	3	-	-	3	-	3
Balance as of 31 December 2018		**9,483**	**21,067**	**(2,936)**	**948**	**20,287**	**48,849**	**404**	**49,253**

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

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of cash flows

	Notes	2018	2017
Cash flows from (to) operating activities			
Net profit		3,841	6,151
Adjusting items:			
Income tax expenses	27	737	1,792
Depreciation and amortisation	5, 6, 7	4,991	4,389
Impairment and write-off of inventory, prepayments and accounts receivable		462	820
(Gain) loss on disposal of property, plant and equipment	25	(20)	728
Loss from sale of investments	1	80	392
Impairment of goodwill		623	-
Interest (income)	26	(194)	(540)
Interest expenses	26	565	539
Changes in provisions	16, 31	(420)	419
Result on deconsolidation of subsidiaries	1, 2.20	-	(1,667)
Other financial activity result, net		416	(496)
Share of net loss of associate		(8)	22
		11,073	12,549
Changes in working capital:			
(Increase) decrease in inventories		(393)	40
(Increase) in trade receivables, receivables from related parties, contract assets, non-current receivables, other receivables and other current assets		(4,487)	(3,590)
(Increase) in prepayments		(1,434)	(964)
Increase (decrease) in trade payables and payables to related parties		1,908	(711)
Income tax (paid)		(2,391)	(2,595)
Increase (decrease) in advances received, contract liabilities and other current liabilities		1,359	1,944
Net cash flows from operating activities		**5,635**	**6,673**

(cont'd on the next page)

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of cash flows (cont'd)

	Notes	2018	2017
Cash flows from (to) investing activities			
(Acquisition) of non-current assets	5, 6, 7	(5,524)	(4,242)
Proceeds from sale of non-current assets		418	995
(Acquisition) of investments in subsidiaries and associates (net of cash acquired in the Group)	1, 4	(3,498)	(406)
Disposal of investments in subsidiaries net of cash disposed	1	(3)	39
Deconsolidation of investments in subsidiaries	1	-	(462)
Interest received		142	384
Net cash flows (to) investing activities		**(8,465)**	**(3,692)**
Cash flows from (to) financing activities			
Dividends (paid)		(9,799)	(19,598)
Proceeds from loans	15	34,137	180
Financial lease (payments)	15	(1,289)	(1,820)
Loans (repaid)	15	(22,025)	(3,607)
Interest (paid)		(437)	(441)
Net cash flows (to) financing activities		**587**	**(25,286)**
Net (decrease) increase in cash and cash equivalents		**(2,243)**	**(22,305)**
Foreign exchange difference		**(252)**	**(169)**
Cash and cash equivalents at the beginning of the year		**7,797**	**30,271**
Cash and cash equivalents at the end of the year		**5,302**	**7,797**
Supplemental information of cash flows:			
Non-cash investing activity:			
Property, plant and equipment acquisitions financed by finance leases		1,659	2,478

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

EY
FOR IDENTIFICATION PURPOSES ONLY
30.04.2019
GO

(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 2018 the number of employees of the Group was 4,305 (as of 31 December 2017 – 4,202).

As of 31 December 2018 and 2017 all 31,610 thousand ordinary shares of the Company are included into the Parallel Market of Warsaw Stock Exchange (ISIN Code of the shares is EE3100126368). Trading Code of the shares on Warsaw Stock Exchange is CTS.

As of 31 December 2018 and 2017 the shareholders of the Company were:

	2018		2017	
	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.

Share capital of the Company

The share capital of the Company is EUR 9,483 thousand as of 31 December 2018 and 2017. It is divided into 31,610 thousand ordinary shares with the nominal value of EUR 0.30 each.

All shares of the Company are 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 2018 and 2017.

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Structure of the Group

On 31 December 2018 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 2018	Share of the stock held by the Group as of 31 December 2017	Main activities
UAB Acta iuventus	Lithuania	100%	-	Security services
UAB Alytaus būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Alytaus namų valda	Lithuania	76%	76%	Dormant
UAB Algos saugos tarnyba	Lithuania	100%	-	Security services
UAB Antakalnio būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Aukštaitijos būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Baltijos būsto priežiūra	Lithuania	100%	100%	Dormant
UAB Baltijos NT valdymas	Lithuania	100%	100%	Real estate management
UAB Baltijos transporto valdymas	Lithuania	100%	100%	Asset management
UAB Baltijos turto valdymas	Lithuania	100%	100%	Dormant
UAB Birštono būstas	Lithuania	100%	100%	Dormant
UAB Biržų butų ūkis	Lithuania	57.71%	57.71%	Administration of dwelling-houses
UAB Būsto mokėjimai	Lithuania	100%	-	Dormant
UAB Citenga	Lithuania	100%	-	Dormant
UAB City Service	Lithuania	100%	-	Holding company
UAB City Service Cleaning	Lithuania	100%	-	Dormant
UAB City Service Engineering	Lithuania	100%	100%	Commercial real estate management and building maintenance
UAB Connecto Pay	Lithuania	100%	-	IT services
UAB CSG IT	Lithuania	100%	-	IT services
UAB Dainavos būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Danės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Economus	Lithuania	100%	100%	Administration of buildings
UAB Energijos taupymo paslaugos	Lithuania	100%	-	Dormant
UAB Energinio efektyvumo paslaugos	Lithuania	100%	-	Dormant
UAB Neries būstas	Lithuania	100%	100%	Dormant
UAB Justiniškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Jūros būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Karoliniškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Karoliniškių turgus	Lithuania	100%	100%	Marketplace administration services
UAB Kauno centro būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Klaipėdos būstas LT	Lithuania	100%	100%	Administration of dwelling-houses
UAB Konarskio turgelis	Lithuania	100%	100%	Marketplace administration services
UAB Lazdynų butų ūkis	Lithuania	100%	100%	Administration of dwelling-houses
UAB Lazdynų būstas	Lithuania	100%	100%	Dormant
UAB Mano aplinka	Lithuania	100%	100%	Maintenance and cleaning of territories and premises
UAB Mano aplinka plius	Lithuania	100%	100%	Maintenance and cleaning of territories and premises
UAB Mano Būstas	Lithuania	100%	100%	Building maintenance
UAB Mano Būsto Sauga	Lithuania	100%	100%	Security services
UAB Mano būsto valdymas	Lithuania	100%	-	Dormant
UAB Mano sauga LT	Lithuania	100%	100%	Security services
UAB Merlangas	Lithuania	100%	-	Administration of dwelling-houses

(all amounts are in EUR thousand unless otherwise stated)

UAB Nacionalinis renovacijos fondas	Lithuania	100%	100%	Dormant
UAB Namų priežiūros centras	Lithuania	100%	100%	Administration of dwelling-houses
UAB Naujamiesčio būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Naujosios Vilnios turgavietė	Lithuania	100%	100%	Marketplace administration services
UAB Nemuno būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Pastatų priežiūra	Lithuania	100%	100%	Building maintenance
UAB Pastatų valdymas	Lithuania	100%	-	Administration of dwelling-houses
UAB Pašilaičių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Pietinis būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Radviliškio būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Rinkų vystymas	Lithuania	100%	100%	Dormant
UAB Saugos projektų valdymas*	Lithuania	100%	100%	Security services
UAB Skolos LT	Lithuania	100%	100%	Debt collection services
UAB Šiaulių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Šilalės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Šilutės būstas	Lithuania	99.84%	99.84%	Administration of dwelling-houses
UAB Šiaulių NT valdymas	Lithuania	100%	-	Dormant
UAB Tauragės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Toirenta	Lithuania	100%	100%	Rental of bio toilets and sewage disposal services
UAB Unitechna	Lithuania	100%	-	Maintenance and construction of gas stations
UAB Vaizdo stebėjimo sprendimai	Lithuania	100%	100%	Dormant
UAB Vėtrungės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Vilkpėdės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Vilniaus turgus	Lithuania	100%	100%	Dormant
UAB Viršuliškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Voverės	Lithuania	100%	-	Catering services
UAB Žirmūnų būstas	Lithuania	100%	100%	Administration of dwelling-houses
Administracion Urbana y Rural Chorro, S.L.U.	Spain	100%	100%	Administration of dwelling-houses
Afinem administración de finques, S.L.U.	Spain	100%	100%	Administration of dwelling-houses
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 Sur, S.L.	Spain	100%	100%	Administration of dwelling-houses
Euronamas Gestion de Fincas Mrc, 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%	-	Dormant
Vetell dos iberica, S.L.**	Spain	100%	100%	Administration of dwelling-houses
SIA Connecto Pay	Latvia	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

FOR IDENTIFICATION PURPOSES ONLY
30.04.2019
GO

(all amounts are in EUR thousand unless otherwise stated)

SIA Laba Enerģija	Latvia	100%	100%	Sale of electricity
SIA Latvijas Namsaimnieks	Latvia	100%	100%	Administration of dwelling-houses
SIA Namu serviss APSE	Latvia	100%	100%	Administration of dwelling-houses
Atrium 21 sp. z o.o.	Poland	100%	100%	Administration of dwelling-houses
City Service Poland sp. z o.o.	Poland	-	100%	Dormant
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
Gerente - Serwis Nieruchomości sp. z o.o.	Poland	-	100%	Commercial real estate management and building maintenance
Grupa Techniczna 24 sp. z o.o.	Poland	100%	100%	Dormant
Home Rent sp. z o.o.	Poland	50%	50%	Administration of dwelling-houses
Hoone - Usługi Budowlane sp. z o.o.	Poland	-	100%	Construction and engineering
Parama Blue sp. z o.o.	Poland	100%	100%	Dormant
Parama Group sp. z o.o.	Poland	100%	100%	Holding company
Parama Yellow sp. z o.o.	Poland	100%	100%	Dormant
Parama Red sp. z o.o.	Poland	100%	100%	Dormant
Parama White sp. z o.o.	Poland	100%	100%	Dormant
Progresline sp. z o.o.	Poland	100%	100%	Administration of dwelling-houses
Santer Zarządzanie Nieruchomościami sp. z o.o.	Poland	100%	100%	Administration of dwelling-houses
Skydas - Przeglądy Budowlane sp. z o.o.	Poland	100%	100%	Construction and engineering
TED sp. z o.o.	Poland	100%	100%	Real estate management
Tumieszkamy sp. z o. o.	Poland	100%	-	Dormant
Wolska Aparthotel sp. z o. o.	Poland	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 2018 and 31 December 2017 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).

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

1 General information (cont‘d)

<u>Changes in the Group in 2018</u>

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.

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).

FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Group company Gerente - Serwis Nieruchomości sp. z o.o. was sold on 31 July 2018. 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. 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

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

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont‘d)

Changes in the Group in 2017

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

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

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

- On 16 March 2017 reorganization of the companies UAB Šilalės butų ūkis and UAB Šilalės būstas was completed. After the process of reorganization UAB Šilalės būstas was incorporated into UAB Šilalės butų ūkis with all the assets, rights and obligations. UAB Šilalės būstas ceased operations and was deregistered. After reorganization UAB Šilalės butų ūkis title was changed in to UAB Šilalės būstas, director and other contact details did not change.
- On 11 August 2017 reorganization of UAB Mano Būstas was finished. Method of reorganisation was separation. After separation of property, rights and responsibilities was established a new company UAB City Service Engineering. After reorganization UAB Mano Būstas management and other contact details did not change.
- On 21 August 2017 reorganization of the companies SIA L-Namsaimnieks and SIA Latvijas Namsaimnieks was completed. After the process of reorganization SIA L-Namsaimnieks was incorporated into SIA Latvijas Namsaimnieks with all the assets, rights and obligations. SIA L-Namsaimnieks ceased operations and was deregistered. After reorganization SIA Latvijas Namsaimnieks management and other contact details did not change.
- On 15 September 2017 reorganization of the companies UAB Visos apsaugos paslaugos and UAB Mano sauga LT was completed. After the process of reorganization UAB Visos apsaugos paslaugos was incorporated into UAB Mano sauga LT with all the assets, rights and obligations. UAB Visos apsaugos paslaugos ceased operations and was deregistered. After reorganization UAB Mano sauga LT management and other contact details did not change.

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

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

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

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont‘d)

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

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

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

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

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

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

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

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

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

Investment into associates

The Group's investments in associates as of 31 December 2018 and 2017 included an investment in Marijampolės butų ūkis UAB (34% of the share capital), which was acquired on 16 May 2011 and which activity is administration of dwelling-houses.

The Group accounted for the associates' results attributable to the Group amounting to respectively EUR 8 thousand and EUR (22) thousand in the statement of comprehensive income for the year ended 31 December 2018 and 2017. In 2018 and 2017 the Group had not received any dividends from associates.

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

	UAB Marijampolės butų ūkis 2018	**UAB Marijampolės butų ūkis 2017**
Non-current assets	68	79
Current assets	548	581
Non-current liabilities	(3)	(15)
Current liabilities	(527)	(578)
Net assets	86	67
Revenue	1,129	1,165
Net profit (loss)	23	(65)
Group's carrying amount of the investment	**170**	**162**

EY
FOR IDENTIFICATION PURPOSES ONLY
30.04.2019
GO

(all amounts are in EUR thousand unless otherwise stated)

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 2019. 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 2018:

IFRS 9 Financial Instruments

The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018, no practical expedients have been used. Adoption of the standard had no impact on the Group's financial statements (therefore there is no adjustment to the opening balance of retained earnings as of 1 January 2018), except for the presentation of the required additional disclosures described in accounting policy (Notes 2.8, 12). The Group has not restated the comparative information, which continues to be reported under IAS 39.

IFRS 15 Revenue from the Contracts with Customers

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures are required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

The Group adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018 and as allowed applied it to all contracts, no practical expedients have been used. The adoption of IFRS 15 did not have an impact on the financial statements of the Group (therefore there is no adjustment to the opening balance of retained earnings as of 1 January 2018), except for the presentation of the required additional disclosures described in accounting policy (Notes 2.18). The comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations.

As at 31 December 2018	**In accordance with IFRS 15**	**According to previous IFRSs**
Contract assets	2,563	-
Accrued income	-	2,563
Contract liabilities	6,001	-
Advances received	-	5,766
Deferred income	-	235
Revenue from contracts with customers	162,316	-
Sales	-	162,316

As a result of adoption of IFRS 15 accrued income as of 31 December 2017 is presented as contract assets as of 31 December 2018, while deferred income and prepayments received as of 31 December 2017 are presented as contract liabilities as of 31 December 2018.

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

IFRS 15: ***Revenue from Contracts with Customers (Clarifications)***

The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities

that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. As disclosed above, adoption of the standards and its clarifications had no impact.

IFRS 2: ***Classification and Measurement of Share based Payment Transactions (Amendments)***

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

Amendments to IAS 40: Transfers to Investment Property

The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The implementation of this amendment had no impact on the financial statements of the Group, as each property units which meets the definition of investment property are disclosed as investment property.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The implementation of this amendment had no impact on the financial statements of the Group, as Group has no or little receipt or payment of advance consideration in a foreign currency.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. Management has adopted improvements and they had no impact.

- ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Standards issued but not yet effective

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

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

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group's management has made a preliminary evaluation of standard

adoption impact and disclosed it in Note 2.14. As per IFRS 16, leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

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 has not yet evaluated the impact of the implementation of this amendment.

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

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The Group management has preliminary assessed the possible application of the amendment and concluded that it would have no effect for consolidated financial statements.

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

The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. The Group has not yet evaluated the impact of the implementation of this standard. 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 19: Plan Amendment, Curtailment or Settlement (Amendments) (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU)

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The Group management has preliminary assessed the possible application of the amendment and concluded that it would have no effect for consolidated financial statements.

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

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Group has not yet evaluated the impact of the implementation of this standard.

2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

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 Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this standard.

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. These Amendments have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of this standard.

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Group has not yet evaluated the impact of the implementation of these improvements.

- ***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.

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. It's 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.

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

2.2. Measurement and presentation currency

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

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.

<u>Business combinations</u>

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree

2 Accounting policies (cont'd)

2.3. Principles of consolidation (cont'd)

either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

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

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

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

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

2.4. Investments in subsidiaries and associates (the Company)

Investments in subsidiaries and associates in the Company's separate financial statements (Note 35) are carried at cost, less impairment.

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

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

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

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

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

2 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.

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 2018 and 2017;
- 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 2018 and 2017;
- Fair value through profit or loss. The Group did not have such items as at 31 December 2018 and 2017.

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.

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 2018 and 2017.

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 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 Company 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/Company 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.

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 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 finance 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 2018 and 2017.

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.

IFRS 9 adoption impact as of 1 January 2018

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Group. Trade receivables and other non-current and current financial assets classified as loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 January 2018. There are no changes in classification and measurement for the Group's financial liabilities.

2 Accounting policies (cont'd)

2.8. Financial assets (cont'd)

As described above, the adoption of IFRS 9 has fundamentally changed accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets. Upon adoption of IFRS 9 the Group did not recognize additional impairment on the trade receivables and contract assets, as in accordance to the management estimate considering the historical data of clients timely payments, estimated potential credit losses are immaterial or are not present at all.

Financial assets (until 1 January 2018)

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

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

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

Available-for-sale financial assets

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

2 Accounting policies (cont'd)

2.9. Derecognition of financial assets and liabilities

<u>Financial assets</u>

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.

<u>Financial liabilities</u>

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.

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 2018 and 2017 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 2018 and 2017.

2.14. Financial and operating leases

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

<u>Financial lease</u>

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

between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

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

(all amounts are in EUR thousand unless otherwise stated)

2 Accounting policies (cont'd)

2.14. Financial and operating leases (cont'd)

Operating lease

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

Planned transition to IFRS 16

The Group plans to adopt IFRS 16 applying modified retrospective approach to each prior reporting period presented. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value.

During 2018, the Group has performed a potential impact assessment of IFRS 16. In summary the impact of IFRS 16 adoption is expected to be as follows:

Preliminary estimated increase in the statement of financial position as at 31 December 2018:

	EUR, thousand
Assets	
Property, plant and equipment (right-of-use-assets)	10,278
Liabilities	
Lease liabilities long term	(8,365)
Lease liabilities short term	(1,913)
Net impact on equity	-

The actual impact might differ from the potential impact due to the fact that certain aspects/arrangements are still under consideration.

The impact on profit or loss for the year 2019 would be as follows: decrease of operating rent expenses by approximately EUR 2 million, increase in depreciation expenses by approximately EUR 2 million. According to IAS 17, all lease payments under lease agreements will be presented as the principal portion of operating cash flows. The impact of the changes according to IFRS 16 is estimated to decrease operating cash flows by EUR 2 million and increase financial activity by the same amount. The actual impact might differ from the potential impact due to the fact that certain aspects/arrangements are still under consideration.

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

2 Accounting policies (cont'd)

2.15. Provision for employee benefits (cont'd)

Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognised in statement of other comprehensive income as incurred.

2.16. 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 2018 and 2017. Income tax rate in 2018 in Russia, Latvia, Poland and Spain was 20%, 20%, 19% and 25% respectively (in 2017 20%, 15%, 19% and 25%).

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. As the object of taxation is dividends, not profit, there are no differences between the carrying amounts and tax bases of assets and liabilities which could give rise to deferred tax assets or liabilities. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared. Deferred tax assets and liabilities of Group companies in Latvia were reversed through profit (loss) statement in 2017 and 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 2018 was 20/80 of the amount distributed as the net dividend (20/80 in 2017). 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 2018, the Group's retained earnings amounted to EUR 20,287 thousand. From 1 January 2015, income tax upon the payment of dividends is 20/80 on the net dividends paid out, except from certain dividends received from foreign subsidiaries and permanent establishments that can be distributed to the shareholders tax free. As a result of such distribution, no additional income tax liability would arise upon the payment of all the retained earnings as net dividends.

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

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

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

2 Accounting policies (cont'd)

2.17. Income tax (cont'd)

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

2.18. Revenue recognition

Revenue from contracts with customers (starting 1 January 2018)

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 at a point in time once the performance obligations is fulfilled, except for repair works described in the following paragraph.

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, company 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 separate financial statements (Note 35) when the dividends are declared by the subsidiary.

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

2 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.

Starting 1 January 2018 accrued income representing services performed until the last day of the month, for which invoice is issued next month is presented as Contract assets and are reclassified to the account receivable as soon as 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.

Sales (until 1 January 2018)

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

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

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

Dividend income from subsidiaries is recognised in the Company's separate financial statements (Note 35) when the dividends are declared by the subsidiary.

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

2.19. Impairment of 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 Accounting policies (cont'd)

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 19), 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 27), liquidation values of net assets of subsidiary filing for bankruptcy as disclosed further in this note and contingencies related to the Group's subsidiaries (Note 16, Note 31). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

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 31,376 thousand as of 31 December 2018 and EUR 28,051 thousand as of 31 December 2017. The management amortises these customer relationship intangible assets over the estimated validity period of existing contracts, which is 5-40 years.

The management estimated the expected validity term of customer relationships based on the current development of the operations, i.e. already concluded contracts as well as current rate of terminated contracts, which is insignificant. Should the circumstances change in the future, the estimate may need to be revised and the size of such revision cannot be reasonably estimated at the date of these financial statements. The net book value of these intangible assets of the Group amount to EUR 26,983 thousand as of 31 December 2018 and EUR 24,115 thousand as of 31 December 2017 (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 2017 and 2018 (see Note 27).

In addition, as disclosed in Note 12 as of 31 December 2018 the Group has EUR 2,515 thousand (EUR 1,366 thousand as of 31 December 2017) 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 31).

In 2018, the Group acquired several client portfolios in Spain for the amount EUR 2,1 million (EUR 1.8 million in 2017). 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 2,1 million) solely.

As disclosed in Note 4 and Note 5, as of 31 December 2018 the Group has goodwill and other intangible assets (contracts with the clients) in amount of EUR 37,949 thousand (EUR 35,712 thousand – as of 31 December 2017), which based on the assessment of the management were not impaired. This management judgement is based on the cash generating units impairment testing performed as of 31 December 2018 and 31 December 2017 (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).

2 Accounting policies (cont'd)

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

As of 31 December 2018 the Group decided not to reclassify buildings with a net book value of EUR 2,300 thousand, which are posted publicly on sale to assets held for sale, as they are in use (own use) and management estimates that there is an uncertainty that the realisation of such assets could be completed within a 12 months.

At the end of 2016 the Group management made a decision that Concentra Servicios y Mantenimiento S.A., subsidiary of City Service SE, would file for bankruptcy in Spain and on 23 February 2017 Concentra Servicios y Mantenimiento S.A. has submitted a petition for bankruptcy to official institutions in Spain, authorised to initiate the bankruptcy procedure. The court's decision regarding assigning bankruptcy administrator was announced to the Company on 10 May 2017. Following the appointment of bankruptcy administrator, the Group ceased to consolidate this subsidiary in its financial statements as from this date the Group lost its effective control to it. On 19 February 2018 bankruptcy administrator has submitted a request to the court to initiate the liquidation procedure of Concentra. Currently Concentra Servicios y Mantenimiento, SA remains in

its liquidation procedure, the activity ceased in February 2018. The Company remains shareholder of this entity until the end of bankruptcy process.

In 2017, Concentra's results were consolidated until 30 April 2017, whereas the day of loss of control was 10 May 2017, and its loss of EUR 1,697 thousand was included in consolidated financial statements. On the day of derecognition of net assets of Concentra from consolidated financial statements, its liabilities exceeded assets by EUR 1,718 thousand and respective gain was recognized in operating expenses caption (Note 3, Note 12, Note 16, Note 24).

2.21. Contingencies

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

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

2.22. Subsequent events

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

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information

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

- Buildings' administration

Segment of Buildings' administration includes services of administration and maintenance of commercial and residential buildings. The segment also includes services of maintenance of engineering systems to educational institutions and other different activities which are not material. The segment information is presented as analysed by chief operating decision maker of the Group (the Board), i.e. allocated to Baltic states, St. Petersburg, Poland and Spain.

No operating segments have been aggregated to form the above reportable operating segments, except for Baltics, which actually represents 2 separate cash generating units, but for internal management purposes analysed as one.

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

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

Operating Segments

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

Year ended 31 December 2018	**Buildings' administration**				
	Baltic states	**St. Petersburg**	**Poland**	**Spain**	**Total**
Revenue	91,156	42,208	25,061	3,891	162,316
Total revenue					**162,316**
Segment results	4,979	2,184	(598)	(237)	6,328
Unallocated expenses					(891)[1]
Profit 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.

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information (cont'd)

Year ended 31 December 2017	Buildings' administration				
	Baltic states	St. Petersburg	Poland	Spain	Total
Revenue	83,155	42,683	26,032	9,094	160,964
Total revenue					**160,964**
Segment results	8,184	1,673	(562)	(600)[1]	8,695
Unallocated expenses					(766)[2]
Profit from operations					7,929
Net financial income					14[3]
Profit / (loss) before income tax					7,943
Income tax expenses					(1,792)[3]
Net profit for the year					**6,151**
Other segment information					
Capital expenditure	3,285	118	1,341	1,976	**6,720**

[1] Includes operating loss for the year of commercial property administration activity amounting to EUR 1,676 thousand as well as the positive effect of derecognition of net assets of deconsolidated subsidiary in Spain in amount of EUR 1,697 thousand as of the day of loss of control.
[2]Unallocated expenses include general and administrative expenses (EUR 766 thousand) identifiable as costs managed on a group basis.
[3]Financing of the Group and income taxes are managed on a group basis and are not allocated to operating segments.

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information (cont'd)

Geographical information

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

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

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**

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

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

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**

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

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 2018 and 2017.

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill

	Group
Cost:	
Balance as of 1 January 2017	11,616
Additions	122
Disposals	(13)
Exchange differences	(44)
Balance as of 31 December 2017	11,681
Additions	138
Disposals	(35)
Exchange differences	(111)
Balance as of 31 December 2018	11,673
Impairment:	
Balance as of 31 December 2017	84
Impairment recognised	623
Balance as of 31 December 2018	707
Net book value as of 31 December 2018	**10,966**
Net book value as of 31 December 2017	**11,597**

<u>Acquisitions during 2018</u>

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.

<u>Acquisitions during 2017</u>

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

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

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

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

The fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 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	-	-	-	-	-	

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

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

Book value	**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**

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**
Fair value of non-controling interest acquired	**-**	**-**	**-**	**-**	**-**	**-**
Cash acquired	2	-	1	4	359	78
Total purchase consideration, net of cash acquired	**287**	**257**	**339**	**567**	**1,676**	**372**

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

Date of acquisition	Acta iuventus 18 January	Merlangas 5 July	Pastatų valdymas 5 July	Voverės 25 July	Unitechna 9 August	Algos saugos tarnyba 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

The fair values (calculated in 2017, remained the same and no adjustments were required in 2018) of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2017 were as follows:

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

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

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

The differences between the amounts paid and the fair values (calculated in 2017, remained the same and no adjustments were required in 2018) of assets acquired, liabilities and contingent liabilities assumed on the acquisitions of 2017 were as follows:

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

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

For the purpose of impairment evaluation, the goodwill as of 31 December 2018 and 2017 was allocated to the following CGU:

Cash generating unit	**Carrying value of allocated goodwill as of 31 December 2018**	**Carrying value of allocated goodwill as of 31 December 2017**
Subsidiaries operating in Lithuania	9,166	9,028
Subsidiaries operating in Latvia	897	990
Subsidiaries operating in Poland	468	1,088
Subsidiaries operating in St. Petersburg, Russia	316	372
Subsidiaries operating in Spain	119	119
	10,966	**11,597**

The recoverable amount of each cash generating unit as of 31 December 2018 and 2017 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 2018 and 2017 are described further.

The forecasted revenues for CGU involved in administration of dwelling houses were estimated based on the area of the dwelling-houses administered as of 31 December 2018 and 2017 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 forecasted revenues of Polish CGU also include forecasted cash flows in Polish company Wolska Aparthotel based on hotel occupancy level which forecasted to be not lower than 34%. The costs were projected based on the actual cost level taking into account estimated inflation. Cash flows beyond the five-year period were extrapolated using 2% growth rate (2% in 2017) 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 2017), 11,16% for cash generating unit located in Latvia (10,47% in 2017), 14.32% for cash generating units located in Poland (13,33% in 2017), 14% for cash generating units in Spain (14% in 2017) and 22,38% for cash generating unit in St. Petersburg (22,38% was used in 2017).

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 and Russian cash generating units would not result in any impairment as of 31 December 2018 and 2017. At the moment of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used.

4 Goodwill (cont'd)

In Spain, Latvia and Poland 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 2018:

- **Spain**

- A decrease in annual EBITDA margin by 0.5 p.p. would result in EUR 196 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 103 thousand additional impairment loss to goodwill and customer contracts reported under intangible assets.

- **Latvia**

- A decrease in annual EBITDA margin by 0.5 p.p. would result in EUR 477 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 254 thousand additional impairment loss to goodwill and customer contracts reported under intangible assets.

- **Poland**

- A decrease in annual EBITDA margin by 0.5 p.p. would result in EUR 1,334 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 536 thousand additional impairment loss to goodwill and customer contracts reported under intangible assets.

(all amounts are in EUR thousand unless otherwise stated)

5 Other intangible assets

Movement of other intangible assets in 2018 and 2017 is presented below:

	Other intangible assets
Cost:	
Balance as of 1 January 2017	31,339
Additions arising from acquisitions of subsidiaries	478
Additions	1,971
Disposals of subsidiaries	(526)
Exchange differences	422
Retirements	(89)
Reclassifications	175
Balance as of 31 December 2017	33,770
Additions arising from acquisitions of subsidiaries (Note 4)	3,810
Additions	2,476
Exchange differences	(451)
Retirements	(248)
Reclassifications	289
Balance as of 31 December 2018	39,646
Accumulated amortisation and impairment:	
Balance as of 1 January 2017	5,247
Charge for the year	1,197
Impairment	(34)
Disposals of subsidiaries	(511)
Exchange differences	42
Retirements	(41)
Balance as of 31 December 2017	5,900
Charge for the year	1,409
Exchange differences	(63)
Retirements	(235)
Balance as of 31 December 2018	7,011
Net book value as of 31 December 2018	**32,635**
Net book value as of 31 December 2017	**27,870**

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

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 2018 net book value of such intangible assets constituted EUR 26,983 thousand (EUR 24,115 thousand as of 31 December 2017). 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 2018 and 2017. 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 957 thousand as of 31 December 2018 was fully amortised but still in use (EUR 949 thousand of the Group as of 31 December 2017).

(all amounts are in EUR thousand unless otherwise stated)

6 Property, plant and equipment

Movement of property, plant and equipment in 2018 and 2017 is presented below:

	Buildings	Vehicles	Other property, plant and equipment	Construct-ion in progress	Total
Cost:					
Balance as of 1 January 2017	10,159	7,936	11,637	482	30,214
Additions arising from acquisitions of subsidiaries	3	3	5	-	11
Additions	58	2,180	1,667	844	4,749
Disposal of subsidiaries	-	(414)	(1,080)	-	(1,494)
Disposals	(1,432)	(76)	(50)	(3)	(1,561)
Exchange differences	123	45	359	18	545
Retirements	(116)	(50)	(298)	-	(464)
Reclassifications	258	18	614	(1,065)	(175)
Balance as of 31 December 2017	9,053	9,642	12,854	276	31,825
Additions arising from acquisitions of subsidiaries	-	78	286	-	364
Additions	14	1,973	2,332	388	4,707
Disposals	(348)	(144)	(44)	-	(536)
Exchange differences	(62)	(105)	(331)	(7)	(505)
Retirements	(2)	(50)	(557)	-	(609)
Reclassifications	342	-	4	(635)	(289)
Balance as of 31 December 2018	8,997	11,394	14,544	22	34,957
Accumulated depreciation and impairment:					
Balance as of 1 January 2017	2,323	4,616	4,669	-	11,608
Charge for the year	420	1,143	1,611	-	3,174
Impairment	-	-	(39)	-	(39)
Disposals	(77)	(16)	(34)	-	(127)
Disposals of subsidiaries	-	(167)	(925)	-	(1,092)
Exchange differences	17	12	93	-	122
Retirements	(53)	-	(182)	-	(235)
Reclassifications	-	(49)	-	-	(49)
Balance as of 31 December 2017	2,630	5,539	5,193	-	13,362
Charge for the year	358	1,336	1,878	-	3,572
Disposals	(80)	(68)	(36)	-	(184)
Exchange differences	(3)	(68)	(149)	-	(220)
Retirements	-	(39)	(536)	-	(575)
Balance as of 31 December 2018	2,905	6,700	6,350	-	15,955
Net book value as of 31 December 2018	**6,092**	**4,694**	**8,194**	**22**	**19,002**
Net book value as of 31 December 2017	**6,423**	**4,103**	**7,661**	**276**	**18,463**

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

6 Property, plant and equipment (cont‘d)

The depreciation charge of the Group's property, plant and equipment for the year 2018 amounts to EUR 3,572 thousand (EUR 3,174 thousand in the year 2017). Amount of EUR 2,486 thousand for the year 2018 (EUR 2,114 thousand for the year 2017) 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 7,757 thousand was fully depreciated as of 31 December 2018 (EUR 6,293 thousand as of 31 December 2017), but were still in active use.

As of 31 December 2018 buildings of the Group with a net book value of EUR 2,662 thousand (EUR 4,125 thousand as of 31 December 2017) were pledged to banks as collateral for the loans (Note 15).

As of 31 December 2018 buildings of the Group with a net book value of EUR 2,300 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.

(all amounts are in EUR thousand unless otherwise stated)

7 Investment property

Movement of the Group's investment property during 2018 and 2017 is presented below:

	Buildings
Cost:	
Balance as of 1 January 2017	271
Disposals	(96)
Balance as of 31 December 2017	175
Balance as of 31 December 2018	175
Accumulated depreciation:	
Balance as of 1 January 2017	111
Charge for the year	18
Disposals	(35)
Balance as of 31 December 2017	94
Charge for the year	12
Balance as of 31 December 2018	106
Net book value as of 31 December 2018	**69**
Net book value as of 31 December 2017	**81**

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

The fair value of investment property as of 31 December 2018 is estimated by the management to be approximately EUR 241 thousand (EUR 247 thousand as of 31 December 2017) (3rd level by fair value hierarchy). The fair value of investment property as of 31 December 2018 and as of 31 December 2017 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 (EUR 32 thousand as of 31 December 2017) (Note 16).

(all amounts are in EUR thousand unless otherwise stated)

8 Material partly-owned subsidiaries

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

Name	**Region of incorporation and operation**	**2018**	**2017**
ООО Жилкомсервис № 3 Фрунзенского района	St. Petersburg	80%	80%

	As of 2018 December 31	**As of 2017 December 31**
Summarised statement of financial position		
Inventories, trade receivables and cash	3,292	3,470
Property, plant and equipment and other non-current assets	2,095	2,096
Deferred income tax, net	(406)	(415)
Liabilities	(3,397)	(3,790)
Total equity	**1,584**	**1,361**
Attributable to:		
Equity holders of parent	1,267	1,089
Non-controlling interest	317	272

	2018	**2017**
Summarised statement of profit or loss		
Sales	16,392	17,245
Cost of sales	(11,438)	(12,405)
General and administrative expenses	(419)	(895)
Other activity (net)	(4,190)	(3,903)
Financial activity (net)	37	58
Profit (loss) before tax	**382**	**100**
Income tax	(178)	(146)
Profit (loss) for the year	**204**	**(46)**
Attributable to non-controlling interests	41	(9)

Summarised cash flow information

	2018	**2017**
Net cash flows from operating activities	137	(480)
Net cash flows from investing activities	(70)	32
Net cash flows from financing activities	-	-
Net increase (decrease) in cash flows	**67**	**(448)**

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

9 Inventories

	Group	
	As of 31 December 2018	**As of 31 December 2017**
Raw and auxiliary materials	1,596	1,022
Goods for resale	132	94
Other	443	450
	2,171	1,566
Less: net realizable value allowance	(97)	(73)
	2,074	**1,493**

Change in allowance for inventories for the year 2018 and 2017 has been included into general and administrative expenses.

10 Prepayments

Prepayments of the Group amount to EUR 2,879 thousand as of 31 December 2018 (EUR 1,703 thousand as of 31 December 2017) and mainly include prepayments to suppliers and subcontractors.

11 Non-current receivables

Non-current receivables mainly comprise of long-term part of receivables for residential buildings' repair works performed amounting to EUR 4,958 thousand as of 31 December 2018 (EUR 4,414 thousand as of 31 December 2017) and long-term part of restricted cash amounting to EUR 802 thousand as of 31 December 2018 (EUR 436 thousand as of 31 December 2017).

(all amounts are in EUR thousand unless otherwise stated)

12 Trade receivables

	Group	
	As of 31 December 2018	**As of 31 December 2017**
Trade receivables, gross	42,179	39,973
Less: allowance for doubtful trade receivables	(9,405)	(9,316)
	32,774	**30,657**

Change in allowance for doubtful trade receivables for the year 2018 and 2017 has been included into general and administrative expenses.

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

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

	Individually impaired	**Collectively impaired**	**Total**
Balance as of 1 January 2017	3,234	8,641	11,875
Charge for the year	520	1,202	1,722
Remeasurement of trade receivables to liquidation value (subsidiary Concentra, see Note 2.20)	-	326	326
Disposal of subsidiaries	(1,986)	(1,755)	(3,741)
Exchange differences	(19)	(463)	(482)
Reversed during the year	(36)	(226)	(262)
Written off during the year	(61)	(61)	(122)
Balance as of 31 December 2017	**1,652**	**7,664**	**9,316**
Charge for the year	213	714	927
Exchange differences	(57)	(767)	(824)
Reversed during the year	(217)	(373)	(590)
Written-off during the year	(77)	686	609
Disposals of subsidiaries	-	(33)	(33)
Balance as of 31 December 2018	**1,514**	**7,891**	**9,405**

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**
2017	18,875	3,714	2,442	2,434	1,826	1,366	**30,657**
2018	20,443	5,166	1,164	833	2,653	2,515	**32,774**

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

13 Cash and cash equivalents

	Group	
	As of 31 December 2018	**As of 31 December 2017**
Cash at bank	5,295	7,791
Cash on hand	7	6
	5,302	**7,797**

The fair value of cash as of 31 December 2018 of the Group was EUR 5,302 thousand (EUR 7,797 thousand as of 31 December 2017) (1st level).

As of 31 December 2018 the Group had restricted cash of EUR 2,183 thousand (EUR 1,728 thousand as of 31 December 2017) held in the bank as guarantee provided to customers: EUR 802 thousand is accounted in non-current receivables caption (EUR 436 thousand as of 31 December 2017) while EUR 1,381 thousand – in other receivables caption in the statement of financial position as of 31 December 2018 (EUR 1,292 thousand as of 31 December 2017).

As of 31 December 2018 and 2017 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 2018 the reserve was fully composed and reached the required amount – EUR 948 thousand (as of 31 December 2017 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.

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 2018 it amounted to EUR (2,936) thousand (as of 31 December 2017 EUR (2,499) 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 2018 (EUR 21,067 thousand as of 31 December 2017).

(all amounts are in EUR thousand unless otherwise stated)

15 Borrowings

The list of borrowings of the Group as of 31 December 2018 and 2017 are as follows:

		Group	
	Currency of the loan	**As of 31 December 2018**	**As of 31 December 2017**
Current loans			
Bank loans	EUR	9,937	-
Bank loans	PLN	496	-
Current loan balance		**10,433**	**-**
Non-current loans			
Bank loans	EUR	20,110	17,901
Less: current portion of long term loans		(2,712)	(3,290)
Non-current loan balance		**17,398**	**14,611**

For the loans of the Group both fixed and variable interest rates apply. Actual interest rates are close to effective interest rates. As of 31 December 2018 the weighted average annual interest rate of borrowings outstanding was 1.46% (1.50% as of 31 December 2017). In 2018 and 2017 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 2018 amounted to EUR 497 thousand (EUR 5,239 thousand as of 31 December 2017).

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 Būstas 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 2018**	**As of 31 December 2017**
Within one year	2,712	3,290
From one to five years	17,398	14,611
	20,110	**17,901**

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

EY
FOR IDENTIFICATION PURPOSES ONLY
30.04.2019
GO

(all amounts are in EUR thousand unless otherwise stated)

15 Borrowings (cont'd)

	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**

16 Provisions

As of 31 December 2018 EUR 348 thousand provision was made for City Service SE guarantees provided to Concentra Servicios y Mantenimiento S.A. customers and other possible claims arising from bankruptcy process (see also Note 2.20) (EUR 1.25 million as of 31 December 2017). As 31 December 2018 The Group's subsidiaries operating in the region of St. Petersburg, namely ZAO City Service, OAO City Service and OOO Жилкомсервис № 3 Фрунзенского района have made provisions for possible tax risks related with contradictory court practice and disputed legal interpretations for the amount of EUR 687 thousand (EUR 0 as of 31 December 2017) as further described in Note 31. As 31 December 2018 The Groups subsidiaries UAB Mano Būstas and UAB Mano aplinka have made provisions for amount of EUR 478 thousand related with probable unfavorable ruling of investigation by The Competition Council of the Republic of Lithuania (see also Note 31).

The amount of EUR 540 thousand of City Service SE guarantees provided to Concentra Servicios y Mantenimiento S.A. customers and other possible claims arising from bankruptcy process were reversed during the year. The amount of EUR 365 thousand was realized and paid by Group Aresi de Inversiones S.L.

17 Financial lease

The assets leased by the Group under financial lease contracts mainly consist of vehicles. Apart from the lease payments, other obligations under lease contracts are maintenance and insurance. The net book value of the vehicles acquired under financial lease amounted to EUR 3,355 thousand as of 31 December 2018 in the Group (EUR 2,914 thousand in the Group as of 31 December 2017). The terms of the financial lease agreements are from 2 to 5 years. The currencies of the financial lease agreements are EUR and PLN.

As of 31 December 2018 the interest rate on the financial lease obligations is 6 month EURIBOR + 1.7-1.75%, 3 Month EURIBOR + 1.4-2.5%, 1 month WIBOR + 1.6% (as of 31 December 2017 – is 6 month EURIBOR + 1.65-2.15%, 3 Month EURIBOR + 1.4-2,5%, 1 month WIBOR + 1.6%). Interest is paid monthly.

(all amounts are in EUR thousand unless otherwise stated)

17 Financial lease (cont'd)

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2018 and 2017 are as follows:

	Group	
	As of 31 December 2018	**As of 31 December 2017**
Within one year	1,252	1,064
From one to five years	3,161	2,821
Total financial lease obligations	4,413	3,885
Interest	(188)	(173)
Present value of financial lease obligations	**4,225**	**3,712**
Financial lease obligations are accounted as:		
- current	1,178	995
- non-current	3,047	2,717

18 Operating lease

As of 31 December 2018 and 2017 the Group had several contracts of operating lease for vehicles outstanding.

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

	Group	
	As of 31 December 2018	**As of 31 December 2017**
Within one year	2,105	1,871
From one to five years	5,899	5,924
Over five years	3,054	2,467
	11,058	**10,262**

Operating lease contracts are denominated in Euro, Polish Zlots and Russian Rouble.

19 Provision for employee benefits

As of 31 December 2018 and 2017 the Group accounted for employee benefits for employees leaving the Group at the age of retirement (Note 2.15). Related expenses are included into general and administrative expenses in the Group's statement of comprehensive income.

	Group	
	As of 31 December 2017	**As of 31 December 2016**
As of 31 December of the previous year	284	457
Change during the year	151	(180)
Currency exchange effect	(2)	7
As of 31 December of the financial year	**433**	**284**

(all amounts are in EUR thousand unless otherwise stated)

19 Provision for employee benefits (con't)

Main assumptions applied while evaluating the Group's provision for employee benefits as of 31 December 2018 and 2017 are as follows:

	Group	
	As of 31 December 2018	As of 31 December 2017
Discount rate	1.8%	2.3%
Anticipated annual salary increase	2.7%	2.2%

20 Trade payables and payables to related parties

	Group	
	As of 31 December 2018	As of 31 December 2017
Trade payables	15,988	13,951
Payables to related parties (Note 32)	171	959
	16,159	**14,910**

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

21 Contract liabilities - advances received

As of 31 December 2018 and 2017 amount represents advances received from the owners of commercial and residential buildings administrated by the Group for repair and other works.

22 Other current liabilities

	Group	
	As of 31 December 2018	As of 31 December 2017
Vacation pay accrual	2,801	2,459
Accrued expenses	1,081	1,884
Salaries and social security	1,823	1,221
Other current liabilities	4,295	4,152
	10,000	**9,716**

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

23 Cost of sales

	Group	
	2018	2017
Services of subcontractors and materials used	77,764	75,955
Wages and salaries and social security	38,630	41,200
Depreciation	1,086	1,050
Cost of goods sold	207	150
Other	3,310	3,335
Total cost of sales	**120,997**	**121,690**

24 General and administrative expenses

	Group	
	2018	2017
Wages and salaries and social security	17,549	17,156
Depreciation and amortisation	3,895	3,311
Rent of premises and other assets	1,996	1,579
Consulting and similar expenses*	1,821	1,912
Advertising	757	471
Representational costs	683	517
Taxes other than income tax	681	565
Commissions for collection of payments	677	659
Computer software maintenance	670	542
Goodwill impairment (Note 4)	623	-
Insurance	515	373
Business trips and training	473	333
Fuel expenses	428	449
Utilities	394	286
Communication expenses	367	397
Bank payments	195	168
Transportation	193	272
Charity and support	132	85
Consulting and tax expenses related with acquisitions and disposals	-	131
Net result of deconsolidated subsidiaries due to loss of control (Note 1)	-	(1,667)
Other	3,073	2,642
Total general and administrative expenses	**35,122**	**30,181**

* Includes EUR 8 thousand of tax consulting expenses incurred during the audit period of 2018 from audit company Ernst & Young Baltic AS.

FOR IDENTIFICATION PURPOSES ONLY
30.04.2019
GO

(all amounts are in EUR thousand unless otherwise stated)

25 Other operating income and expenses

	Group	
	2018	2017
Fines and penalties	234	205
Income from rent	106	118
Gain on disposal of property, plant and equipment	93	80
Other income	914	1,397
Total other operating income	**1,347**	**1,800**
Legal claims	255	129
Fines and penalties	153	214
Loss on disposal of property, plant and equipment	73	808
State duties	63	64
Rent expenses	28	70
Depreciation of rented assets	10	28
Other expenses	1,042	986
Total other operating expenses	**1,624**	**2,299**

26 Interest and other finance income and (expenses)

	Group	
	2018	2017
Interest income	194	540
Foreign currency exchange gain	72	485
Total finance income	**266**	**1,025**
Interest (expenses)	(565)	(539)
Foreign currency exchange (loss)	(488)	(34)
Loss on sale of investments (Note 1)	(80)	(392)
Other financial (expenses)	-	(24)
Total finance (expenses)	**(1,133)**	**(989)**
Financial activity, net	**(867)**	**36**

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

27 Income tax

	Group	
	2018	**2017**
Components of the income tax expenses		
Current income tax	2,057	2,282
Deferred income tax expenses (income)	(1,320)	(490)
Income tax expenses recorded in the statement of comprehensive income	**737**	**1,792**

	Group	
	As of 31 December 2018	**As of 31 December 2017**
Deferred income tax asset		
Allowance for accounts receivable	1,264	1,360
Tax loss carry forward	1,029	585
Accruals and similar temporary differences	753	583
Tax goodwill	614	694
Allowance for inventories	70	101
Deferred income	-	1
Deferred income tax asset before valuation allowance	3,730	3,324
Less: valuation allowance	(479)	(631)
Deferred income tax asset, net of valuation allowance	3,251	2,693
Deferred income tax liability		
Property, plant and equipment and intangible assets	(3,548)	(3,685)
Accrued income	(60)	(62)
Deferred income tax liability	(3,608)	(3,747)
Deferred income tax, net	**(357)**	**(1,054)**

EY
FOR IDENTIFICATION PURPOSES ONLY
30.04.2019
GO

(all amounts are in EUR thousand unless otherwise stated)

27 Income tax (cont'd)

Tax loss carry forward can be utilised as follows: in Lithuania (EUR 2,661 thousand as of 31 December 2018, EUR 555 thousand as of 31 December 2017) – indefinitely, in Latvia* (315 thousand as of 31 December 2018 and 31 December 2017) – until the year 2023, in Russia (EUR 498 thousand as of 31 December 2018, EUR 570 thousand as of 31 December 2017) – indefinitely, in Poland (EUR 599 thousand as of 31 December 2018, EUR 625 thousand as of 31 December 2017) – mainly until the year 2023 and in Spain (EUR 1,664 thousand as of 31 December 2018, EUR 1,077 thousand as of 31 December 2017) – indefinitely.

*The change of corporate income tax in Latvia is effective from 1 January 2018. In accordance with the changed Latvian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. As the object of taxation is dividends, not profit, there are no differences between the carrying amounts and tax bases of assets and liabilities which could give rise to deferred tax assets or liabilities. However, accrued tax losses still could be used in the future periods.

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15% rate in 2018 and 2017. The deferred tax of companies operating in Russia, Poland and Spain was calculated using 20%, 19% and 25% tax rates, respectively in 2018 (same as in 2017).

Due to group reorganisations (mergers) in 2018 and 2017 as discussed in Notes 1 and 4 and prior periods, tax goodwill was created as of the merger date. Consequently, a deferred tax asset was recorded on these transactions to the extent tax goodwill exceeds respective financial statements goodwill amounts.

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

	Balance as of 31 December 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)

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

27 Income tax (cont'd)

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

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

27 Income tax (cont'd)

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

	Group	
	2018	**2017**
Income tax expenses computed at 15% in 2018 and 2017	(687)	(1,191)
Effect of different tax rates applicable to foreign subsidiaries	(31)	(18)
Change in deferred tax asset valuation allowance and write-off of deferred tax asset	152	485
Deferred tax asset recognised from subsidiaries' reorganizations	-	-
Permanent differences	(171)	(1,068)*
Income tax expenses reported in the statement of comprehensive income	**(737)**	**(1,792)**

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

28 Basic and diluted earnings per share (EUR)

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

	Group	
	2018	**2017**
Net profit attributable to the shareholders	3,791	6,150
Net profit attributable to the shareholders	**3,791**	**6,150**
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)	**0.12**	**0.19**

29 Dividends per share

	2018	**2017**
Approved dividends*	9,799	19,598
Number of shares (in thousand)**	31,610	31,610
Approved dividends per share (EUR)	**0.31**	**0.62**

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

30 Financial assets and liabilities and risk management

Credit risk

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Therefore, the management considers that its maximum exposure is reflected by the amount of 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 2018 and 2017.

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.

2018	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(340)
PLN	+100	(33)
2017		
EUR	+100	(211)
PLN	+100	(5)

FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

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

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed overdraft and loans to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as of 31 December 2018 were 1.05 and 1,00 respectively (1.35 and 1.31 as of 31 December 2017 respectively).

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2018 and 2017 based on contractual undiscounted payments:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Non-current interest bearing borrowings	-	-	-	17,336	333	17,669
Current portion of non-current interest bearing borrowings	-	696	2,082	-	-	2,778
Current loans	-	-	10,559	-	-	10,559
Financial lease obligations	-	131	1,120	3,162	-	4,413
Trade payables and payables to related parties	-	15,370	789	-	-	16,159
Other current liabilities	-	4,756	855	-	-	5,611
Balance as of 31 December 2018	**-**	**20,953**	**15,405**	**20,498**	**333**	**57,189**
Non-current interest bearing borrowings	-	-	-	14,405	489	14,894
Current portion of non-current interest bearing borrowings	-	841	2,524	-	-	3,365
Financial lease obligations	-	67	997	2,821	-	3,885
Trade payables and payables to related parties	-	14,910	-	-	-	14,910
Other current liabilities	-	4,958	1,078	-	-	6,036
Balance as of 31 December 2017	**-**	**20,776**	**4,599**	**17,226**	**489**	**43,090**

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

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

Foreign exchange risk

Monetary assets and liabilities of the Group denominated in various currencies as of 31 December 2018 and 2017 were as follows:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
RUB	8,350	9,047	8,201	8,691
PLN	3,634	4,236	3,708	5,291
EUR	42,570	53,813	40,522	38,592
	54,554	**67,096**	**52,431**	**52,574**

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
2018		
EUR	+ 15.00 %	(842)
EUR	- 15.00 %	842
2017		
EUR	+ 15.00 %	867
EUR	- 15.00 %	(867)

EUR held by Polish subsidiaries:

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2018		
EUR	+ 15.00 %	(837)
EUR	- 15.00 %	837
2017		
EUR	+ 15.00 %	(1,101)
EUR	- 15.00 %	1,101

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

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

EUR held by subsidiaries in St. Petersburg:

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2018		
EUR	+ 15.00 %	(10)
EUR	- 15.00 %	10
2017		
EUR	+ 15.00 %	(10)
EUR	- 15.00 %	10

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.

31 Commitments and contingencies

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

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

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

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

The Company is absolutely confident and ready to prove that the lawsuit is totally unreasonable and therefore no provisions are recognised on this matter in these financial statements. These public procurement agreements were investigated by Lithuanian courts before: in 2013, Supreme Court of Lithuania ruled in favor of ESCO model in above-mentioned agreements between City Service SE and Vilnius city municipality. Both public procurement agreements and ESCO model itself were declared as absolutely compliant with the laws.

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. At present, case is being examined by the court. Summarizing the above, in the view of the management there is no actual or legal basis for the claim and no provisions in relation to this claim is accounted in these financial statements.

UAB Mano Būstas case

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

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

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

31 Commitments and contingencies (cont'd)

Ongoing investigation by The Competition Council

There are two ongoing investigations being carried out regarding Group's companies. One investigation is being carried out regarding UAB Mano Būstas and UAB Mano aplinka (hereinafter – "Investigation 1"), another – regarding UAB Mano aplinka, UAB Mano Būstas (only included as the sole shareholder of UAB Mano aplinka), UAB City Service Engineering and City Service SE (only included as the sole shareholder of UAB City Service Engineering) by the Competition Council of the Republic of Lithuania (hereinafter – "Investigation 2"). The Group has made a provision for a probable unfavorable ruling of The Competition Council for amount of EUR 478 thousand related with Investigation 1 (Note 16) as of 31 December 2018 (the Group's best available estimate of maximum possible exposure of such risk amounts to EUR 1,029 thousand). Regarding Investigation 2, the Group subsequent to the year-end received a notification that the investigation is over and the proposed ruling is that the Group has breached the Competition law, however this notice does not specify the amount of the potential penalty if the final ruling after the receipt of the Group's comments on the notification remains unchanged. If the Competition Council were to take an unfavorable ruling (we expect the Competition Council to adopt the resolution sometime later this year), the Group's best estimate of maximum potential fine is approx. EUR 275 thousand based on the management's interpretation of the information provided in the received notification about the completion of the investigation, though generally according to the legislation the fine for breaching the competition regulation can amount up to 10% of total prior period's revenue. No provision was recognized in respect of the Investigation 2 in these financial statements as the management considers that the final most likely outcome of the Investigation 2 cannot be reasonably determined at this stage.

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 been finally settled by the court, but currently ZZN and ZKZL entered into mediation proceeding. 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.

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 5,364 thousand as of 31 December 2018 (EUR 3,238 as of 31 December 2017). The management of the Group estimate most of these risks to be not probable. The Group has made a provision for amount of EUR 687 thousand as of 31 December 2018 related to the above mentioned risks which were assessed as probable (Note 16).

(all amounts are in EUR thousand unless otherwise stated)

32 Related party transactions

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

- Global energy consulting OÜ – the ultimate parent of the company;
- UAB Lag&d – controlled by the same ultimate parent;
- UAB ICOR - the shareholder of the Company;
- Subsidiaries and associates of UAB ICOR (same ultimate controlling shareholder);
- Associates of City Service SE subsidiaries (for the list of the associates, see also Note 1);
- A. Gudelis, T. Kleiva, E. Paulauskas, V. Turonis, A. Jablonskienė, I. Krasauskas, D. Šimaitis, L. Lapinskas, E. Grachiov (Management of the Group companies).

Transactions with related parties include sales and purchases of goods and services in the ordinary course of business, and acquisitions and disposals of property, plant and equipment.

UAB Mano Būstas, Zespół Zarządców Nieruchomości sp. z o.o., SIA Latvijas Namsaimnieks and UAB City Service (subsidiaries of the Group) have provided EUR 42 million guarantees solidary for City Service SE to AB SEB bankas under credit agreement. Shares of UAB Mano Būstas 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.

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**

2017

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

(all amounts are in EUR thousand unless otherwise stated)

32 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 neither past due nor impaired	Trade receivables past due but not impaired					
		Less than 30 days	30 – 60 days	60 – 90 days	90 – 360 days	More than 360 days	Total
2017	81	43	19	23	2	1	**169**
2018	116	25	14	28	19	32	**234**

Remuneration of the management and other payments

The Group's management remuneration amounted to EUR 1,055 thousand in 2018 (EUR 1,106 thousand in 2017). In 2018 and 2017 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 2018 and 2017.

33 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 2018 and 2017.

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 2018 and as of 31 December 2017 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 2018 and 2017 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	
	2018	**2017**
Non-current liabilities (including deferred tax)	26,157	23,347
Current liabilities	46,938	34,805
Liabilities	**73,095**	**58,152**
Equity	**49,253**	**55,648**
Debt to equity ratio	**148%**	**104%**

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

34 Subsequent events

On 21 January 2019 the Group, through its Lithuanian subsidiary, acquired 100% stake in SIA Ventspils nami (acquisition price EUR 120 thousand) which manages residential facilities in Ventspils. At the moment of issuance of these financial statements Group‘s management was not able to obtain reliable financial information of the newly acquired company and evaluate fair value of net assets as at the acquisition.

On 1 February 2019 the Supervisory Board of the Company elected Dalius Šimaitis as a new Management Board member. Management Board consists of 7 management board members including chairman of the Management Board.

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 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 company title was changed into UAB Mano Būsto priežiūra. Other contact details did not change.

On 12 April 2019 UAB Mano Būsto valdymas company title was changed into UAB Mano Būstas. Other contact details did not change.

After the date of these financial statements, the Group management confirmed internal mergers plan for the subsidiaries operating in Lithuania for the year 2019.

After the date of these financial statements, the Group management received a notification from the Competition Council regarding the Investigation 2, which described more detail in Note 31.

(all amounts are in EUR thousand unless otherwise stated)

35 Parent company's separate primary financial statements

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

Statement of financial position	**As of 31 December 2018**	**As of 31 December 2017**
ASSETS		
Non-current assets		
Other intangible assets	54	-
Property, plant and equipment	100	140
Investments into subsidiaries	30,776	30,769
Non-current receivables	24,601	22,180
Deferred income tax asset	73	23
Total non-current assets	**55,604**	**53,112**
Current assets		
Prepayments	14	6
Trade receivables	31	79
Receivables from related parties (including loans granted)	3,764	3,769
Other receivables	87	87
Cash and cash equivalents	4,618	993
Total current assets	**8,514**	**4,934**
Total assets	**64,118**	**58,046**

(all amounts are in EUR thousand unless otherwise stated)

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

Statement of financial position (cont'd)	**As of 31 December 2018**	**As of 31 December 2017**
EQUITY AND LIABILITIES		
Equity		
Share capital	9,483	9,483
Share premium	21,067	21,067
Reserves	948	2,686
Retained earnings	2,539	5,060
Total equity	**34,037**	**38,296**
Liabilities		
Non-current liabilities		
Non-current borrowings	16,690	13,824
Financial lease obligations	28	35
Non-current payables	348	1,286
Total non-current liabilities	**17,066**	**15,145**
Current liabilities		
Current loans	9,937	-
Current portion of non-current borrowings	2,632	3,209
Current portion of financial lease obligations	7	7
Trade payables and payables to related parties	110	883
Contract liabilities	96	-
Advances received	-	353
Income Tax	-	47
Other current liabilities	233	106
Total current liabilities	**13,015**	**4,605**
Total liabilities	**30,081**	**19,750**
Total equity and liabilities	**64,118**	**58,046**

(all amounts are in EUR thousand unless otherwise stated)

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

Statement of comprehensive income	**2018**	**2017**
Revenue from contracts with customers	275	-
Sales	-	1,844
Cost of sales	(6)	(1,368)
Gross profit	**269**	**476**
General and administrative expenses	(328)	(1,258)
Other operating income	-	63
Other operating expenses	-	(43)
Profit from operations	**(59)**	**(762)**
Interest and other finance income	6,368	6,332
Interest and other finance expenses	(819)	(549)
Profit before tax	**5,490**	**5,021**
Income tax	50	(200)
Net profit	**5,540**	**4,821**
Other comprehensive income	-	-
Total comprehensive income for the year, net of tax	**5,540**	**4,821**

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

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

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

* Adjusted unconsolidated equity differs from the consolidated equity as of 31 December 2017 and 2016 because the Company's share of losses of certain subsidiaries exceeds its interest in respective subsidiaries, accounted for based on equity method.

(all amounts are in EUR thousand unless otherwise stated)

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

Statement of 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
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.

EY FOR IDENTIFICATION PURPOSES ONLY 30.04.2019 GO

(all amounts are in EUR thousand unless otherwise stated)

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

Statement of cash flows	2018	2017
Cash flows from (to) operating activities		
Net profit from	5,540	4,821
Adjusting items:		
Income tax expenses	(50)	200
Depreciation and amortisation	52	42
Impairment and write-off of accounts receivable	(46)	(142)
Dividend (income)	(5,000)	(4,500)
(Gain) from sale of investments	-	(393)
Interest (income)	(1,368)	(1,189)
Interest expenses	650	550
Changes in provisions	(939)	-
Other financial activity result, net	169	(251)
	(992)	(862)
Changes in working capital:		
Decrease in trade receivables, receivables from related parties, non-current receivables, other receivables and other current assets	945	4,039
Decrease in prepayments	(12)	47
(Decrease) increase in trade payables and payables to related parties	(801)	(583)
Income tax (paid)	-	(23)
Increase in contract liabilities	96	-
(Decrease) in advances received and other current liabilities	(224)	(448)
Net cash flows from operating activities	**(988)**	**2,170**
Cash flows from (to) investing activities		
(Acquisition) of non-current assets	(68)	(6)
Proceeds from sale of non-current assets	1	1
Disposal of investments in subsidiaries	-	1,099
Interest received	472	1
Dividends received	5,000	4,500
Loans (granted)	(3,233)	(6,326)
Loans repaid	643	6,747
Net cash flows from investing activities	**2,815**	**6,016**
Cash flows from (to) financing activities		
Dividends (paid)	(9,799)	(19,598)
Proceeds from loans	33,636	180
Financial lease (payments)	(7)	(7)
Loans (repaid)	(21,410)	(2,875)
Interest (paid)	(622)	(410)
Net cash flows (to) from financing activities	**1,798**	**(22,710)**
Net (decrease) increase in cash and cash equivalents	**3,625**	**(14,524)**
Cash and cash equivalents at the beginning of the year	**993**	**15,517**
Cash and cash equivalents at the end of the year	**4,618**	**993**

Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Eesti
Tel.: +372 611 4610
Faks.: +372 611 4611
Tallinn@ee.ey.com
www.ey.com

Äriregistri kood 10877299
KMKR: EE 100770654

Ernst & Young Baltic AS
Rävala 4
10143 Tallinn
Estonia
Phone.: +372 611 4610
Fax.: +372 611 4611
Tallinn@ee.ey.com
www.ey.com

Code of legal entity 10877299
VAT payer code EE 100770654

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of City Service SE

Opinion

We have audited the consolidated financial statements of City Service SE and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the Code of Ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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

1. Impairment assessment of goodwill and other intangible assets

Goodwill and other intangible assets amount to EUR 38,0 million in the statement of financial position of the Group as of 31 December 2018. 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 other intangibles represent more than 31% of the total assets of the Group as of 31 December 2018.

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 31 of the financial statements, the Group has contingent liabilities related to the uncertain tax environment for its foreign subsidiaries operating in Russia with a total potential exposure approximating EUR 5,4 million and related provisions of EUR 687 thousand recorded as of 31 December 2018. This matter is significant to our audit because an adverse outcome of these contingencies could have a material adverse effect on the financial position, results of operations and cash flows of the Group and it involves a significant management judgment to assess the probable outcomes of the uncertainties and consequently the amount of provisions to be recorded and contingent liabilities to be disclosed in the financial statements.

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

In our role as a Group auditor we have specifically discussed these tax risks with the component audit team and the management of the Group. Furthermore, we have considered the adequacy of the Group's disclosure of these contingent liabilities in Note 31 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 2018 the Group had current trade accounts receivable balance amounting to EUR 32,8 million reported in the statement of financial position, part of which was overdue as disclosed in Note 12 of the financial statements, and EUR 7,0 million non-current receivables, mainly comprising receivables from residential buildings for repair works performed and restricted cash, as disclosed in Notes 11 and 13. The determination as to whether a trade receivable is collectable involves management judgment. Specific factors management considers include the age of the balance, location of customers, existence of disputes, recent historical payment patterns as well as data on subsequent collections. As disclosed in Note 2.20, there is significant judgment involved not only in the assessment of impairment of accounts receivable, but also in the classification of receivables from public sector customers into current and non-current based on the estimated collection period. This matter is significant to our audit due to materiality of the amounts as these receivables constitute over 32% of the total assets of the Group in the statement of financial position as of 31 December 2018 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 27 million as of 31 December 2018. 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 31 of the financial statements, on 21 April 2017 the parent company City Service SE received a lawsuit against the Company claiming for recovery of losses in relation to services provided under public procurement agreements during the period 2002-2013. This matter is significant for our audit because an adverse outcome of this lawsuit would have a material effect on the financial statements as the total claim amount is EUR 20.6 million and it involves a significant management judgement to assess the probable outcome of this contingency and consequently the amount of provision to be recorded and contingent liability to be disclosed in the financial statements.

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

Other information

Management is responsible for the other information. Other information consists of management report, but does not consists of the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment and approval of the auditor

We have been appointed to carry out the audit of the financial statements of Rubikon Apskaitos Sistemos UAB (later renamed several times to City Service SE currently) by the decision of the shareholders for the first time in 2003. Our appointment to carry out the audit of the financial statements has been periodically renewed by the shareholders and the total period of total uninterrupted engagement contains 4 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 24). There were no other undisclosed services provided to the Company.

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

Tallinn, 30 April 2019

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