CITYSERVICE

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CONSOLIDATED ANNUAL REPORT

2015

CITY SERVICE SE

CONSOLIDATED ANNUAL REPORT FOR 2015

Beginning of the reporting period	1 January 2015
End of the reporting period	31 December 2015
Business name	City Service SE
Registration number	12827710
Legal address	Narva mnt. 5, 10117 Tallinn, the Republic of Estonia
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E-mail	info@cityservice.eu
Website	http://www.cityservice.eu
Auditor	Ernst & Young Baltic AS

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Declaration of the management

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

Member of the Board Jonas Janukėnas

29 April 2016

1. CORPORATE PROFILE

1.1. CITY SERVICE GROUP

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

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

THE GROUP COMPANIES' PRINCIPAL AREAS OF ACTIVITIES:

Apartment buildings administration

Commercial facility management

Territory cleaning and maintenance

Other activities

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

At present the Group companies perform their activities in Lithuania, Poland, Russia, Spain and Latvia. The total area of facilities, administered in the said regions, reaches **38.8 million sq. m**.

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

At present the Group companies perform their activities in Lithuania, Poland, Russia, Spain and Latvia. The total area of facilities, administered in the said regions, reaches **38.8 million sq. m**.

1.2. STRATEGY AND OBJECTIVES

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

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

1.3. MISSION AND VISION

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

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

1.4. STRUCTURE OF THE GROUP

CITY SERVICE SE

LITHUANIA				POLAND	RUSSIA	SPAIN	LATVIA
100% UAB Antakalnio būstas	100% UAB Jūros būstas	100% UAB Mano sauga LT	100% UAB Šiaulių būstas	100% City Service Polska sp. z o.o.	100% ОАО Сити Сервис / OAO City service	100% Administraciones SantaPola S.L.	100% SIA City Service
100% UAB Apkaba	100% UAB Kauno centro būstas	100% UAB Namų priežiūros centras	100% UAB Šiaulių namų valda	100% City Service Grupa Techniczna sp. z o.o.	100% ЗАО Сити Сервис / ZAO City service	100% Administracion Urbana y Rural Chorro, S.L.U.	100% SIA Namu serviss APSE
100% UAB Aukštaitijos būstas	100% UAB Karoliniškių būstas	100% UAB Naujamiesčio būstas	99.84% UAB Šilutės būstas	100% EnergiaOK sp. z o.o.	100% ОАО Специализированное ремонтно-наладочное управление	100% Afimen administración de finques, S.L.U.	100% SIA Riga City Service
100% UAB Baltijos būsto priežiūra	100% UAB Karoliniškių turgus	100% UAB Naujosios Vilnios turgavietė	100% UAB Vėtrungės būstas	100% Grupa Techniczna 24 sp. z o.o.	100% ООО МН Групп	100% Concentra Servicios y Mantenimiento, S.A.	
100% UAB Baltijos NT valdymas	100% UAB Konarskio turgelis	100% UAB Nemuno būstas	100% UAB Vilkpėdės būstas	100% Famix sp. z o.o.	80% ООО Жилкомсервис № 3 Фрунзенского района	100% Elche administracion de fincas, S.L.U.	
100% UAB Baltijos pastatų valdymas	100% UAB Lazdynų butų ūkis	100% UAB Nemuno būsto priežiūra	100% UAB Vilniaus turgus	100% Progresline sp. z o.o.	100% ООО Чистый дом		
100% UAB Baltijos turto valdymas	100% UAB Lazdynų būstas	100% UAB Pastatų priežiūra	100% UAB Vingio būstas	100% SANTER Zarządzanie Nieruchomościami sp. z o.o.	100% ООО Подъемные механизмы		
100% UAB Dainavos būstas	100% UAB Mano aplinka	100% UAB Pašilaičių būstas	100% UAB Viršuliškių būstas	100% Zespół Zarządców Nieruchomości sp. z o.o.			
100% UAB Danės būstas	100% UAB Mano aplinka plius	100% UAB Pempininkų būstas	99.3% UAB Žaidas	100% City Service Poland sp. z. o.o.			
100% UAB Economus	100% UAB Mano Būstas	100% UAB Radviliškio būstas	100% UAB Žardės būstas				
100% UAB Justiniškių būstas	99.27% UAB Mano Sauga	100% UAB Skolos LT	100% UAB Žirmūnų būstas				

The Group's investment in an associate as of 31 December 2015 included an investment in Marijampolės butų ūkis UAB (34% of the share capital).

1.5. STAFF

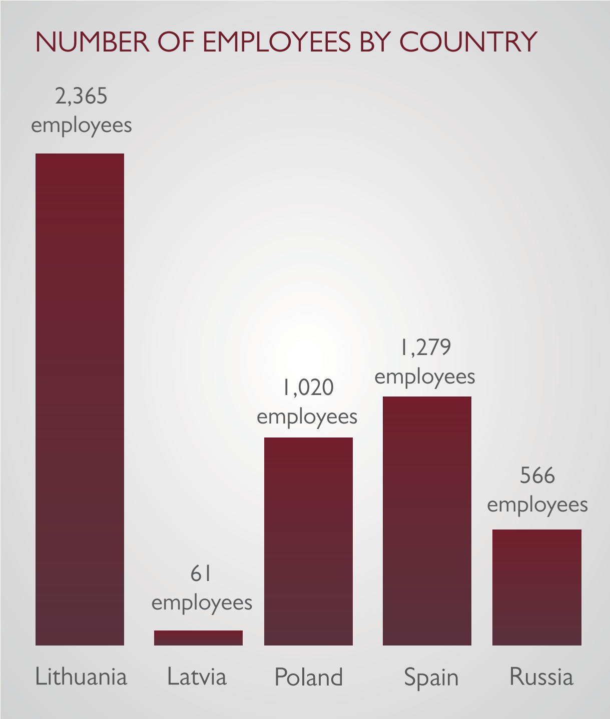
In 2015 the Group dedicated especially significant attention to training the top and medium level employees.

70 managers were trained to find the problematic points in their managed processes, select proper indicatives to measure them and work with the indicator tables: monitor the indicators' results, analyse advantages and disadvantages and discuss problems and the ways for their resolution.

The Group continued dedicating attention to strengthening the managerial competences, focusing on training the employees' motivation, provision of feedback, correct communication and involvement of employees into different activity processes. 15 internal training programmes were developed, in which 10 employees of the Company itself became instructors and consultants. They shared their knowledge and experience with other employees of the Group.

In 2016 the Group companies will continue developing the improvement culture, involving all employees into the processes. Significant attention was dedicated to improvement of new employees' adaptation programme, aiming at fast and efficient preparation of the new employees for working by providing all the necessary knowledge and skills.

As of 31 December 2015 the Group had total 5,291 employees - 2,365 in Lithuania, 61 in Latvia, 1,020 in Poland, 1,279 in Spain and 566 in Russia.



1.6. FOREWORD BY MANAGEMENT BOARD MEMBER

JONAS JANUKĖNAS,
Member of the
Management Board of
City Service SE

In 2015 the City Service Group carried out its active organic development on the apartment buildings maintenance market. More and more apartment building owners choose our complex maintenance services, as shown by the record number of new customers. During the year the total area of apartment buildings, maintained by the Group companies, grew organically by more than 1 million sq. m., i.e. by 5 %.

The Group continued its traditional activity of acquiring residential buildings administration companies. This was most actively performed on foreign markets – in Poland and Spain. We acquired five residential buildings administration companies, for which we apply our long experience in integrating and extending the range of provided services. In 2016-2017 we will carry out active expansion by acquiring companies, operating in priority residential buildings administration markets of Poland and Spain.

Another important step in the history of the Group's activities is the reorganization into a European company and entering Warsaw Stock Exchange. We became the 481st company, listed on the Main Market of the Stock Exchange. That was a logical step, since the Polish market has a huge development potential. By way of development and expansion the Group has already outstepped the limit, when the major part of its business is executed not in Lithuania, but on the foreign markets. Therefore the decision to list the shares of City Service on Warsaw Stock Exchange, which is the finance centre of the Central and Eastern Europe, was a purposeful decision for the Group's development. It will also help the Group's Polish companies to succeed in reaching their goals.

We have also strengthened our position on the commercial facilities maintenance market. The Group increased the number of customers in Lithuania, Latvia, Poland, Spain and Russia, as well as the area of maintained facilities, which, during the year, grew by more than 3 million sq. m.

We actively developed our business not only in our principal activities, which are facilities administration, but also in the integrated services segments, such as cleaning and territory maintenance, renovation, debt administration and other services. After seven years of successful activities and continuous growth, the Group occupies the largest share of cleaning and territory maintenance service market in Lithuania.

We continued active use of the LEAN process based efficiency improvement methods in all the countries, where the Group companies operate. All top level managers involved into the continuous improvement processes and the majority of employees throughout the Group raised new goals and improved the previously set activity indicators. They are an integral part of the value, created for the customers therefore, by developing and improving the activity indicators, we create valuable and meaningful services.

2. MANAGEMENT REPORT

2.1. MAIN AREAS OF ACTIVITY

2.1.1. APARTMENT BUILDINGS ADMINISTRATION

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

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

The Group provides apartment buildings administration and maintenance services in Lithuania, Poland, Latvia, Spain and Russia.

IN LITHUANIA the Group companies increased the area of maintained buildings by signing new contracts with the building owners. In 2015 the geography of activities was expanded – apartment building administration services were commenced to be provided in Neringa municipality.

At present the total area of maintained buildings reaches 9.58 million sq. m.

IN POLAND the apartment buildings administration activities were further developed. The Group acquired two companies, providing apartment buildings maintenance services in Warsaw and Poznan – Famix and Santer respectively. The total area of buildings, administered by the said companies, is 420 thousand sq. m. The Group also signed the memorandum of understanding for acquisition of one more company in Warsaw.

At present total area of administered apartment buildings in Poland reaches 10.49 million sq. m.

10.49
million m^2

IN SPAIN active development was continued on the apartment buildings administration market. The Group company Concentra acquired the companies J. J. Chorro, Elche and Afimen, servicing apartment buildings in the Alicante region. The total area of the buildings, administered by the said companies, is 1.5 million sq. m. The Company is going to continue increasing its apartment buildings administration market share through organic development and acquisition of new companies.

At present the total area of the maintained apartment buildings reaches 1.7 million sq. m.

1.7
million m^2

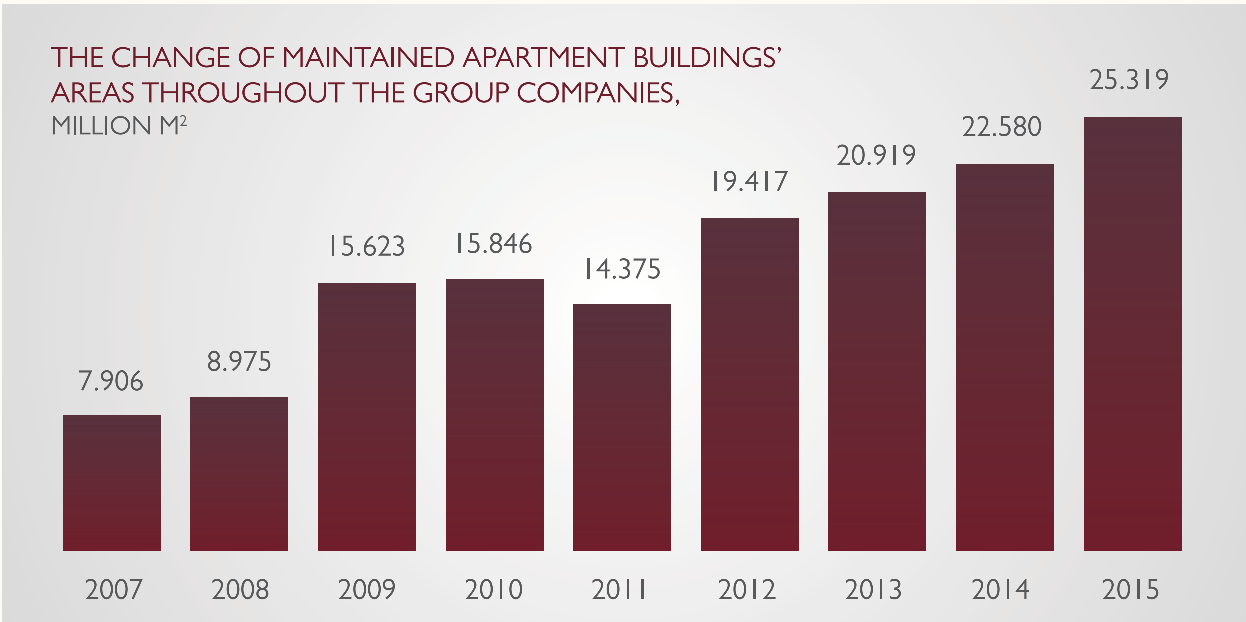
IN LATVIA the Company continued increasing the area of maintained apartment buildings in Liepaja. During the year it grew by more than 8 thousand sq. m. In 2016 the Group company will attempt to expand its activities into other of the country's cities.

At present the area of apartment buildings, serviced by the company, reaches 270.6 thousand sq. m.

270.6
thousand m^2

The Group company, operating **IN RUSSIA,** increased the area of maintained apartment buildings by 270 thousand sq. m. – from 3.1 to 3.37 million sq. m. The Company's target for 2016 is to increase the area of maintained buildings by other 250 thousand sq. m.

3.37
million m^2



2.1.2. COMMERCIAL FACILITY MANAGEMENT

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

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

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

IN LITHUANIA the range of customers was extended – 72 contracts were signed: 41 with new customers and 31 with existing ones.

3.45 million m^2

In 2015 the area of maintained buildings reached more than 3.45 million sq. m.

Complex facility management services were commenced to be provided to shopping centres Gedimino 9, Nordika and Kubas, as well as to the sports club Lemon Gym. After extending the contracts, maintenance services are further provided to Philip Morris Lietuva, Technopolis and others.

The Group company offered and applied the ESCO model to a part of its customers. The model was especially successfully implemented in Vilnius city's educational institutions – in schools and kindergartens. The ESCO model, widely used in well-developed world's and European countries, is based by the fact that the energy service provision company undertakes to ensure that the customer does not use more energy resources than foreseen under the contract. By using the ESCO model, the company saved EUR 2.4 million to the serviced educational institutions.

IN SPAIN the Group company extended contracts with its most important customers: the Galicia region administration, Hospital Fuenlabrada, the retail network FNAC, electric energy supply company Iberdrola and the Ministry of Defence. New contracts were signed with Barcelona's airport El Prat, the BMN bank, police forces and health care institutions in Toledo.

6.32
million m^2

In 2015 the company focused on keeping the existing customers and increasing the profitability, as well as on improvement of the services, provided to customers.

At present the area of maintained objects reaches 6.32 million sq. m.

IN RUSSIA the Group company commenced providing maintenance services to the logistics centre Nordway, animated cartoons studio Мельница and business centre Кадр.

100
thousand m^2

At present the company maintains a commercial facility area of more than 100 thousand sq. m.

IN LATVIA the Group company signed the contract with State Enterprise Latvenergo for maintenance of doors, gates and heating, ventilation and air conditioning systems. In addition, the company commenced the provision of heating, ventilation and air conditioning maintenance services to State Enterprise Rigas Siltums.

1
million m^2

The Group company extended the scope of maintenance of petrol stations network VIADA – a contract for servicing 12 objects was signed.

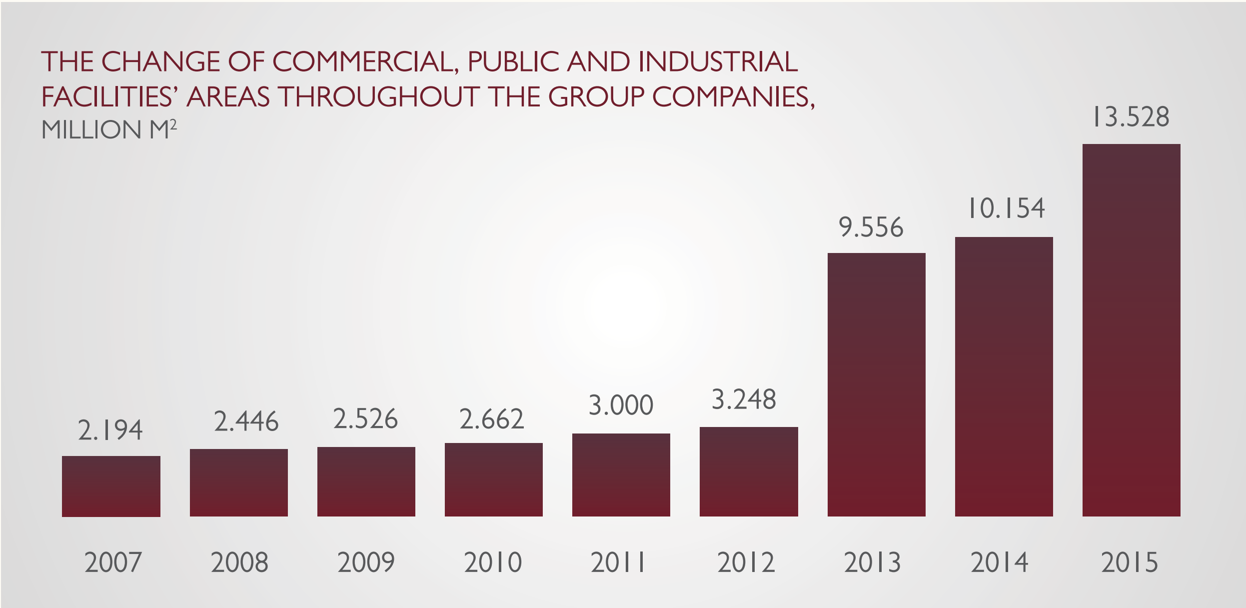
Engineering systems maintenance services were commenced to be provided to shopping centres RIMI and the marketplace Vidzemes tirgus. Emergency unit services were commenced to be provided to the construction materials centre Depo, which is one of the largest in Latvia.

The Group company commenced to provide a new service, i.e. buildings' interior reconstruction works. Such works have already been performed in Maxima shopping centres and the sports clubs Lemon Gym.

In 2015 the total area of maintained buildings reached more than 1 million sq. m.

IN POLAND the Group company continued to extend the range of its commercial segment customers. During the first half-year the company signed the maintenance contract with shopping centre Neptums. In the second half-year the company commenced maintaining the office of Solar company in Warsaw and the production facilities Łucznik.

The total area of maintained commercial objects reaches 2.59 million sq. m.



2.1.3. TERRITORIES MAINTENANCE AND CLEANING

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

IN LITHUANIA the Group company provides cleaning and territories maintenance services in Vilnius, Kaunas, Klaipėda, Šiauliai, Biržai, Alytus, Šilutė and Radviliškis. The company takes care of cleanliness both in apartment buildings and commercial facilities and also public spaces in cities and towns. The company continuously expands the range of provided services and invests into procurement of new equipment – 270 thousand euro was invested during 2015.

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

IN SPAIN the Group company mostly provides inside premises cleaning services to commercial and state owned facilities. In 2015 the company focused on profitable contracts, keeping the existing customers and improving the quality of services.

IN RUSSIA the Group company provides territories maintenance and cleaning services to apartment buildings.

2.1.4. OTHER SERVICES

Apart from their principal activities, the Group companies also provide other services in Lithuania, Poland, Spain and Russia.

IN LITHUANIA the Group companies provide security services to 3500 customers, performed renovation of 14 buildings, implemented and maintain 500 children's playgrounds and recovered debts to the customers' benefit, amounting to EUR 2.6 million.

The Group Company, operating **IN LATVIA**, renovated more than 40 apartment buildings.

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

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

2.2. IMPROVING EFFICIENCY OF ACTIVITIES

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

IN LITHUANIA 88% of top managers, 58% of heads of divisions and 44% of administration employees were involved into the continuous improvement activities.

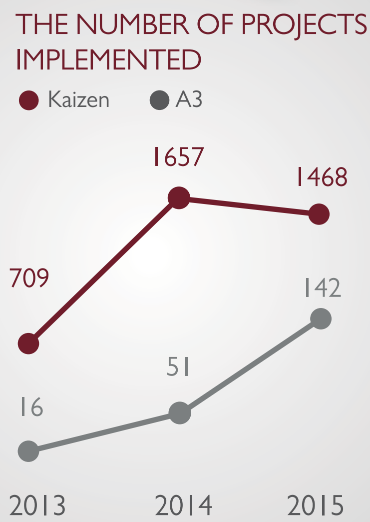
IN RUSSIA, in Saint Petersburg, the rearrangement of operational divisions was continued, which resulted in successful sales of supplementary works. All divisions and units introduced indicators, top level managers' competences were commenced to be measured.

IN SPAIN the Group's companies continued for improve activity procceses. All the top level managers and 40% of employees are involved in the processes. In 2016 significant attention will be dedicated to increasing all employees' competences.

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

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

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



2.3. THE MOST SIGNIFICANT INVESTMENTS AND EVENTS

FEBRUARY

On 12 February 2015 the deal on transfer of 25 % of the stock of AWT Holding UAB was finalized, which resulted in BaltCap gaining sole control of AWT Holding UAB, which, in turn, controls the Ecoservice UAB Group. After the transfer the Group no longer has shares or controlling rights in Lithuanian companies, engaged in waste handling business.

MARCH

On 2 March 2015 the Group, through its subsidiary, acquired three companies (Administracion Urbana y Rural Chorro S.L.U., Afimen administración de finques, S.L.U., Elche administracion de fincas, S.L.U.), servicing apartment buildings in Alicante region in Spain. The companies were acquired for the amount of 640 thousand euros.

MAY

On 19 May 2015 the Board of City Service prepared the general conditions for cross-border merger of the Company and its subsidiary City Service EU AS, registered in Estonia. According to the said conditions City Service was merged with its Estonian subsidiary and seized its activities and City Service EU AS took over all of the company's assets, liabilities, rights and responsibilities and continued its activities as City Service AS.

AUGUST

On 3 August 2015, referring to the decision to withdraw from the apartment buildings administration market of Stavropol (Russia), the shares of the Group companies, operating in Stavropol, were transferred. The sales price amounted to 4 million roubles. The companies were purchased by natural persons of Russian citizenship.

SEPTEMBER

On 1 September 2015 the Group, through its Polish subsidiary, acquired the company Famix sp. z o.o., which provides apartment building administration services in Poland.

On 2 September 2015 the Group, through its Polish subsidiary, acquired the company SANTER Zarządzanie Nieruchomościami sp. z o.o. which provides apartment building administration services in Poland.

On 16 September 2015 the extraordinary general meeting of shareholders of City Service AS was held, which approved the reorganization of City Service AS into a European company (Societas Europaea or SE).

OCTOBER

On 27 October 2015 the rearrangement of City Service AS into a European company was completed, after which the legal form of the company was changed into SE and the name of the company was changed into City Service SE. All the property, rights and obligations of the Company were transferred to City Service SE. After the rearrangement, the Company's activities are continued.

NOVEMBER

On 6 November 2015 an extraordinary general meeting of shareholders of City Service SE was held, during which it was decided to un-list the Company's shares at AB NASDAQ OMX Vilnius on the conditions that the shares is listed with the Warsaw Stock Exchange.

On 12-13 November 2015 the Company's shares was registered with Poland's National Depository for Securities. The board of Warsaw Stock Exchange (WSE) decided to list all 31,610,000 ordinary registered shares of the Company, EUR 0.30 nominal value each on WSE's Parallel Market. The first day of listing of the Company's shares at the WSE was 16 November 2015.

DECEMBER

On 12 December 2015 the Group, through its Russian subsidiary, acquired the company ООО МН Групп.

LATEST EVENTS

FEBRUARY

On 15 February 2016 the board of AB Nasdaq Vilnius decided to satisfy the Company's request and un-list its shares (ISIN EE3100126368, abbreviation CTS1L) from AB Nasdaq Vilnius. The shares will be un-listed starting from 30 April 2016 (the last day of listing the shares of City Service SE with AB Nasdaq Vilnius is 29-04-2016).

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

APRIL

The Group, through its Polish subsidiary, acquired the company Parama Group sp. z o.o.

On 1 April 2016 reorganization of the companies UAB Šiaulių namų valda and UAB Apkaba was completed. After the process of reorganization UAB Apkaba was incorporated into UAB Šiaulių namų valda with all the assets, rights and obligations. UAB Apkaba ceased operations and was deregistered. After reorganization UAB Šiaulių namų valda title was changed into UAB Pietinis būstas.

2.4. KEY RISK ACTIVITY TYPES AND UNCERTAINTIES

In 2015 the market was stable, prices and purchasing power did not decline, in comparison with 2014. 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 2015, and neither there were any decisions providing for significant additional obligations for service providers; supervising institutions did not identify any major deficiencies in the provision of the services or inconsistencies with the legislative requirements.

CREDIT RISK

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

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

INTEREST RATE RISK

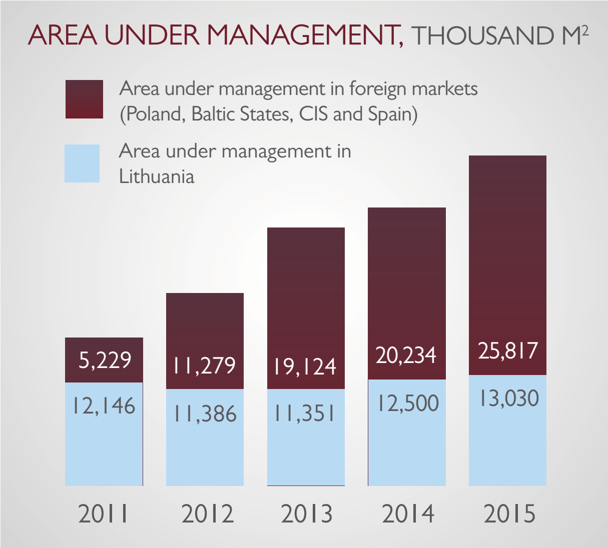
The major part of the Group's and the Company's borrowings (loans and financial lease obligations) are subject to variable rates, related to EUR LIBOR, EURIBOR, EONIA and WIBOR, which create an interest rate risk. There are no financial instruments designated to manage the exposure to the interest rate risk outstanding as of 31 December 2015 and 2014.

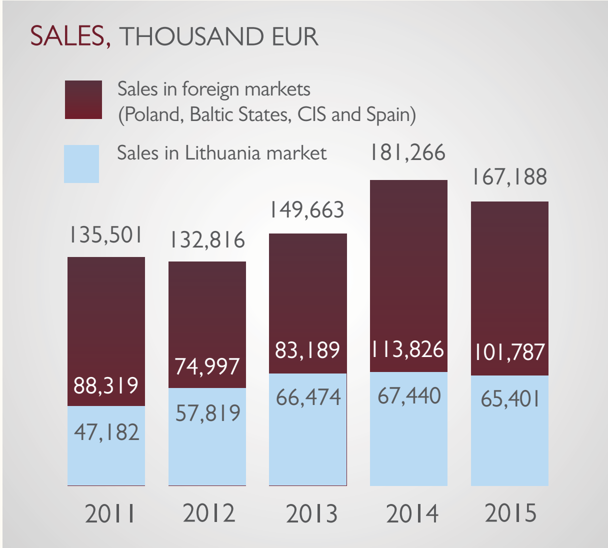
2.5. THE MAIN FINANCIAL RATIOS CONCERNING THE FINANCIAL YEAR

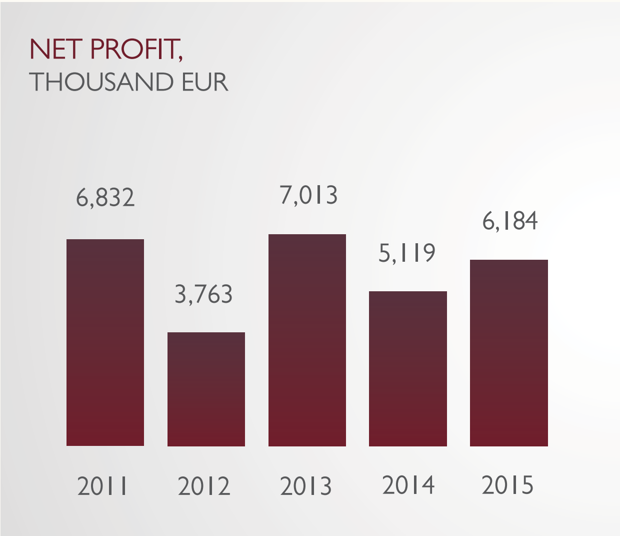
KEY FINANCIAL INDICATORS*	2011	2012	2013	2014	2015
Sales	135,501	132,816	149,663	181,266	167,188
Sales in Lithuania market	47,182	57,819	66,474	67,440	65,401
Sales in foreign markets (Poland, Baltic States, Russia and Spain)	88,319	74,997	83,189	113,826	101,787
Area under management in Lithuania (thousand sq. m)	12,146	11,386	11,351	12,500	13,030
Area under management in foreign markets (Poland, Baltic States, Russia and Spain)	5,229	11,279	19,124	20,234	25,817
GROSS PROFIT					
EBITDA	10,647	9,123**	13,331	12,314	10,012
EBITDA margin	7.86%	6.87%	8.91%	6.79%	5.99%
Operating profit (EBIT)	8,878	7,314	10,370	8,914	5,883
EBIT margin	6.55%	5.51%	6.93%	4.92%	3.52%
Earnings before tax (EBT)	8,517	5,156	8,674	6,932	7,537
EBT margin	6.29%	3.88%	5.80%	3.82%	4.51%
Net profit	6,832	3,763	7,013	5,119	6,184
Net profit in foreign markets (Poland, Latvia, Russia and Spain)	2,710	2,622	1,331	(831)	(783)
Net profit margin	5.04%	2.83%	4.69%	2.82%	3.70%
Profit per share (EUR)	0.26	0.14	0.23	0.20	0.26
Return on equity (ROE)	17%	5%	12%	9%	11%
Return on assets (ROA)	9%	2%	5%	4%	6%

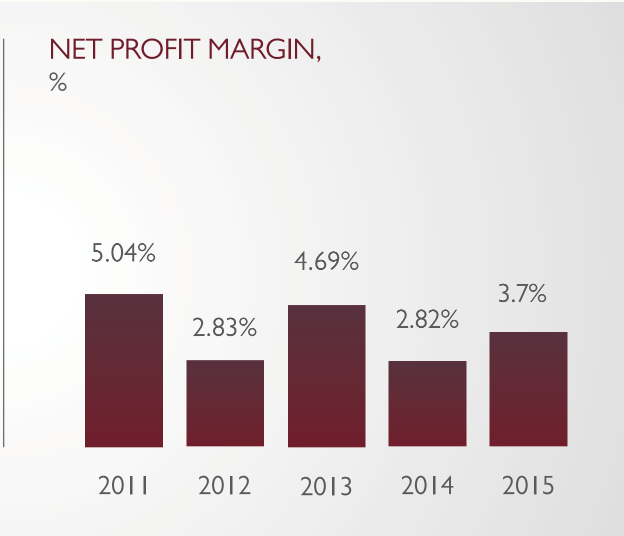
* Key financial data and ratios, except for return on equity and assets as well as profit per share, is presented excluding Ecoservice UAB group and companies operating in the city of Stavropol. All amounts in key financial indicators are in EUR thousand unless otherwise stated.

** Before gain from bargain purchase and goodwill impairement.









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 2015. It is divided into 31,610 thousand ordinary shares with the nominal value of EUR 0.30 each. All shares of the Company are paid up.

On 31 December 2015 all 31,610 thousand ordinary shares of the Company are included into the Parallel Market of Warsaw Stock Exchange (ISIN Code of the shares is EE3100126368). Trading Code of the shares on Warsaw Stock Exchange is CTS. Shares of the Company also are included into the Official List of NASDAQ OMX Vilnius Stock Exchange (ISIN Code of the shares is EE3100126368). Trading Code of the shares on NASDAQ OMX Vilnius Stock Exchange is CTS1L.

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.

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 2015 the total number of shareholders of the Company was 1,107.

Company's shares distribution among shareholders who have more than 5 % shares of the Company as of 31 December 2015 was the following:

	Number of shares held	Owned percentage of the share capital and votes, %
ICOR UAB, legal entity code 300021944, address: Konstitucijos av. 7, Vilnius, Lithuania	26,813,293	84.83 %
Genesis Emerging Markets OPP FD LTD, legal entity code OC 306866, address Cricket Square, Hutchins Drive KY 1-1111, Cayman Islands	1,605,183	5.08%
Other private and institutional shareholders	3,191,524	10.09 %
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 2015.

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 2015. To the best knowledge of the Company, all shareholders of the Company have the voting right in the General Meeting.

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

2.9.1. COMPANY'S SUPERVISORY BOARD

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

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

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

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

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

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

As of 31 December 2015, the Supervisory Board of the Company comprises of the following persons:

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

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

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

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

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

2.9.2. COMPANY'S MANAGEMENT BOARD

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

Management Board member is authorized to represent the Company in all legal acts which do not fall within competence of other Management bodies. Management Board member isn't authorized to issue or repurchase shares of the Company. Also there is no agreements between the Company and its Management Board or employees.

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

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

2.9.3. GROUP'S MANAGEMENT

As of 31 December 2015 and as of date of submission of this report, the key managers of the Company and of the Group are as follows:

Name and surname	Position within the Company	Start of employment
Vytautas Turonis	Executive Manager for Lithuania	2004
Edvinas Paulauskas	Executive Manager	2005
Remigijus Jakubauskas	Head of the Group companies, operating in Poland	2013
Anna Górecka – Kolasa	Head of the Group company, operating in Poland	2013
Fernando López Abril	General Manager of the Group company, operating in Spain	2013
Jonas Šimkevičius	Member of the Board of Group company, operating in Latvia	2005
Vytautas Junevičius	Chairman of the Board of group companies in Russia	2006

They do not control any shares of the Company.

VYTAUTAS TURONIS (b. 1972 m.) is the General Manager at Mano Būstas and works as the Executive Manager for Lithuania at City Service SE. He holds a Bachelor's degree in International Business. Previously he worked as the Marketing Manager of UAB Specialus Autotransportas (2003 – 2004). He started to work in the Company as the Market Development Department Manager (2004 – 2008).

Vytautas Turonis is responsible for the Group's activities throughout Lithuania.

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

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

REMIGIJUS JAKUBAUSKAS (b. 1974) is the head of the Group companies, operating in Poland: Zespół Zarządców Nieruchomości sp. z o.o., City Service Polska sp. z o.o., City Service Poland sp. z o.o. Prior to that, Mr. Jakubauskas worked as a project manager in Poland. R. Jakubauskas has an educational background in energetics.

R. Jakubauskas is responsible for the Group companies activities in Poland.

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

A. Górecka-Kolasa is responsible for the activities of City Service Grupa Techniczna sp. z o.o.throughout Poland.

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

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

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

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

VYTAUTAS JUNEVIČIUS (b. 1965 m.) has been the chairman of the board for the City Service Group companies, operating in Russia, since 2014. Mr. Junevičius commenced his activities in the Group as the head of Kaunas subsidiary (2007 - 2014). V. Junevičius has a Bachelor's degree in management.

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

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 2015 by the 31st of December 2015 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 on the 16th of September 2015. 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 and its members were re-elected according to the decision of the Supervisory Board, dated 27 October 2015.

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

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

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

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

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

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

The principal objective of the Audit Committee is to generate higher added value to the Company.

MEMBERS OF THE AUDIT COMMITTEE OF THE COMPANY AS OF 31 DECEMBER 2015:

Mr. Tomas Kleiva – employee of the Company.

Mr. Justinas Damašas – employee of the Group Company.

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

Audit Committee members do not control shares of the Company.

2.14. INFORMATION ON COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

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

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

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

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

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

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

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

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

3. SOCIAL RESPONSIBILITY REPORT

3.1. OVERVIEW

In 2015, the City Service Group's companies, operating in Lithuania, Latvia, Poland, Spain and Russia, kept their activities integrated with the idea of social responsibility, since it is an integral part of the Group's mission to create a harmonious living and working environment by providing comprehensive and innovative services.

City Service Group's social responsibility is implemented in the areas of the market, relations with the employees, community-based social relations and environmental protection.

On the market, the Group aims for focused improvement of management of the customers' relations, creating individual relationship with each of the customers and ensuring the improving quality of working and living environment of the customers, as well as timely communication and comprehensive provision of information. The customers' experiences and evaluations are widely communicated through the Group's internal communication channels. Taking into consideration the continuous analysis of customers' needs, the Group develops focused action plans and sets targets for its activities. The Group's companies are committed to quality and customer satisfaction in accordance with the Quality Management System ISO 9001:2008.

When developing its relations with employees, City Service aims to involve its personnel into the Group's activity processes, encourage open dialogue between different management levels and increase the staff motivation and involvement. The personnel training programmes are adopted for enhancement of professional competences of the employees. A remote-learning system is being introduced. The great attention is paid to the issues of health and safety of the

employees. The Group observes the principles of tolerance as regards age, gender, race, religion, origin and beliefs, ensuring equal opportunities and rights for its employees.

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

In the area of environmental protection, the Group encourages sparing the natural resources, encourages the waste sorting, contributes to the projects aiming to reduce environmental pollution and participates in public awareness initiatives and campaigns.

3.2. MARKET

In 2015, the Group's companies paid a significant attention to the solutions on quality of communication with customers, as well as energy saving in residential and commercial buildings.

COMMUNICATION WITH CUSTOMERS

The Group created and successfully applied the new communication standard for the majority of the companies, which covers both corporate and outward communication, i.e. the media, interactive channels, as well as personnel and marketing communication.

In order to accurately identify the customers' needs, the Group encouraged continuous direct communication with the customers. As the result the building administration managers spent at least 40 percent of their working time in direct communication with the customer. Customer relationship management (CRM) helps the Group to provide the essential services in a timely manner.

Managers spent at least
40 percent
of their working time in direct communication with the customer.

IN LITHUANIA, LATVIA, POLAND, SPAIN AND RUSSIA the communication with the customers is maintained though different reach-out communication channels, i.e. over the telephone, e-mail messages and newsletters, news boards, self-service portals, social networks, meetings and individual sessions.

IN POLAND, the Group's company named Zespol Zarzadcow Nieruchomosci (ZZN) continued to develop the online Customer Zone and call centre for the owners. At the end of 2015, almost 30 percent of the ZZN customers used more than 30,000 internet accounts actively. In addition, the company's call centre was organized and activated – in 2016 all the country is planned to connect to the phone system.

The Group observes the laws of Lithuania, Latvia, Poland, Spain and Russian, regulating legal protection of personal data, and strictly complies with the policy on ensuring customer data protection.

ENERGY SAVING

In 2015 the Group's Energy Saving Group (ESG) proposed to the part of its customers and applied **IN LITHUANIA** the ESCO methodology, which is widely applied in the developed countries in the world. It makes it possible to increase energy efficiency and reduce the energy costs suffered by the customer. This model was successfully implemented in educational institutions of Vilnius city – kindergartens and schools.

> Using the ESCO model, for the educational establishments almost **2.4 million euros** were saved per year.

ESCO model is based on the grounds that the energy service company shall undertake that the customer would use up less resources than planned in the service contract. Using the ESCO model, the company saved for the educational establishments almost 2.4 million euros per year.

ESG together with the commercial building management division concerned about the customers' energy resources and developed the Project on Energy Saving Measures. These two groups targeted to cooperate for a common objective to offer the customer-tailored innovative and energy efficient solutions. The project proposed different measures as replacement of LED lights, reactive power compensation equipment (reducing consumption of reactive power energy), enhancement of efficiency of cooling/freezing systems, automatization of heating systems, performance of audits of the power energy

During 2015, around
100 proposals
were submitted for
different customers in Lithuania.

systems. During 2015, around 100 proposals were submitted to the different customers.

In 2015, the Group introduced a new high-tech service – a remote building management. This service ensures lower energy costs, rapid response to the system failures and damages, as well as smooth functioning of building engineering systems. Remote control system enables optimization of the system management and energy costs, centralized storage and analysis of information, its graphical visualization, remote management and control of building engineering systems.

IN LATVIA the performance of energy audits and modernisation services were proposed as energy saving measures. In 2015, seven buildings were modernised, and five buildings will be renovated in the future. During the meetings with customers, vivid facts were given on the advantages of the building modernisation. The energy audit was performed for one of the largest supermarkets, where cost savings amounted to over 15,000 euros per year.

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

In Russia the Group's employees created electrical measurement laboratory ЛАБОРАТОРИЯ ЭЛЕКТРИКС. Laboratory performs testing and detection of failures in power energy networks. It has already performed around 200 tests.

The energy audit was
performed for one of the largest
supermarkets in Latvia, where
cost savings amounted to over
15,000 euros per year.

3.3 RELATIONS WITH THE PERSONNEL

The Group's companies pursue and invest into their employees personal growth, cooperation, joint results and success. In 2015 the Group's employees suggested different performance efficiency improvement solutions and applied them in practice, participated in training sessions, seminars, shared their good experiences and the best practices.

TRAINING AND SEMINARS

In 2015, **IN LITHUANIA**, the training courses and seminars on efficient sales, time management, stress management, procurement management, engineering, computer literacy, legal issues, internal coaching and other subjects were organised for 13 divisions of the Group. Totally, more than 80 business days were dedicated to strengthening of knowledge and building of the competences of almost 340 employees.

340 Employees
extended their knowledge and built competences.

In Lithuania, the ROOKIES' DAY is organised each quarter. During the training, which takes full business day, the new employees are familiarized with the Group's vision, mission, values, activities and the LEAN methodology. They receive the specific knowledge on information systems, procurements, and occupational safety; they play the team game on the Group's values. In 2015, 85 employees participated in the ROOKIES' DAY.

In 2015, **IN LATVIA**, the technical competence staff was trained for new qualifications and awarded with new certificates to operate and maintain the engineering systems.

IN POLAND, in cooperation with the AON Hewitt company participated for the first time in the Best Employer Program and started studying employer's involvement and development opportunities. In 2015 around 20 employers and managers took part in trainings on improving sales and customer service skills.

IN SPAIN, the trainings on safety on the road were conducted for the staff members. These trainings emphasized negative effect of alcohol on driving and developed the first aid skills of the employees.

PRACTICAL TRAINING FOR STUDENTS

In 2015, the Group performed the practices of skills development and knowledge improvement of the students, also created the possibilities for employing persons with disabilities.

IN LITHUANIA, 25 students improved their practical skills and acquired knowledge, 3 of whom were later employed in the company. Majority of the students developed their specific skills in the field of energy and engineering.

OCCUPATIONAL SAFETY

In 2015 **IN LITHUANIA**, 24 trainings on occupational safety, as the Occupational Safety Day, were performed: 15 – for the operational division, and 9 – for the cleaning division. During these trainings, the news and innovations in the area of occupational safety were delivered, and the results of legal compliance with the occupational safety were discussed.

On April 28, the company made mention of the World Day for Safety and Health at Work. Each staff member was reminded of how important it is to comply with occupational safety regulations.

3.4 COMMUNITY-BASED SOCIAL ACTIVITIES

In 2015, the Group received an assessment award from the Ministry of Social Security and Labour of the Republic of Lithuania for its socially responsible activities. The Group continued to develop its activities aimed at strengthening the community-based traditions. In the area of social activities, the Group implemented initiatives, aimed at improving the living environment in the multi-apartment buildings, encouraging the neighbourly relations and responsible attitude towards the common property, as well as the partnership of the Group's companies and employees with the society.

Already for a number of years, the Group has been paying a particular attention to strengthening of relations with the communities and to investing to the corporate social responsibility projects. In 2015 in Lithuania, the Group received a special certificate from the Ministry of Social Security and Labour of the Republic of Lithuania for successful implementation of innovative solutions, promoting the closer dialogue within the communities.

IN POLAND, City Service Group's company Zespół Zarządców Nieruchomości sp. z o.o. (ZZN) received two awards for its social activities. The awards were handed out for the creation of business-friendly environment in the region (Mazowieckie województwo) and social responsibility, and for the active participation in the project, the aim of which – to help the low-income families.

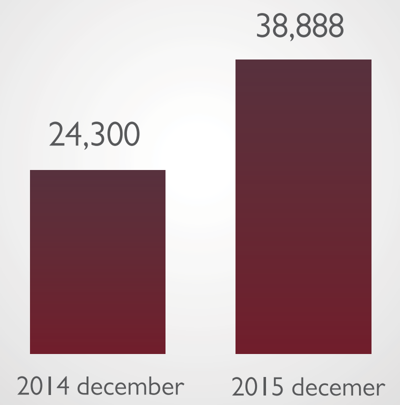
IN LITHUANIA, almost 40 events and actions were organised to the residents of multi-apartment buildings in 2015: Christmas tree lighting celebration, the Shrove Tuesday celebration, community entertainment events, cleaning and arrangement actions of the leisure spaces. Additionally, 7 contests were announced on different subjects, related with multi-storey residential buildings and their environment. The

40
events and actions were organised in Lithuania.

total attendance of all events and contests reached almost 12 thousand participants, i. e. almost 7 percent of all the multi-apartment building customers, serviced by the Group.

12,000
Participants of all events.

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



In 2015 in Lithuania, the virtual communities project "Neighbours Talk" was further developed and expanded on social network Facebook. At the end of the year, the target audience of the project reached 38,888 followers (in December 2014 – 24,300), i.e. almost 21 percent of all the apartment building customers, serviced by the Group.

In 2015, the Company actively created the relations with the academic communities of universities and colleges in Lithuania. The Cooperation Agreement was signed with Vilnius College of Technology and Design, cooperation was maintained with the experts of the Department of Construction Economics and Property Management of the Faculty of Construction of Vilnius Gediminas Technical University (VGTU). The Company also visited and presented its activities in "Career days" organised by VGTU.

IN LATVIA in September-October the Group's company Namu Serviss APSE organised the attractive action "Let's be Familiar" for the multi-apartment communities in Liepāja city. During five meetings, held in different yards of the multi-apartment buildings of this city, a wide range of issues concerning the housing maintenance was submitted by over 60 residents, in total more than 100 persons showed their interest in this action. During these meetings the active interests were expressed in issues on administration and renovation of multi-family apartment buildings.

IN POLAND, the company Zespół Zarządców Nieruchomości sp. z o.o. (ZZN) supported theatre shows for children and participated in the children's day events. The company was also a co-organizer of the charity ball near Slupsk organized by CARITAS Poland. As every year before Christmas, ZZN employees took part in the all-Poland Szlachetna Paczka (Noble Parcel) social action, buying groceries and completing Christmas packages for needy families.

In the summer of 2015, the ZNN employees voluntarily participated in the organizing and servicing activities of the children running competition in Gubin city. ZZN provided a financial support for this competition and helped to organise the leisure activities during this event in Poland.

A dozen of branches organized spring and summer events and picnics for their inhabitants and all cities residents.

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

IN SPAIN, the Group's company Concentra was involved in the solidarity campaign SHIP BU. During the campaign, the cooperation linked with an online toy store "Namubu". This shop, in cooperation with the Red Cross organisation, "Remar" and "Children's village", donates every third toy purchased in the shop to the children from the under-privileged families.

At the end of 2015 and in the beginning of 2016 the charity initiative was implemented, when the company's Concentra employees collected food, clothing, hygiene items and toys for needy families in the southern Spain.

In 2015 in Spain, in close cooperation with Caritas and Red Cross organization, the company aimed to socialize the unemployed and the persons threatened by social exclusion in order to enable them to act through the engagement into the practical activities of the company for the public interests and their own benefits. After the practice, the special training was offered to those, who had shown proper interest and good behaviour. Finally, the possibilities to employ them were considered and processed, taking into account the responsibilities of the candidates during the training.

In 2015, the Group sponsored the rock concert in Alicante and the local football team. During cooperation with the Ministry of Health of Valencia, arrangement of a mobile blood donation station was implemented at the premises of the company. The initiative was welcomed by the regional minister for public health.

3.5 ENVIRONMENTAL PROTECTION

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

IN LITHUANIA the Group's professionals participated in the lectures and seminars of the students of Vilnius Gediminas Technical University, where they gave their presentations on the corporate performance indicators, energy efficiency measures applied in the multi-apartment and commercial buildings, and management of other related processes.

During this year, the Group's companies initiated, organized or supported at least 10 volunteer community groups to clean the territories by the apartment buildings. In this way, the community was encouraged to preserve and maintain the clean environment, sort the waste and educate young generation by setting the good example to follow. The volunteer groups were provided with tools, garbage bags; all the collected waste was properly disposed.

The Group encourages its customers to refuse printed paper bills in order to spare the nature and save the environment. In Lithuania almost 51,666 customers receive their bills for the provided services by e-mail. This amounts to 28 percent of the company's customers.

51,666
customers in Lithuania receive their bills for the provided services by e-mail.

IN RUSSIA, the Group's company began gathering food items, hygiene products and clothing from the residents of the serviced housing. The donated items were transferred to St. Petersburg's charity organisation НОЧЛЕЖКЕ (www.homeless.ru). The clothes were delivered to the charity shop "Spasibo" (www.spasiboshop.org).

Special containers for waste sorting are installed in all the offices possessed by the Group's companies.

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position

	Notes	As of 31 December 2015	As of 31 December 2014
ASSETS			
Non-current assets			
Goodwill	4	9,391	9,304
Other intangible assets	5	19,045	16,603
Property, plant and equipment	6	18,575	19,385
Investment property	7	479	527
Investment into associate	1	238	2,234
Non-current receivables	12	17,384	19,324
Deferred income tax asset	28	5,155	5,400
Total non-current assets		**70,267**	**72,777**
Current assets			
Inventories	10	1,510	1,145
Prepayments	11	1,495	904
Trade receivables	13	40,823	41,485
Receivables from related parties (including loans granted)	33	106	82
Other receivables		1,607	2,807
Prepaid income tax		526	619
Accrued income	13	3,027	1,997
Cash and cash equivalents	14	16,858	13,362
Total current assets		**65,952**	**62,401**
Assets held for sale	8	-	2,342
Total assets		**136,219**	**137,520**

(cont'd on the next page)

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

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(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position (cont'd)

	Notes	As of 31 December 2015	As of 31 December 2014
EQUITY AND LIABILITIES			
Equity			
Share capital	1	9,483	9,155
Share premium	15	21,067	21,383
Reserves	15, 2.2	(226)	1,742
Retained earnings		39,811	32,671
Reserves of a disposal group classified as held for sale	8	-	(343)
Equity attributable to equity holders of the parent		**70,135**	**64,608**
Non-controlling interests		434	600
Total equity		**70,569**	**65,208**
Liabilities			
Non-current liabilities			
Non-current borrowings	16	13,055	16,404
Financial lease obligations	18	1,661	1,664
Deferred income tax liability	28	2,755	2,876
Provisions for employee benefits	20	196	165
Provisions and other non-current payables	17	661	691
Total non-current liabilities		**18,328**	**21,800**
Current liabilities			
Current loans	16	2,739	2,219
Current portion of non-current borrowings	16	3,738	2,953
Current portion of financial lease obligations	18	1,067	823
Trade payables and payables to related parties	21, 33	16,535	21,409
Advances received	22	7,981	5,616
Income tax payable		566	646
Provisions for employee benefits	20	252	251
Other current liabilities	23	14,444	13,757
Total current liabilities		**47,322**	**47,674**
Liabilities associated with assets held for sale	8	-	2,838
Total liabilities		**65,650**	**72,312**
Total equity and liabilities		**136,219**	**137,520**

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(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of comprehensive income

	Notes	2015	2014
Continuing operations			
Sales	3	167,188	181,266
Cost of sales	24	(132,603)	(147,115)
Gross profit		**34,585**	**34,151**
General and administrative expenses	25	(28,858)	(26,120)
Other operating income	26	2,057	1,899
Other operating expenses	26	(1,901)	(1,016)
Profit from operations		**5,883**	**8,914**
Finance income	27	3,139	801
Finance expenses	27	(1,552)	(3,349)
Share of profit of associates	1	67	566
Profit before tax		**7,537**	**6,932**
Income tax	28	(1,353)	(1,813)
Net profit from continued operations		**6,184**	**5,119**
Discontinued operations			
Net profit from discontinued operations	8	1,549	989
Net profit		**7,733**	**6,108**
Other comprehensive income that will be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(223)	(770)
Total comprehensive income for the year, net of tax		**7,510**	**5,338**
Net profit attributable to:			
The shareholders of the Company		8,100	6,229
Non-controlling interests		(367)	(121)
		7,733	**6,108**
Total comprehensive income attributable to:			
The shareholders of the Company		7,877	5,459
Non-controlling interests		(367)	(121)
		7,510	**5,338**
Basic and diluted earnings per share (EUR)	29		
From continued operations		0.21	0.17
From discontinued operations		0.05	0.03

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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	Discontinued operations	Subtotal	Non-controlling interest	Total
Balance as of 1 January 2014		**9,155**	**21,383**	**(634)**	**2,656**	**27,605**	**-**	**60,165**	**721**	**60,886**
Net profit for the year		-	-	-	-	6,229	-	6,229	(121)	6,108
Other comprehensive income		-	-	(770)	-	-	-	(770)	-	(770)
Total comprehensive income		-	-	(770)	-	6,229	-	5,459	(121)	5,338
Dividends declared	30	-	-	-	-	(1,163)	-	(1,163)	-	(1,163)
Disposal of subsidiary		-	-	147	-	-	-	147	-	147
Reserves of a disposal group classified as held for sale		-	-	343	-	-	(343)	-	-	-
Balance as of 31 December 2014		**9,155**	**21,383**	**(914)**	**2,656**	**32,671**	**(343)**	**64,608**	**600**	**65,208**
Net profit for the year		-	-	-	-	8,100	-	8,100	(367)	7,733
Other comprehensive income		-	-	(223)	-	-	-	(223)	-	(223)
Total comprehensive income		-	-	(223)	-	8,100	-	7,877	(367)	7,510
Dividends declared	30	-	-	-	-	(948)	-	(948)	-	(948)
Increase in share capital		316	(316)	-	-	-	-	-	-	-
Effect of euro adoption to share capital		12	-	-	-	(12)	-	-	-	-
Disposal of subsidiaries	1, 8	-	-	(1,745)	-	-	343	(1,402)	201	(1,201)
Balance as of 31 December 2015		**9,483**	**21,067**	**(2,882)**	**2,656**	**39,811**	**-**	**70,135**	**434**	**70,569**

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Consolidated statement of cash flows

	Notes	2015*	2014*
Cash flows from (to) operating activities			
Net profit from continued operations		6,184	5,119
Net profit from discontinued operations		1,549	989
Adjusting items:			
Income tax expenses	8, 28	1,401	1,866
Depreciation and amortisation	5, 6, 7	4,155	3,977
Impairment and write-off of accounts receivable	8, 25	1,147	2,106
Gain from bargain purchase	26	-	(497)
Loss on disposal of property, plant and equipment	8, 26	28	94
(Gain) loss from sale of investments	1	(3,712)	(564)
Impairment of goodwill	4	-	(63)
Impairment of intangible assets	5	-	(74)
Interest (income)	8, 27	(1,282)	(234)
Interest expenses	8, 27	946	1,006
Other financial activity result, net		65	1,123
Share of net profit of associate		(67)	(576)
		10,414	14,272
Changes in working capital:			
(Increase) decrease in inventories		(425)	61
Decrease (increase) in trade receivables, receivables from related parties, other receivables and other current assets		(508)	(11,293)
(Increase) decrease in prepayments		(721)	334
(Decrease) in trade payables and payables to related parties		(1,876)	(4,675)
Income tax (paid)		(2,078)	(2,528)
Increase in advances received and other current liabilities		2,634	1,808
Net cash flows from (to) operating activities		**7,440**	**(2,021)**

(cont'd on the next page)

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

* Group cash flows for 2015 and 2014 comprise total consolidated Group, including discontinued operations.

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Consolidated statement of cash flows (cont'd)

	Notes	2015*	2014*
Cash flows from (to) investing activities			
(Acquisition) of non-current assets	5, 6, 7	(2,731)	(3,385)
Proceeds from sale of non-current assets		1,447	435
(Acquisition) of investments in subsidiaries and associates (net of cash acquired in the Group)	1, 4	(2,068)	(719)
Disposal of investments in subsidiaries and associates	1	3,535	12,666
Interest received		1,089	99
Dividends received		10	10
Loans (granted)		-	(1,130)
Loans repaid		-	174
Net cash flows from (to) investing activities		**1,282**	**8,150**
Cash flows from (to) financing activities			
Dividends (paid)		(948)	(1,163)
Proceeds from loans		1,353	2,656
Financial lease (payments)		(1,121)	(941)
Loans (repaid)		(3,400)	(4,019)
Interest (paid)		(931)	(1,167)
Net cash flows from (to) financing activities		**(5,047)**	**(4,634)**
Net increase (decrease) in cash and cash equivalents		**3,675**	**1,495**
Foreign exchange difference		**(236)**	**(705)**
Cash and cash equivalents at the beginning of the year (continued operations)		**13,362**	**12,629**
Cash and cash equivalents at the beginning of the year (discontinued operations)		**57**	**-**
Cash and cash equivalents at the end of the year (continued operations)		**16,858**	**13,362**
Cash and cash equivalents at the end of the year (discontinued operations)		**-**	**57**
Supplemental information of cash flows:			
Non-cash investing activity:			
Property, plant and equipment acquisitions financed by finance leases		1,361	1,831
Non-cash acquisition of investments	1	-	1,480
Non-cash acquisition of fixed assets		178	901

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

* Group cash flows for 2015 and 2014 comprise total consolidated Group, including discontinued operations.

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Notes to the financial statements

1 General information

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

On 10 August 2015 a cross-border merger of AB City Service and City Service AS (former name – City Service EU AS) was completed. Following completion of the merger AB City Service was merged into City Service AS, which has taken over all assets, rights and liabilities of AB City Service. AB City Service was dissolved without going into liquidation and City Service AS continued the activities and is the legal successor of AB City Service, i.e. the company resulting from the merger. On 27 October 2015 a conversion of City Service AS into a European public limited liability company (Societas Europaea, SE) was completed. The legal form of the Company was changed into a SE, the name of the converted company became City Service SE, which by operation of law took over all the assets, rights and liabilities of the Company. Due to the facts and circumstances listed above, the financial information of City Service SE Group in these financial statements is shown as continuation of AB City Service Group, i.e. presents result for the whole 2015 year and comparative information.

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 2015 the number of employees of the Group was 5,291 (as of 31 December 2014 – 5,137).

On 31 December 2015 all 31,610 thousand ordinary shares of the Company are included into the Parallel Market of Warsaw Stock Exchange (ISIN Code of the shares is EE3100126368). Trading Code of the shares on Warsaw Stock Exchange is CTS.

The shares of City Service SE are traded in the Parallel Market of Warsaw Stock Exchange since 16 November 2015. The shares of City Service SE also are traded in the main list of NASDAQ OMX stock exchange since 8 June 2007 (Note 35).

As of 31 December 2015 and 2014 the shareholders of the Company were:

	2015		**2014**	
	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%	20,935,618	66.23%
AB East Capital Asset Management	-	-	3,334,788	10.55%
Genesis Emerging Markets OPP FD LTD*	1,605,183	5.08%	1,605,183	5.08%
Other private and institutional shareholders	3,191,524	10.09%	5,734,411	18.14%
Total	**31,610,000**	**100 %**	**31,610,000**	**100 %**

* Genesis Emerging Markets OPP FD LTD in 2014 owned the shares of the Company under the title Genesis Asset Managers LLP.

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% of 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.

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1 General information (cont'd)

Share capital of the Company

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

All shares of the Company are fully paid. The Company does not have any other classes of shares than ordinary shares mentioned above, there are no restrictions of share rights or special control rights for the shareholders set in the articles of association of the Company. No shares of the Company are held by itself or its subsidiaries. No convertible securities, exchangeable securities or securities with warrants are outstanding; likewise, there are no outstanding acquisition rights or undertakings to increase share capital as of 31 December 2015 and 2014.

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1 General information (cont'd)

Structure of the Group

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

Company	Country	Share of the stock held by the Group as of 31 December 2015	Share of the stock held by the Group as of 31 December 2014	Main activities
UAB Antakalnio būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Apkaba	Lithuania	100%	-	Administration of dwelling-houses
UAB Aukštaitijos būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Baltijos būsto priežiūra	Lithuania	100%	100%	Dormant
UAB Baltijos NT valdymas	Lithuania	100%	100%	Real estate management
UAB Baltijos turto valdymas	Lithuania	100%	100%	Dormant
UAB Baltijos pastatų valdymas	Lithuania	100%	100%	Dormant
UAB Dainavos būstas	Lithuania	100%	100%	Dormant
UAB Danės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Economus	Lithuania	100%	100%	Administration of buildings
UAB Justiniškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Jūros būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Kauno centro būstas	Lithuania	100%	100%	Dormant
UAB Karoliniškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Karoliniškių turgus	Lithuania	100%	100%	Marketplace administration services
UAB 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%	Commercial real estate management and building maintenance
UAB Mano Sauga	Lithuania	99.27%	99.27%	Security services
UAB Mano sauga LT	Lithuania	100%	100%	Security services
UAB Mūsų butas	Lithuania	-	100%	Administration of dwelling-houses
UAB Namų priežiūros centras	Lithuania	100%	100%	Administration of dwelling-houses
UAB Naujamiesčio būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Naujosios Vilnios turgavietė	Lithuania	100%	-	Marketplace administration services
UAB Nemuno būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Nemuno būsto priežiūra	Lithuania	100%	100%	Dormant
UAB Pašilaičių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Pempininkų būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Pastatų priežiūra	Lithuania	100%	100%	Administration of dwelling-houses
UAB Radviliškio būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Skolos LT	Lithuania	100%	100%	Debt collection services
UAB Šiaulių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Šiaulių butų ūkis	Lithuania	-	100%	Administration of dwelling-houses
UAB Šiaulių namų valda	Lithuania	100%	-	Administration of dwelling-houses
UAB Šilutės būstas	Lithuania	99.84%	99.84%	Administration of dwelling-houses
UAB Vėtrungės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Vilkpėdės būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Vilniaus turgus	Lithuania	100%	100%	Dormant
UAB Vingio būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Viršuliškių būstas	Lithuania	100%	100%	Administration of dwelling-houses
UAB Žaidas	Lithuania	99.33%	99.33%	Administration of dwelling-houses
UAB Žardės būstas	Lithuania	100%	100%	Administration of dwelling-houses

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UAB Žirmūnų būstas	Lithuania	100%	100%	Administration of dwelling-houses
Administraciones SantaPola S.L.U	Spain	100%	100%	Administration of dwelling-houses
Administracion Urbana y Rural Chorro, S.L.U.	Spain	100%	-	Administration of dwelling-houses
Afimen administración de finques, S.L.U.	Spain	100%	-	Administration of dwelling-houses
Elche administracion de fincas, S.L.U.	Spain	100%	-	Administration of dwelling-houses
Concentra Servicios y Mantenimiento, S.A.	Spain	100%	100%	Commercial real estate management and building maintenance
SIA City Service	Latvia	100%	100%	Dormant
SIA Namu serviss APSE	Latvia	100%	100%	Administration of dwelling-houses
SIA Riga City Service	Latvia	100%	100%	Commercial real estate management and building maintenance
City Service Grupa Techniczna sp. z o.o.	Poland	100%	100%	Technical maintenance services
City Service Poland sp. z o.o.	Poland	100%	100%	Dormant
City Service Polska sp. z o.o.	Poland	100%	100%	Country holding company
EnergiaOK sp. z o.o.	Poland	100%	100%	Sale of electricity
Grupa Techniczna 24 sp. z o.o.	Poland	100%	-	Dormant
Famix sp. z o.o.	Poland	100%	-	Administration of dwelling-houses
Progresline sp. z o.o.	Poland	100%	100%	Administration of dwelling-houses
Santer Zarządzanie Nieruchomościami sp. z o.o.	Poland	100%	-	Administration of dwelling-houses
Zespół Zarządców Nieruchomości sp. z o.o.	Poland	100%	100%	Administration of dwelling-houses
ОАО Сити сервис / OAO City Service	Russia	100%	100%	Administration of dwelling-houses
ЗАО Сити сервис / ZAO City Service	Russia	100%	100%	Administration of dwelling-houses
ОАО Специализированное ремонтно-наладочное управление	Russia	100%	100%	Construction and engineering
ООО МН Групп	Russia	100%	-	Dormant
ООО Жилкомсервис № 3 Фрунзенского района	Russia	80%	80%	Administration of dwelling-houses
ООО Чистый дом	Russia	100%	100%	Maintenance and cleaning of territories
ООО Подъемные механизмы	Russia	100%	99%	Elevator installing & tech, support

Discontinued operations	Country	Share of the stock held by the Group as of 31 December 2015	Share of the stock held by the Group as of 31 December 2014	Main activities
ООО Управляющая компания - 1	Russia	-	76%	Administration of dwelling-houses
ООО ПРОМИНТЕР – управление проектами	Russia	-	100%	Administration of dwelling-houses
ООО Управляющая компания - 2	Russia	-	76%	Administration of dwelling-houses
ООО Управляющая компания - 3	Russia	-	76%	Administration of dwelling-houses
ООО Управляющая компания - 4	Russia	-	76%	Administration of dwelling-houses
ООО Управляющая компания - 5	Russia	-	76%	Administration of dwelling-houses
ООО УК -5	Russia	-	100%	Administration of dwelling-houses
ООО Управляющая компания - 6 (legal entity code 2635085674)	Russia	-	76%	Administration of dwelling-houses
ООО Управляющая компания - 6 (legal entity code 2635105070)	Russia	-	100%	Administration of dwelling-houses
ООО Жилищная Управляющая компания № 6	Russia	-	100%	Administration of dwelling-houses
ООО Управляющая компания - 8	Russia	-	100%	Administration of dwelling-houses

(all amounts are in EUR thousand unless otherwise stated)

1 General information (cont'd)

Changes in the Group in 2015

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

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

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

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

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

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1 General information (cont'd)

Changes in the Group in 2015 (cont'd)

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

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

Changes in the Group in 2014

In 2014 the Group acquired and sold several subsidiaries (acquisitions in more details are disclosed in Note 4):

- On 3 January 2014, the Company acquired 100% shares of Cleaning Partner sp. z o.o. The value of the contract is PLN 5 million (EUR 1,202 thousand). On 10 April 2014, considering the structural changes in subsidiaries operating in Poland, as well as the fact that the subsidiary Cleaning Partner sp. z o.o., had significant undisclosed financial obligations to employees, 100 percent of Cleaning Partner sp. z o.o. shares have been sold at a symbolic price. Due to the fact that these transactions were connected and result of the entity for the period was not material, subsidiary was not consolidated.
- On 16 January 2014, the Company through a subsidiary acquired 100% shares of City Service Grupa Techniczna sp. z o.o. The value of the contract is PLN 5 thousand (EUR 1.2 thousand). At the moment City Service Grupa Techniczna sp. z o.o. renders technical maintenance services in Poland.
- On 21 February 2014, the Company signed an agreement on sale of UAB Ecoservice shares, On 31 March 2014, share transfer transaction was closed, after the Competition Council authorized the transaction and other conditions of the transaction were fulfilled. Value of the transaction is EUR 15.4 million. Shares of UAB Ecoservice were transferred to UAB AWT Holding. The Company at the same moment as a part of the transaction, acquired 25% shares of UAB AWT Holding which are accounted as investment in associate. Control and controlling interest of UAB AWT Holding - 75% belonged to share owner BaltCap Private Equity Fund II. As of 31 December 2014, the Company accounted EUR 500 thousand contingent receivable from the buyer. Receivable is related with additional compensation to the Company for the financial results of UAB Ecoservice and its subsidiaries for the year 2014. Information about the disposed subsidiary is summarized below:

Date of disposal	**UAB Ecoservice Group 31 March, 2014**
Goodwill	2,318
Non-current assets other than goodwill	10,248
Current assets other than cash and cash equivalents	4,326
Cash and cash equivalents	920
Non-current and current liabilities	(4,148)
Total net assets disposed of attributable to equity holders of the parent	13,664
Total consideration received includes EUR 13,420 thousand cash payment, EUR 1,480 thousand value of shares of UAB AWT holding and EUR 500 thousand contingent price consideration receivable	15,400

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1 General information (cont'd)

Changes in the Group in 2014 (cont'd)

The Group recorded the net profit of EUR 1,500 thousand from the sale of shares of the subsidiary which includes cost to dispose of EUR 238 thousand. Result from the sale is accounted in discontinued operations.

- On 14 May 2014, the Company through a subsidiary has acquired Administraciones Santa Pola S.L.U, that manages 211 thousand sq. m. of residential facilities in Alicante province, in Spain. Revenue of the acquired company was EUR 115 thousand in 2013, and subcontracted turnover reached EUR 1.4 million. The company was acquired for EUR 90 thousand.
- On 26 June 2014, Company's subsidiaries in Poland - City Service Polska sp. z o.o., and City Service Poland sp. z o.o. - established new subsidiary EnergiaOK sp. z o.o. Both companies owned 50% of the EnergiaOK sp. z o.o. shares. The establishment of new subsidiary is related with the possible business development in Poland.
- On 30 June 2014, the transaction of 100% shares sale of UAB Baltijos liftai, registration no, 302496587, was completed. The value of the transaction was EUR 50 thousand. In addition EUR 1 million dividends were paid to the Company. The shares were purchased by private person from the Republic of Latvia, The Group has accounted profit of EUR 405 thousand from the transaction, Information about the disposed subsidiary is summarized in the below:

Date of disposal	UAB Baltijos liftai group 30 June, 2014
Goodwill	47
Non-current assets other than goodwill	400
Current assets other than cash and cash equivalents	779
Cash and cash equivalents	45
Non-current and current liabilities	(1,617)
Total net assets disposed of	
attributable to equity holders of the parent	(346)
Total consideration received, all consisting of cash and cash equivalents	50

The Group recorded the net profit of EUR 405 thousand from the sale of shares of the subsidiary.

- On 22 July, the Company through its subsidiary acquired 100% shares of UAB Mūsų butas, which renders residential facility management services for 91 thousand sq. m. of multi-household in Šiauliai city. Value of the transaction is EUR 263 thousand. The main UAB Mūsų butas activity is administration of dwelling-houses.
- On 5 August, the Company established new subsidiary – UAB Pastatų priežiūra, legal entity code 303363198. Establishment of the company is related with business development in Lithuanian market.
- On 14 August 2014 the Company sold ТОВ Київ Ciтi Сервіс. Information about the disposed subsidiary is summarized below:

Date of disposal	ТОВ Київ Ciтi Сервіс 14 August, 2014
Goodwill	-
Non-current assets other than goodwill	-
Current assets other than cash and cash equivalents	1
Cash and cash equivalents	3
Non-current and current liabilities	-
Total net assets disposed of	
attributable to equity holders of the parent	4
Currency translation reserve realized on sales	43
Total consideration received, all consisting of cash and cash equivalents	1

The Group recorded the net profit of EUR 40 thousand from the sale of shares of the subsidiary.

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1 General information (cont'd)

Changes in the Group in 2014 (cont'd)

- On 8 September 2014 the Company's subsidiary ZAO Сити Сервис sold the shares of the company operating in the city of Stavropol OOO Управляющая компания – 10. Information about the disposed subsidiary is summarized in the table below:

Date of disposal	**OOO Управляющая компания – 10** **8 September, 2014**
Goodwill	-
Non-current assets other than goodwill	72
Current assets other than cash and cash equivalents	26
Cash and cash equivalents	-
Non-current and current liabilities	(231)
Total net assets disposed of	
attributable to equity holders of the parent	(133)
Currency translation reserve realized on sales	(188)
Total consideration received, all consisting of cash and cash equivalents	-

The Group recorded the net loss of EUR 195 thousand from the sale of shares of the subsidiary which includes impairment loss for amount of EUR 140 thousand from the Group's receivables from OOO Управляющая компания – 10 at the date of disposal. Result from the sale is accounted in discontinued operations.

- On 2 October 2014, the Company established UAB Baltijos turto valdymas, legal entity code 303411390, Establishment of the company is related with the further real estate management development in Lithuania.
- On 23 October 2014, the Company through its subsidiary established new subsidiary – UAB Mano sauga LT, legal entity code 303430960, Establishment of the company is related with the possible security service business development in Lithuanian market.
- On 10 November 2014, the Company through its subsidiary has acquired 100% shares of UAB Šiaulių butų ūkis. Value of the transaction was EUR 29 thousand. The main UAB Šiaulių butų ūkis activity is administration of dwelling-houses.
- On 21 November 2014, the Company established new subsidiary – SIA City Service Latvia, legal entity code 40103846938. Establishment of the company is related with the planned business development in Latvian market.
- On 9 December 2014, the Company through its subsidiary has acquired SIA Namu serviss APSE, a residential facility management company in Liepaja, Latvia. Value of contract is EUR 591 thousand. Area of buildings under management of acquired company is 259 thousand sq. meters.
- On 23 December 2014, the Company has signed an agreement on sale of AWT Holding UAB 25% shares. The transaction was closed on 12 February, 2015.
- On 23 December, the Company through its subsidiary City Service Polska sp. z o.o. acquired 100% shares of Progresline sp. z o.o. which renders residential facility management services for 600 thousand sq. meters in Lodz. Value of the transaction is PLN 2.9 million (EUR 0.7 million). The main activity of Progresline sp. z o.o. is administration of dwelling-houses.

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1 General information (cont'd)

Changes in the Group in 2014 (cont'd)

In addition, in 2014 there were several reorganizations (changes in the legal structure of the Group) performed as outlined below:

- On 25 April 2014, continuing the process of unbundling the activities, the cleaning activities from UAB Naujamiesčio būstas have been transferred to separate newly established legal entity. Cleaning activities from UAB Naujamiesčio būstas were transferred to UAB Miesto valymas (the Group owns 100% of shares), legal entity code is 303297727.
- On 28 July 2014, the Company's subsidiary in Poland - City Service Polska sp. z o.o. - became the sole shareholder of EnergiaOK sp. z o.o. and also increased its authorized capital until PLN 1.1 million (EUR 256 thousand).
- On 27 October 2014, the name of Company's subsidiary UAB Mano aplinka was changed to UAB Mano aplinka plius, and also UAB Miesto valymas was changed to UAB Mano aplinka. These changes are aimed to expand the range of services and the extent of the Company's activities.
- On 29 December 2014, UAB Mūsų butas, legal code 144619133, after the process of reorganization has been incorporated to sole shareholder company UAB Šiaulių būstas.
- On 31 December 2014, UAB Saulėtos dienos, legal code 302473916, after the process of reorganization has been incorporated to sole shareholder company UAB Namų priežiūros centras.

More information on the subsidiaries acquired and disposed in 2014 is presented in Note 4.

Investment into associates

The Group's investments in associates as of 31 December 2015 and 2014 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. As of 31 December 2014 the Company owned 25% shares of UAB AWT Holding, which is a holding company owning UAB Ecoservice, the value of the investment was EUR 1,480 thousand. On 12 February 2015, AWT Holding UAB shares transfer transaction was completed for EUR 3,496 thousand. The share purchase agreement between the Company and BaltCap investment funds (BaltCap Private Equity Fund II L.P. and BaltCap Private Equity Fund II SCSp) was concluded on 23 December 2014. After closing, the sole shareholder of AWT Holding UAB, which controls Ecoservice group companies, is BaltCap and the Company has no shares or management rights in waste management companies in Lithuania. Gain on financial income was reported under finance income (Note 27)

The Group accounted for the associates' results attributable to the Group amounting to respectively EUR 67 thousand and EUR 566 thousand in the statement of comprehensive income for the year ended 31 December 2015 and 2014.

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

	UAB Marijampolės butų ūkis	**UAB AWT Holding**	**UAB Marijampolės butų ūkis**
	2014	**2014**	**2015**
Non-current assets	101	4,942	113
Current assets	444	6,859	524
Non-current liabilities	-	(6,253)	(82)
Current liabilities	(212)	(5,211)	(222)
Net assets	333	337	333
Revenue	1,018	19,994	1,006
Net profit	108	2,547	38
Group's carrying amount of the investment	**225**	**2,009**	**238**

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2 Accounting policies

2.1. Basis of preparation

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

The Company's management authorised these financial statements on 29 April 2016. The shareholders of the Company have a statutory right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

Financial statements of the Group have been prepared on a historical cost basis.

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

Annual Improvements to IFRSs 2011 – 2013 Cycle is a collection of amendments to the following IFRSs:

- **IFRS 3 *Business Combinations*:** This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IFRS 13 *Fair value Measurement:*** This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.
- **IAS 40 *Investment property*:** This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other.

IFRIC Interpretation 21 Levies

This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs.

The implementation of this standard and other amendments listed above had no effect on the financial statements of the Group.

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2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

Standards issued but not yet effective

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

Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Group has not yet evaluated the impact of the implementation of this standard.

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

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

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

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

Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendment provides additional guidance on how the depreciation or amortisation of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not use revenue-based depreciation and amortisation methods.

Amendments to IAS 16 *Property, Plant & Equipment* and IAS 41 *Agriculture: Bearer Plants* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

Bearer plants will now be within the scope of IAS 16 Property, Plant and Equipment and will be subject to all of the requirements therein. The implementation of this amendment will have no impact on the financial statements of the Group, as the Group does not have bearer plants.

Amendments to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 February 2015)

The amendments address accounting for the employee contributions to a defined benefit plan, Since the Group's employees do not make such contributions, the implementation of this amendment will not have any impact on the financial statements of the Group.

Amendments to IAS 27 *Equity method in separate financial statements* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The implementation of this amendment will have no impact on the financial statements of the Group.

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2 Accounting policies (cont'd)

2.1. Basis of preparation (cont'd)

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU)

IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Group has not yet evaluated the impact of the implementation of this standard.

Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the consolidation exception* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The implementation of this amendment will have no impact on the financial statements of the Group, as the Parent of the Group is not investment entity.

Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

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

Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Group has not yet evaluated the impact of the implementation of this standard.

IFRS 14 *Regulatory Deferral Accounts* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU)

It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The implementation of this standard will not have any impact on the Group.

IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU)

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group has not yet evaluated the impact of the implementation of this standard.

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

IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. 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)

Improvements to IFRSs

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015):

- IFRS 2 *Share-based Payment*;
- IFRS 3 *Business Combinations*;
- IFRS 8 *Operating Segments;*
- IFRS 13 *Fair value Measurement;*
- IAS 16 *Property, Plant and Equipment*;
- IAS 24 *Related Party Disclosures;*
- IAS 38 *Intangible Assets.*

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016):

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*;
- IFRS 7 *Financial Instruments: Disclosures*;
- IAS 19 *Employee Benefits*;
- IAS 34 *Interim Financial Reporting.*

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Group.

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

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2 Accounting policies (cont'd)

2.2. Measurement and presentation currency

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

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

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

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

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

1 January 2015 is the day of Euro adoption in Lithuania, thus on this day the presentation currency of the Group and the functional currency of Group companies operating in Lithuania was changed from litas to euro. Opening balances and comparative information was translated at conversion rate of 3.45280 LTL for 1 EUR according to irrevocable decision of the European Council.

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,

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

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

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

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

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2 Accounting policies (cont'd)

2.3. Principles of consolidation (cont'd)

Business combinations

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with 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 36) are carried at cost, less impairment.

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

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2 Accounting policies (cont'd)

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

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

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

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

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

2.6. Intangible assets other than goodwill

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

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

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

Contractual investments	6 years
Customer relationships	10-40 years
Other intangible assets	3-10 years

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

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

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

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2 Accounting policies (cont'd)

2.7. Property, plant and equipment and investment property

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

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

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

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

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

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

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

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

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

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

2.8. Financial assets

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

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

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

The Group does not have any financial instruments at fair value through profit or loss as of 31 December 2015 and 2014.

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

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. The Group does not have any held-to-maturity investments as of 31 December 2015 and 2014.

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2 Accounting policies (cont'd)

2.8. Financial assets (cont'd)

Loans and receivables

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

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with unrealized gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in profit or loss. The Group does not have any available-for-sale financial assets as of 31 December 2015 and 2014.

2.9. Fair value measurements

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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2 Accounting policies (cont'd)

2.10. Derecognition of financial assets and liabilities

Financial assets

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

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

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

Financial liabilities

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

2.11. Inventories

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

2.12. Cash and cash equivalents

Cash includes cash on hand and cash with 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 2014 and 2015.

2.13. Borrowings

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

There were no borrowing costs matching the capitalisation criteria in 2015 and 2014.

2 Accounting policies (cont'd)

2.11. Borrowings (cont'd)

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

2.12. Financial and operating leases

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

Financial lease

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

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

Operating lease

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

2.13. Provision for employee benefits

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

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

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

2.16. 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.

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2 Accounting policies (cont'd)

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, Republic of Poland and Kingdom of Spain.

The standard income tax rate in Lithuania was 15% in 2015 and 2014, Income tax rate in 2015 and 2014 in Russia, Latvia, Poland and Spain was 20%, 15%, 19% and 28% (in Spain in 2014 was 30% and starting from 01.01.2016 – 25%), respectively.

In accordance with the effective Estonian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2015 was 20/80 of the amount distributed as the net dividend (21/79 in 2014). 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 2015, the Group's retained earnings amounted to 39,811 thousand EUR. From 1 January 2015, income tax upon the payment of dividends is 20/80 on the net dividends paid out, except from certain dividends received from foreign subsidiaries and permanent establishments that can be distributed to the shareholders tax free. As a result, no additional income tax liability would arise upon the payment of all the retained earnings as net dividends.

Tax losses in Lithuania can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the company changes its activities due to which these losses incurred except when the company does not continue its activities due to reasons which do not depend on company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature. Starting from 1 January 2014 tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum 70%.

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

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

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

2.18. Revenue recognition

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

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

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

Revenue from services is recognised when services are rendered.

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2 Accounting policies (cont'd)

2.18. Revenue recognition (cont'd)

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

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

2.19. Impairment of assets

Financial assets

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

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

Other assets (excluding goodwill)

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

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

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

As of 31 December 2014 the Group's management classified companies operating in the city of Stavropol as discontinued operations as this activity of the disposed group comprised separate operating segment of the Group.

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 estimated useful life of customer relationships intangible assets, which are accounted for under other intangible assets and their acquisition value amounts to EUR 20,599 thousand as of 31 December 2015 and EUR 16,982 thousand as of 31 December 2014 (Note 5). The management amortises these customer relationship intangible assets over the estimated validity period of existing contracts, which is 10-40 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 17,595 thousand as of 31 December 2015 and EUR 15,868 thousand as of 31 December 2014.

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2 Accounting policies (cont'd)

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

In addition, deferred tax asset recognized from tax loss carry forward - significant judgment exists that forecasted results will be achieved and tax losses will be utilized in the foreseeable future. The management estimated that respective deferred tax asset will be utilized based on the best knowledge of the operations and results of the Group companies as at 31 December 2015.

There is also significant judgmental area on the recoverability and presentation of the accounts receivable from public customers. These amounts are disclosed as non-current receivables based on the agreed schedules, court decisions or management judgment as at 31 December 2015 and 2014 (Note 12). Based on the management judgment the trade receivables from public customers are past due but not impaired. Respective receivables are carried at amortised costs using effective interest rate.

In addition, as disclosed in Note 13 as of 31 December 2015 the Group has EUR 2,494 thousand (EUR 1,800 thousand as of 31 December 2014) overdue more than a year current receivables from trade customers (public and private) which, based on the assessment of the management, were not impaired. This management judgment is based on the analysis of individual material overdue balances as well as analysis of general collection periods in a respective country.

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

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.

3 Segment information

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

- Buildings' administration
- Waste management (discontinued operations)

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

Segment of Waste management (discontinued operations) included services of collecting and processing of waste.

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

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3 Segment information (cont'd)

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

[1]Unallocated expenses include general and administrative expenses (EUR 941 thousand) identifiable as costs managed on a group basis.
[2] Financing of the Group and income taxes are managed on a group basis and are not allocated to operating segments.

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3 Segment information (cont'd)

Year ended 31 December 2014	Buildings' administration						
	Baltic states	Russia (St. Petersburg)	Poland	Spain	Russia (Stavropol, discontinued operations)	Discontinued operations (Waste management)	Total
Revenue	69,005	40,309	23,481	47,662	10,320	3,058	193,835
Unallocated income							809[1]
Total revenue							**194,644**
Segment results	8,378	1,344	170	(491)	(659)	387	9,129
Gain from bargain purchase							497[4]
Unallocated expenses							(984)[2]
Profit from operations							**8,642**
Net financial income							(668)[3]
Profit / (loss) before income tax							7,974
Income tax expenses							(1,866)[3]
Net profit for the year							**6,108**
Other segment information							
Capital expenditure	3,295	171	1,537	1,001	24		**6,028**

[1] Unallocated income includes other income not attributable to either of the listed segments, namely IT services and other.
[2] Unallocated expenses include general and administrative expenses (EUR 984 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.
[4] The amount comprises a gain from a bargain purchase in Spain and Poland of EUR 164 and EUR 333 thousand respectively (Note 4).

(all amounts are in EUR thousand unless otherwise stated)

3 Segment information (cont'd)

Geographical information

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

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

2014	**Spain**	**Poland**	**Baltic states**	**Russia**	**Total**
Revenue					
Sales to external customers	47,662	23,481	69,814	40,309	181,266
Segment revenue	**47,662**	**23,481**	**69,814**	**40,309**	**181,266**

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

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

As of 31 December 2014	**Spain**	**Poland**	**Baltic states**	**Russia**	**Total**
Non-current assets					
Segment assets	4,389	13,566	51,035	3,787	72,777
Total assets	**4,389**	**13,566**	**51,035**	**3,787**	**72,777**

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 2015 and 2014.

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill

	Group
Cost:	
Balance as of 1 January 2014	10,465
Additions	104
Exchange differences	(703)
Disposals	(110)
Discontinued operations	(368)
Balance as of 31 December 2014	9,388
Additions	106
Exchange differences	(19)
Balance as of 31 December 2015	9,475
Impairment:	
Balance as of 1 January 2014	819
Exchange differences	(304)
Disposals	(63)
Discontinued operations	(368)
Balance as of 31 December 2014	84
Balance as of 31 December 2015	84
Net book value as of 31 December 2015	**9,391**
Net book value as of 31 December 2014	**9,304**

Acquisitions during 2015

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

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

At the acquisition of these subsidiaries a provisional goodwill of EUR 106 thousand has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from vertical expansion of business.

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4 Goodwill (cont'd)

The provisional (due to not finalised valuations of certain items – the management in 2016 plans to revaluate not recognised intangible assets, recoverability of deferred tax assets and other items) fair values of the assets acquired, liabilities and contingent liabilities assumed at the date of acquisitions made during 2015 were as follows:

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

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

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

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4 Goodwill (cont'd)

The differences between the amounts paid and the provisional fair values of assets acquired, liabilities and contingent liabilities assumed on the acquisitions of 2015 were as follows:

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

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

Disposals in 2015

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

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4 Goodwill (cont'd)

Acquisitions during 2014

As described in Note 1, during 2014 the Group acquired the following entities:

Name of entity acquired	Acquisition cost	Notes
UAB Mūsų butas	EUR 263 thousand	All paid in cash and included in the cost of investment
UAB Šiaulių butų ūkis	EUR 29 thousand	EUR 23 thousand paid in cash, EUR 6 thousand accounted as contingent payment
Administraciones Santa Pola S.L.	EUR 90 thousand	EUR 45 thousand paid in cash, EUR 45 thousand accounted as contingent payment
SIA Namu serviss APSE	EUR 591 thousand	EUR 563 thousand paid in cash, EUR 28 thousand accounted as contingent payment
Progresline sp. z o.o.	PLN 2.9 milion	PLN 2.4 million paid in cash, PLN 500 thousand accounted as contingent payment (EUR 550 thousand and EUR 116 thousand respectively)

At the acquisition of these subsidiaries a fair value goodwill of EUR 104 thousand has been accounted for. The goodwill appears due to expected synergies, which are expected to be derived from vertical expansion of business.

Also, a fair value gain of EUR 497 thousand from the bargain purchases was recognised in the Group's statement of comprehensive income in 2014. The gain from bargain purchase resulted from favourable sale conditions.

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4 Goodwill (cont'd)

In 2015 the Group has finalised assessment of fair values of the assets acquired, liabilities and contingent liabilities assumed for the acquisitions made during 2014. It was concluded that fair value of the net assets acquired is equal to the provisional values presented in the financial statements for the year ended 31 December 2014:

Fair value of assets, liabilities and contingent liabilities	UAB Mūsų butas	UAB Šiaulių butų ūkis	Administraciones Santa Pola S.L.	SIA Namu serviss APSE	Progresline sp. z o.o.
Date of acquisition	**22 July**	**10 November**	**14 May**	**9 December**	**23 December**
Intangible assets	301	-	344	881	1,326
Property, plant and equipment	2	-	2	68	-
Other non-current receivables	-	-	-	2,144	-
Deferred tax asset	-	-	-	-	-
Trade receivables	25	6	-	187	6
Other current assets	14	51	30	1,815	27
Total assets	**342**	**57**	**376**	**5,095**	**1,359**
Long-term liabilities	-	-	-	2,452	-
Current portion of long-term liabilities	-	-	-	320	-
Deferred tax liability	45	-	96	134	252
Trade payables	1	-	(1)	429	7
Other current liabilities	83	36	25	1,216	92
Total liabilities	**129**	**36**	**120**	**4,551**	**351**
Total identifiable net assets at fair value	**213**	**21**	**256**	**544**	**1,008**
attributable to equity holders of the parent	213	21	256	544	1,008

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

Fair value of assets, liabilities and contingent liabilities	UAB Mūsų butas	UAB Šiaulių butų ūkis	Administraciones Santa Pola S.L.	SIA Namu serviss APSE	Progresline sp. z o.o.
Date of acquisition	**22 July**	**10 November**	**14 May**	**9 December**	**23 December**
Intangible assets	-	-	-	-	-
Property, plant and equipment	2	-	2	68	-
Other non-current receivables	-	-	-	2,144	-
Deferred tax asset	-	-	-	-	-
Trade receivables	25	6	-	187	6
Other current assets	14	51	30	1,815	27
Total assets	**41**	**57**	**32**	**4,214**	**33**
Long-term liabilities	-	-	-	2,452	-
Current portion of long-term liabilities	-	-	-	320	-
Deferred tax liability	-	-	-	-	-
Trade payables	1	-	-	429	7
Other current liabilities	83	36	24	1,216	92
Total liabilities	**84**	**36**	**24**	**4,417**	**99**

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4 Goodwill (cont'd)

The differences between the amounts paid and fair values of assets acquired, liabilities and contingent liabilities assumed on the acquisitions of 2014 were as follows:

	UAB Mūsų butas	**UAB Šiaulių butų ūkis**	**Administra-ciones Santa Pola S.L.**	**SIA Namu serviss APSE**	**Progresline sp. z o.o.**
Date of acquisition	**22 July**	**10 November**	**14 May**	**9 December**	**23 December**
Fair value of acquired assets, liabilities and contingent liabilities attributable to the Group	213	20	254	545	1,009
Non-controlling interests	-	-	-	-	-
Goodwill and gain from bargain purchase (Note 26)	50	9	(164)	46	(333)
Total purchase consideration	**263**	**29**	**90**	**591**	**676**
Cash acquired	13	50	30	657	27
Total purchase consideration, net of cash acquired	**250**	**(21)**	**60**	**(66)**	**649**

	UAB Mūsų butas	**UAB Šiaulių butų ūkis**	**Administra-ciones Santa Pola S.L.**	**SIA Namu serviss APSE**	**Progresline sp. z o.o.**
Date of acquisition	**22 July**	**10 November**	**14 May**	**9 December**	**23 December**
Profit (loss) incurred since acquisition date to 31 December 2014	(1)	6	(5)	-	-
Total revenue since acquisition date to 31 December 2014	82	4	100	-	-
Total revenue for the year 2014 (unaudited)	164	30	159	1,700	703
Total net result for the year 2014 (unaudited)	(23)	(3)	-	60	234

(all amounts are in EUR thousand unless otherwise stated)

4 Goodwill (cont'd)

Disposals in 2014

During 2014 the Group disposed the following subsidiaries: UAB Ecoservice Group, UAB Baltijos liftai Group, OOO Управляющая компания – 10 and ТОВ Київ Сiтi Сервiс. More detailed information is presented in Note 1.

Goodwill allocation

In order to optimize the management and reporting structure of the Group, in 2015 active measures were taken to centralise the control and management of previously dispersed regional clusters (especially in Lithuania and Poland). As a consequence of a rapid expansion of the Group, its management decided to review the practices used to analyse and evaluate separate cash generating units (CGU). Therefore in 2015 the allocation of goodwill to respective CGU for impairment measurement purposes was changed. Thus now Lithuania is treated as one homogenous unit (as of 31 December 2015, CGU's attributable to Lithuania were divided and had net book values at the end of the period as following: Klaipėda – EUR 1,417 thousand, Kaunas – EUR 918 thousand, Vilnius – EUR 6,088 thousand, Šiauliai – EUR 307 thousand). Poland, Latvia and St. Petersburg forms other three separate CGUs. From analysis and control perspective Spain was subdivided in to regional divisions – Madrid and Alicante regions as Group management views these two divisions separately. Also, separate local management is responsible for each division and thus reports separately for the Group.

For the purpose of impairment evaluation, the goodwill as of 31 December 2015 and 2014 was allocated to the following CGU:

Cash generating unit	Carrying value of allocated goodwill as of 31 December 2015	Carrying value of allocated goodwill as of 31 December 2014
Subsidiaries operating in Lithuania	8,800	8,730
Subsidiaries operating in Latvia	46	46
Subsidiaries operating in Poland	129	-
Subsidiaries operating in St. Petersburg	387	528
Subsidiary operating in Madrid	-	-
Subsidiaries operating in Alicante	29	-
	9,391	**9,304**

The recoverable amount of each cash generating unit as of 31 December 2015 and 2014 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 2015 and 2014 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 2015 and 2014 assuming that the area administered will remain the same in the future years and the growth in revenue will be derived from a service fee increase, which was forecasted to be in line with the estimated inflation rate. The costs were projected based on the actual cost level taking into account estimated inflation. Cash flows beyond the five-year period were extrapolated using 2% growth rate (1% in 2014) that reflects the best estimate of the management based on the current situation in the respective industry. The pre-tax discount rate used by the management was estimated for each individual cash generating unit as a weighted average cost of capital for that particular cash generating unit and is equal to 13% for cash generating units located in Lithuania, Latvia and Poland (13% in 2014), 12% for cash generating units in Madrid and Alicante (was not tested in 2014 as was not considered to be material) and 22% for cash generating unit in St. Petersburg (22% was used in 2014).

In the opinion of the Group's management, the most important and most change-like assumptions are the level of reinvestments and discount rate. Based on management's estimations, a reasonable change in these assumptions would not result in any impairment as of 31 December 2015 and 2014. At the moment of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used.

(all amounts are in EUR thousand unless otherwise stated)

5 Other intangible assets

Movement of other intangible assets in 2015 and 2014 is presented below:

Cost:	
Balance as of 1 January 2014	18,790
Additions arising from acquisitions of subsidiaries	2,852
Additions	507
Disposals	(63)
Disposals of subsidiaries	(244)
Discontinued operations (Note 8)	(684)
Exchange differences	(1,660)
Retirements	(2)
Reclassifications	5
Balance as of 31 December 2014	19,501
Additions arising from acquisitions of subsidiaries	2,915
Additions	654
Disposals	(1)
Exchange differences	(265)
Retirements	(6)
Reclassifications	161
Balance as of 31 December 2015	22,959
Accumulated amortisation:	
Balance as of 1 January 2014	3,018
Charge for the year	903
Disposals	(63)
Disposals of subsidiaries	(41)
Reversal of impairment	(74)
Discontinued operations (Note 8)	(386)
Exchange differences	(460)
Retirements	1
Balance as of 31 December 2014	2,898
Charge for the year	1,089
Exchange differences	(67)
Retirements	(6)
Balance as of 31 December 2015	3,914
Net book value as of 31 December 2015	**19,045**
Net book value as of 31 December 2014	**16,603**

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5 Other intangible assets (cont'd)

The main part of other intangible assets consists of customer relationship intangible assets, which are amortised during the period of 10-40 years. As of 31 December 2015 net book value of such intangible assets constituted EUR 17,595 thousand (EUR 15,868 thousand as of 31 December 2014).

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

The Group performed impairment test for customer relationships intangibles assets as of 31 December 2015 and 2014. Significant assumptions used for the assessment of the recoverable value are presented in Note 4.

Part of the other intangible assets of the Group with the acquisition value of EUR 336 thousand as of 31 December 2015 was fully amortised but still in use (EUR 281 thousand of the Group as of 31 December 2014).

(all amounts are in EUR thousand unless otherwise stated)

6 Property, plant and equipment

Movement of property, plant and equipment in 2015 and 2014 is presented below:

	Buildings	Vehicles	Other property, plant and equipment	Construction in progress	Total
Cost:					
Balance as of 1 January 2014	9,952	4,809	8,145	122	23,028
Additions arising from acquisitions of subsidiaries	60	7	7	-	74
Additions	1,086	1,734	1,803	897	5,520
Disposals of subsidiaries	-	(235)	(438)	-	(673)
Disposals	(220)	(247)	(35)	(112)	(614)
Discontinued operations (Note 8)	-	(43)	(78)	-	(121)
Exchange differences	(87)	(368)	(538)	(2)	(995)
Retirements	(50)	(37)	(208)	(64)	(359)
Reclassifications	(94)	-	335	(794)	(553)
Balance as of 31 December 2014	10,647	5,620	8,993	47	25,307
Additions arising from acquisitions of subsidiaries	225	1	4	-	230
Additions	261	1,454	1,454	425	3,594
Disposals	(1,787)	(85)	(52)	-	(1,924)
Exchange differences	28	(99)	(57)	-	(128)
Retirements	-	(23)	(78)	-	(101)
Reclassifications	124	(1)	149	(433)	(161)
Balance as of 31 December 2015	9,498	6,867	10,413	39	26,817
Accumulated depreciation:					
Balance as of 1 January 2014	1,528	1,974	1,232	-	4,734
Charge for the year	452	976	1,135	-	2,563
Disposals	(91)	(123)	(12)	-	(226)
Disposals of subsidiaries	-	(104)	(254)	-	(358)
Discontinued operations (Note 8)	-	(23)	(48)	-	(71)
Exchange differences	(3)	(195)	(180)	-	(378)
Retirements	(16)	(31)	(193)	-	(240)
Reclassifications	(102)	-	-	-	(102)
Balance as of 31 December 2014	1,768	2,474	1,680	-	5,922
Charge for the year	448	1,106	1,438	-	2,992
Disposals	(358)	(56)	(45)	-	(459)
Exchange differences	1	(63)	(65)	-	(127)
Retirements	-	(15)	(71)	-	(86)
Balance as of 31 December 2015	1,859	3,446	2,937	-	8,242
Net book value as of 31 December 2015	**7,639**	**3,421**	**7,476**	**39**	**18,575**
Net book value as of 31 December 2014	**8,879**	**3,146**	**7,313**	**47**	**19,385**

6 Property, plant and equipment (cont'd)

The depreciation charge of the Group's property, plant and equipment for the year 2015 amounts to EUR 2,992 thousand (EUR 2,563 thousand in the year 2014). Amount of EUR 1,659 thousand for the year 2015 (EUR 1,539 thousand for the year 2014) 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 4,352 thousand was fully depreciated as of 31 December 2015 (EUR 2,218 thousand as of 31 December 2014), but were still in active use.

As of 31 December 2015 buildings of the Group with a net book value of EUR 3,504 thousand (EUR 3,436 thousand as of 31 December 2014) were pledged to banks as collateral for the loans (Note 16).

(all amounts are in EUR thousand unless otherwise stated)

7 Investment property

Movement of the Group's investment property during 2015 and 2014 is presented below:

	Buildings	Land
Cost:		
Balance as of 1 January 2014	-	81
Reclassifications to property, plant and equipment	-	(81)
Reclassifications from property, plant and equipment	629	-
Balance as of 31 December 2014	629	-
Balance as of 31 December 2015	629	-
Accumulated depreciation:		
Balance as of 1 January 2014	-	-
Reclassifications from property, plant and equipment	102	-
Balance as of 31 December 2014	102	-
Charge for the year	48	-
Balance as of 31 December 2015	150	-
Net book value as of 31 December 2015	**479**	**-**
Net book value as of 31 December 2014	**527**	**-**

Investment property consist of office and warehouse buildings in Vilnius and premises in Alytus (Lithuania) that are leased by UAB Baltijos NT valdymas and UAB Karoliniškių būstas to other entities. 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 2015 is estimated by the management to be approximately EUR 553 thousand (EUR 553 thousand as of 31 December 2014) (3rd level). The fair value of investment property as of 31 December 2015 and as of 31 December 2014 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 2015 investment property of the Group with a net book value of EUR 479 thousand was pledged to banks as collateral for the loans (EUR 527 thousand as of 31 December 2014) (Note 16).

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8 Discontinued operations

On 21 February 2014 agreement for Ecoservice UAB shares sale was signed. On 31 March 2014 Ecoservice UAB share transfer transaction was closed. Therefore gain on sale of subsidiary for the amount of EUR 1,500 thousand was accounted for in finance income of discontinued operations.

On 8 September 2014 the Company's subsidiary ZAO Сити Сервис sold the shares of the company operating in the city of Stavropol OOO Управляющая компания – 10. Therefore loss in sale of subsidiary for the amount of EUR 195 thousand was accounted in finance expenses of discontinued operations.

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

The major classes of assets, equity and liabilities attributable to discontinued operations (subsidiaries that operated in the city of Stavropol) are the following:

	As of 2014 December 31
Non-current assets	
Other intangible assets	298
Property, plant and equipment	50
Total non-current assets	**348**
Current assets	
Inventories	49
Prepayments	137
Trade receivables	1,595
Other receivables	156
Cash and cash equivalents	57
Total current assets	**1,994**
Total assets	**2,342**
Equity	
Equity	(153)
Reserves of a disposal group classified as held for sale	(343)
Total Reserves of a disposal group classified as held for sale	**(496)**
Liabilities	
Non-current liabilities	
Other non-current liabilities	105
Deferred income tax liability	61
Total non-current liabilities	**166**
Current liabilities	
Trade payables	2,022
Advances received	12
Other current liabilities	638
Total current liabilities	**2,672**
Total liabilities	**2,838**

(all amounts are in EUR thousand unless otherwise stated)

8 Discontinued operations (cont'd)

The result of discontinued operations is as follows (2015 result comprises of subsidiaries that operated in the city of Stavropol – 2014 result comprises of subsidiaries operating in the city of Stavropol and Ecoservice Group):

	2015	2014
Sales	7,650	13,380
Cost of sales	(7,288)	(11,169)
Gross profit	**362**	**2,211**
General and administrative expenses	(948)	(2,421)
Other operating income	109	34
Other operating expenses	(190)	(96)
Profit from operations	**(667)**	**(272)**
Finance income	-	18
Finance expenses	(37)	(9)
Result on disposal of subsidiaries attributable to discontinued operations (Note 1)	2,301	1,305
Profit before taxes	**1,597**	**1,042**
Income tax	(48)	(53)
Net profit	**1,549**	**989**

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

The net cash flows incurred are as follows:

	2015	2014
Net cash flows from operating activities	45	1,853
Net cash flows from investing activities	78	12,341
Net cash flows from financing activities	-	(2,210)
Net increase (decrease) in cash flows	**123**	**11,984**

(all amounts are in EUR thousand unless otherwise stated)

9 Material partly-owned subsidiaries

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

Name	Country of incorporation and operation	2015	2014
ООО Жилкомсервис № 3 Фрунзенского района	Russia	80%	80%

	As of 2015 December 31	As of 2014 December 31
Summarised statement of financial position		
Inventories, trade receivables and cash	2,486	2,643
Property, plant and equipment and other non-current assets	2,295	2,410
Deferred income tax, net	(436)	(410)
Current liabilities	(2,296)	(2,344)
Total equity	**2,049**	**2,299**
Attributable to:		
Equity holders of parent	1,639	1,839
Non-controlling interest	410	460

	2015	2014
Summarised statement of profit or loss		
Sales	13,621	17,988
Cost of sales	(10,348)	(14,351)
General and administrative expenses	(1,107)	(1,237)
Other activity (net)	(2,345)	(3,024)
Financial activity (net)	26	40
Profit before tax	**(153)**	**(584)**
Income tax	(45)	(19)
Profit for the year	**(198)**	**(603)**
Attributable to non-controlling interests	(40)	(121)

Summarised cash flow information

	2015	2014
Net cash flows from operating activities	(80)	(232)
Net cash flows from investing activities	(29)	(17)
Net cash flows from financing activities	-	-
Net increase (decrease) in cash flows	**(109)**	**(249)**

(all amounts are in EUR thousand unless otherwise stated)

10 Inventories

	Group	
	As of 31 December 2015	As of 31 December 2014
Raw and auxiliary materials	1,311	806
Goods for resale	35	120
Other	190	240
	1,536	1,166
Less: net realizable value allowance	(26)	(21)
	1,510	1,145

Change in allowance for inventories for the year 2015 and 2014 has been included into general and administrative expenses.

11 Prepayments

Prepayments of the Group amount to EUR 1,495 thousand as of 31 December 2015 (EUR 904 thousand as of 31 December 2014) and mainly include prepayments to suppliers and subcontractors.

12 Non-current receivables

Non-current receivables mainly comprises of long-term part of receivables from public customers amounting to EUR 12,754 thousand as of 31 December 2015 (EUR 14,520 thousand as of 31 December 2014) (Note 2.20) and long-term part of receivables for residential buildings' repair works performed amounting to EUR 2,461 thousand as of 31 December 2015 (EUR 2,636 thousand as of 31 December 2014).

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13 Trade receivables

	Group	
	As of 31 December 2015	As of 31 December 2014
Trade receivables, gross	47,675	48,033
Less: allowance for doubtful trade receivables	(6,852)	(6,548)
	40,823	41,485

Change in allowance for doubtful trade receivables for the year 2015 and 2014 has been included into general and administrative expenses.

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

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

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

	Individually impaired	Collectively impaired	Total
Balance as of 1 January 2014	1,455	6,720	8,175
Charge for the year	421	1,478	1,899
Exchange differences	(272)	(2,404)	(2,676)
Reversed during the year	-	(82)	(82)
Written off during the year*	(171)	(63)	(234)
Discontinued operations	(235)	(299)	(534)
Balance as of 31 December 2014	**1,198**	**5,350**	**6,548**
Charge for the year	231	689	920
Exchange differences	(51)	(498)	(549)
Reversed during the year	-	(61)	(61)
Written off during the year*	-	(6)	(6)
Balance as of 31 December 2015	**1,378**	**5,474**	**6,852**

* The major part of written off receivables during 2014 is related to disposal of subsidiaries (Note 1).

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
2014	30,075	3,682	2,046	1,103	2,779	1,800	**41,485**
2015	29,483	3,392	1,868	999	2,587	2,494	**40,823**

As of 31 December 2015 outstanding balance of accrued income accounted at the Group's statement of financial position related to customer specific projects amounted to EUR 327 thousand. Sales and costs, recognised in the statement of comprehensive income from customer specific projects in 2015 amounted to EUR 714 thousand and EUR (680) thousand respectively. There were no material amounts of such nature in 2014. As of 31 December 2015 and 2014 remaining balance of accrued income was attributable to revenue from rendering services.

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14 Cash and cash equivalents

	Group	
	As of 31 December 2015	As of 31 December 2014
Cash at bank	15,127	9,337
Cash on hand	43	27
Short-term deposits	1,688	3,998
	16,858	13,362

The original term of all deposits is less than three months, the weighted average annual interest rate of the Group as of 31 December 2015 was 0.17% (0.50% as of 31 December 2014).

The fair value of cash and short-term deposits as of 31 December 2015 of the Group was EUR 16,858 thousand (EUR 13,362 thousand as of 31 December 2014) (3rd level).

As of 31 December 2015 the Group had restricted cash of EUR 1,801 thousand (EUR 1,441 thousand as of 31 December 2014) held in the bank as guarantee provided to customers, EUR 1,187 thousand is accounted in non-current receivables caption (EUR 1,151 thousand as of 31 December 2014) while EUR 614 thousand – in current receivables caption in the statement of financial position as of 31 December 2015 (EUR 290 thousand as of 31 December 2014).

As of 31 December 2015 and 2014 part of bank accounts of the Company and its subsidiaries are pledged to banks for loans (Note 16). As of 31 December 2015 cash balance in these accounts was equal to zero.

15 Reserves and share premium

Legal reserve

A legal reserve is a compulsory reserve under Estonian legislation and the Statutes of the Company. Annual transfers of not less than 1/20 (one-twentieth) of net profit, calculated for statutory reporting purposes are required until the reserve reaches 1/10 (one-tenth) of the share capital. As of 31 December 2015 the reserve was not fully composed and did not reach the required amount (as of 31 December 2014 the reserve was fully composed).

Other reserves

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

Share premium

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

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16 Borrowings

The list of borrowings of the Group and the Company as of 31 December 2015 and 2014 are as follows:

	Currency of the loan	Group As of 31 December 2015	 As of 31 December 2014
Current loans			
Bank loans	EUR	2,681	2,219
Bank loans	PLN	58	-
Current loan balance		**2,739**	**2,219**
Non-current loans			
Bank loans	EUR	16,793	19,357
Less: current portion of long term loans		(3,738)	(2,953)
Non-current loan balance		**13,055**	**16,404**

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 2015 the weighted average annual interest rate of borrowings outstanding was 2.22% (3.10% as of 31 December 2014). In 2015 and 2014 the period of re-pricing of floating interest rates on borrowings was 6 months. Interest is paid monthly.

The total unutilized borrowing facilities of the Group as of 31 December 2015 amounted to EUR 9,945 thousand (EUR 7,877 thousand as of 31 December 2014).

As of 31 December 2015 and 2014 the subsidiary's UAB Mano būstas shares, part of property, plant and equipment (Note 6) and part of bank accounts (Note 14) of the Group were pledged to banks as collateral for the loans received.

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

Term	Group As of 31 December 2015	 As of 31 December 2014
Within one year	3,738	2,953
From one to five years	13,055	16,404
	16,793	19,357

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17 Provisions and other non-current payables

As of 31 December 2015 Concentra Servicios y Mantenimiento, S.A. had non-current provisions associated with legal claims for amount of EUR 461 thousand (EUR 527 thousand as of 31 December 2014) which are included in non-current payables. Change in provisions associated with legal claims in Spain resulted from discounting effect accounted in 2015 as well as changes in subjects for which the provisions were performed.

18 Financial lease

The assets leased by the Group and the Company under financial lease contracts mainly consist of vehicles. Apart from the lease payments, other obligations under lease contracts are maintenance and insurance. The net book value of the vehicles acquired under financial lease amounted to EUR 2,663 thousand as of 31 December 2015 in the Group (EUR 2,395 thousand in the Group as of 31 December 2014). 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 2015 the interest rate on the financial lease obligations is 6 month EURIBOR + 1-3%, 3 Month EURIBOR + 1-3%, 6 month EUR LIBOR + 1-3%, 1 month WIBOR + 1-3% (as of 31 December 2014 – is 6 month EURIBOR + 1-3%, 3 Month EURIBOR + 1-3%, 6 month EUR LIBOR + 1-3%, 3 month EUR LIBOR + 1-3%, 1 month WIBOR + 1-3%). Interest is paid monthly.

Future minimal lease payments under the above mentioned financial lease contracts as of 31 December 2015 and 2014 are as follows:

	Group	
	As of 31 December 2015	**As of 31 December 2014**
Within one year	1,097	875
From one to five years	1,707	1,720
Total financial lease obligations	2,804	2,595
Interest	(76)	(108)
Present value of financial lease obligations	2,728	2,487
Financial lease obligations are accounted as:		
- current	1,067	823
- non-current	1,661	1,664

19 Operating lease

As of 31 December 2015 and 2014 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 2015	**As of 31 December 2014**
Within one year	379	13
From one to five years	360	15
	739	28

Operating lease contracts are denominated in Euros and Zlots.

The Company has also entered into several vehicle operating lease agreements with employees. However, the agreements are cancellable; therefore, minimum lease payments are not disclosed.

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20 Provision for employee benefits

As of 31 December 2015 and 2014 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 statements of comprehensive income.

	Group	
	As of 31 December 2015	As of 31 December 2014
As of 31 December of the previous year	416	330
Additions arising from acquisitions of new subsidiaries	-	5
Change during the year	31	81
Currency exchange effect	1	-
As of 31 December of the financial year	448	416

Main assumptions applied while evaluating the Group's provision for employee benefits as of 31 December 2015 and 2014 are as follows:

	Group	
	As of 31 December 2015	As of 31 December 2014
Discount rate	2.3%	3.1%
Anticipated annual salary increase	3.2%	3.2%

21 Trade payables and payables to related parties

	Group	
	As of 31 December 2015	As of 31 December 2014
Trade payables	15,717	20,077
Payables to related parties (Note 33)	818	1,332
	16,535	21,409

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

22 Advances received

As of 31 December 2015 and 2014 amount represents advances received from the owners of commercial and residential buildings administrated by the Group for repair and other works.

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23 Other current liabilities

	Group	
	As of 31 December 2015	As of 31 December 2014
Salaries and social security	4,372	5,315
Vacation pay accrual	1,820	1,666
Accrued expenses and deferred income	4,699	3,541
Other current liabilities	3,553	3,235
	14,444	13,757

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

24 Cost of sales

	Group	
	2015	2014
Services of subcontractors and materials used	70,277	79,729
Wages and salaries and social security	56,893	61,721
Depreciation	1,306	922
Cost of goods sold	202	349
Other	3,925	4,394
Total cost of sales	**132,603**	**147,115**

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25 General and administrative expenses

	Group	
	2015	2014
Wages and salaries and social security	15,629	13,237
Depreciation and amortisation	2,748	2,442
Consulting and similar expenses	1,391	938
Allowance for and write-off of receivables	1,084	778
Rent of premises and other assets	934	725
Taxes other than income tax	773	723
Commissions for collection of payments	661	631
Advertising	565	654
Computer software maintenance	553	430
Consulting and tax expenses related with acquisitions and disposals	432	356
Transportation	404	399
Fuel expenses	399	554
Business trips and training	381	413
Representational costs	365	356
Insurance	361	373
Communication expenses	331	331
Utilities	200	247
Bank payments	148	134
Charity and support	44	25
Other	1,455	2,374
Total general and administrative expenses	**28,858**	**26,120**

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26 Other operating income and expenses

	Group 2015	Group 2014
Income from rent	232	267
Gain on disposal of property, plant and equipment	400	-
Gain from bargain purchase (Note 4)	-	497
Fines and penalties	472	486
Other income	953	649
Total other operating income	**2,057**	**1,899**
Depreciation of rented assets	75	36
Loss on disposal of property, plant and equipment	372	81
Fines and penalties	92	150
Legal claims	146	73
State duties	72	25
Rent expenses	174	172
Other expenses	970	479
Total other operating expenses	**1,901**	**1,016**

27 Finance income and (expenses)

	Group 2015	Group 2014
Interest income	1,282	190
Gain on sale of investments	1,435	436
Foreign currency exchange gain	359	-
Other financial income	63	175
Total finance income	**3,139**	**801**
Interest (expenses)	(946)	(971)
Foreign currency exchange loss	(451)	(1,122)
Loss on sale of investments	-	(1,195)
Other financial (expenses)	(155)	(61)
Total finance (expenses)	**(1,552)**	**(3,349)**
Financial activity, net	**1,587**	**(2,548)**

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28 Income tax

	Group	
	2015	2014
Components of the income tax expenses		
Current income tax	1,778	1,956
Deferred income tax (income)	(425)	(143)
Income tax (income) expenses recorded in the statement of comprehensive income	**1,353**	**1,813**

	Group	
	As of 31 December 2015	As of 31 December 2014
Deferred income tax asset		
Allowance for accounts receivable	1,036	1,068
Allowance for inventories	2	-
Accruals and similar temporary differences	420	980
Deferred income	-	21
Tax loss carry forward	1,630	894
Tax goodwill	2,684	2,952
Deferred income tax asset before valuation allowance	5,772	5,915
Less: valuation allowance	(617)	(515)
Deferred income tax asset, net of valuation allowance	5,155	5,400
Deferred income tax liability		
Property, plant and equipment and intangible assets	(2,702)	(2,871)
Accrued income	(53)	(66)
Deferred income tax liability	(2,755)	(2,937)
Deferred income tax, net	2,400	2,463
Presented in the statement of financial position as follows:		
Deferred income tax asset		
Continued operations	5,155	5,400
Discontinued operations (Note 8)	-	-
Deferred income tax liability		
Continued operations	(2,755)	(2,876)
Discontinued operations (Note 8)	-	(61)

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28 Income tax (cont'd)

Tax loss carry forward can be utilised as follows: in Lithuania (EUR 817 thousand as of 31 December 2015, EUR 319 thousand as of 31 December 2014) – indefinitely, in Latvia (EUR 274 thousand as of 31 December 2015, EUR 498 thousand as of 31 December 2014) – indefinitely, in Russia (EUR 712 thousand as of 31 December 2015, EUR 9 thousand as of 31 December 2014) – mainly until the year 2024, in Poland (EUR 1,934 thousand as of 31 December 2015, EUR 866 thousand as of 31 December 2014) – mainly until the year 2019 and in Spain (EUR 3,825 thousand as of 31 December 2015, EUR 2,427 thousand as of 31 December 2014) – indefinitely.

Deferred income tax asset and liability, related to entities operating in Lithuania, were accounted at 15% rate in 2015 and 2014. The deferred tax of companies operating in Russia, Latvia, Poland and Spain was calculated using 20%, 15%, 19% and 25% tax rates, respectively in 2015 (same as in 2014 except Spain, where 28% rate was used).

Due to group reorganisations (mergers) in 2015 and 2014 and prior periods as discussed in Notes 1 and 4, tax goodwill was created as of the merger date. Consequently, a deferred tax asset was recorded on these transactions to the extent tax goodwill exceeds a respective financial statements goodwill amounts.

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

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

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28 Income tax (cont'd)

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

	Balance as of 31 December 2013	Recognised in profit or loss	Exchange differences	Disposed subsidiaries	Acquired subsidiaries	Balance as of 31 December 2014
Allowance for accounts receivable	6,396	1,579	(874)	(1,063)	-	6,038
Allowance for inventories	33	(31)	-	-	-	2
Accruals and similar temporary differences	4,696	(392)	(549)	(324)	-	3,431
Deferred income	163	-	(56)	-	-	107
Tax loss carry forward	2,005	2,135	(34)	(490)	-	3,616
Tax goodwill	17,022	(635)	-	(4,302)	-	12,085
Property, plant and equipment and intangible assets	(20,536)	489	727	5,980	(2,859)	(16,199)
Accrued income	(105)	(248)	10	-	-	(343)
Total temporary differences before valuation allowance	9,674	2,897	(776)	(199)	(2,859)	8,737
Valuation allowance	(2,389)	(1,611)	1,487	-	-	(2,513)
Total temporary differences	7,285	1,286	711	(199)	(2,859)	6,224
Deferred income tax, net	2,569	143	275	(26)	(497)	2,464

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28 Income tax (cont'd)

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

	Group	
	2015	**2014**
Income tax expenses computed at 15% in 2015 and 2014	(1,131)	(1,040)
Effect of different tax rates applicable to foreign subsidiaries	269	(64)
Change in deferred tax asset valuation allowance	(102)	(37)
Permanent differences	(389)	(672)
Income tax expenses reported in the statement of comprehensive income	(1,353)	(1,813)

29 Basic and diluted earnings per share (EUR)

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

	Group	
	2015	**2014**
Net profit from continuing operations attributable to the shareholders	6,551	5,240
Net profit from discontinued operations attributable to the shareholders	1,549	989
Net profit attributable to the shareholders	**8,100**	**6,229**
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)	**0.26**	**0.20**
From continued operations	0.21	0.17
From discontinued operations	0.05	0.03

30 Dividends per share

	2015	**2014**
Approved dividends*	948	1,163
Number of shares (in thousand)**	31,610	31,610
Approved dividends per share (EUR)	0.03	0.04

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

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31 Financial assets and liabilities and risk management

Credit risk

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Therefore, the management considers that its maximum exposure is reflected by the amount of trade and other receivables, 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, WIBOR which create an interest rate risk (Notes 16 and 18). There are no financial instruments designated to manage the exposure to the interest rate risk outstanding as of 31 December 2015 and 2014.

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.

2015	**Increase/decrease in basis points**	**Effect on the profit before the income tax**
EUR	+100	(200)
PLN	+100	(6)
2014		
EUR	+100	(215)
PLN	+100	(6)

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

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed overdraft and loans to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as of 31 December 2015 were 1.39 and 1.36 respectively (1.28 and 1.26 as of 31 December 2014 respectively).

The table below summarises the maturity profile of the Group's financial liabilities as of 31 December 2015 and 2014 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	-	-	-	13,057	471	13,528
Current portion of non-current interest bearing borrowings	-	2,188	1,750	-	-	3,938
Current loans	-	-	2,783	-	-	2,783
Financial lease obligations	-	256	841	1,707	-	2,804
Trade payables and payables to related parties	-	10,360	6,159	16	-	16,535
Other current liabilities	-	3,944	4,308	-	-	8,252
Balance as of 31 December 2015	-	**16,748**	**15,841**	**14,780**	**471**	**47,840**
Non-current interest bearing borrowings	-	-	-	15,927	1,306	17,233
Current portion of non-current interest bearing borrowings	-	846	2,488	-	-	3,334
Current loans	-	-	2,439	-	-	2,439
Financial lease obligations	-	190	684	1,717	-	2,591
Trade payables and payables to related parties	-	15,127	4,821	1,460	1	21,409
Other current liabilities	-	5,548	1,228	-	-	6,776
Balance as of 31 December 2014	-	**21,711**	**11,660**	**19,104**	**1,307**	**53,782**

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

Foreign exchange risk

Monetary assets and liabilities of the Group denominated in various currencies as of 31 December 2015 and 2014 were as follows:

	2015		2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
LTL	-	-	48,862	15,076
RUB	5,825	6,111	5,372	5,512
PLN	5,022	4,361	4,055	3,750
EUR	74,639	46,985	26,787	38,916
	85,486	57,457	85,076	63,254

Foreign exchange risk (cont'd)

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
2015		
EUR	+ 15.00 %	850
EUR	- 15.00 %	(850)
2014		
EUR	+ 15.00 %	-
EUR	- 15.00 %	-

EUR held by Polish subsidiaries:

	Increase/ decrease in exchange rate	Effect on the profit before the income tax
2015		
EUR	+ 15.00 %	(391)
EUR	- 15.00 %	391
2014		
EUR	+ 15.00 %	(909)
EUR	- 15.00 %	909

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

Fair value of financial instruments

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

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

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

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

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32 Commitments and contingencies

Embezzlement of assets in Mano Būstas UAB

The trial started in 2009 after a Company's Subsidiary Fervėja UAB (current name Mano Būstas UAB) applied to the Lithuanian Financial Crime Investigation Service for initiating the investigation and a compensation of EUR 956 thousand of damages described below.
The application was made because a former director of Būsto Investicijų Valdymas UAB (the company acquired by Mano Būstas UAB and currently merged with Naujamiesčio Būstas UAB) on 1 August 2008, have signed an agreement with BAS OOO, a company registered in Kaliningrad district, according to which, the latter company was paid EUR 956 thousand for market research services that actually had not been carried out.
First instance court has ordered EUR 290 thousand damages in favor of the Company. The Company has appealed against the judgement of the Court, as the damages actually amount to EUR 956 thousand. Recently the case was examined by the appellate court, which did not change first instance court order. Currently the term of appeal is not expired so the litigation procedure is not over. The Company will appeal to Supreme Court.
The outcome of litigation process cannot be reliably determined, therefore no assets related to this case were recorded in these financial statements.

Mano sauga UAB cases

On 7 January 2014 a Group's company (Mano Sauga UAB) as a defendant got an action from Trikampis žiedas UAB bankruptcy administrator Karaliaučiaus group UAB. In this case the administrator seeks that an agreement signed on 27 September 2012 between Trikampis žiedas UAB and Mano Sauga UAB would be declared as null and void. Bankruptcy administrator also requires to apply restitution in this case and to receive from Mano Sauga UAB in favor of Trikampis žiedas UAB the sum of EUR 1,014 thousand.
In the opinion of the management of the Group, the bankruptcy administrator brought groundless action which is not based on any objective calculations in order to determine the value of the assets transferred from Trikampis žiedas UAB to Mano Sauga UAB. At this stage, Group's company Mano Sauga UAB has presented to the court its legal opinion expressing disagreement with the stated legal action. The court has appointed an independent expert to determine the value of the assets transferred, and the trial proceedings are suspended until the expert gives his opinion. On 31 March 2016 the expert gave his opinion that the value of the assets transferred was 156 thousand EUR and the trial proceeding was renewed. Mano Sauga disagrees with expert opinion because it is methodologically unfounded.
If the court adopts negative decision in this case, Mano Sauga UAB will defend its rights in appeal procedure. Separate civil actions against the former manager and shareholder of Mano Sauga UAB may also be brought. The carrying value of the net assets of Mano Sauga UAB, consolidated in the Group's IFRS Financial Statements as at 31 December 2015 amounted to EUR (211) thousand. No provisions are recorded in respect of this matter.

Currently the pre-trial investigation is being executed in Vilnius District Prosecutor's Office, in Lithuania. In this proceeding, Mano Sauga UAB, having its civil insurance, is participating as a civil defendant (the sum of civil action – EUR 0.25 million). The investigation is about the liability of Mano Sauga UAB for the actions made by its employees fulfilling its job functions (protecting the object).
The amount of civil action is presented as other current receivable in the financial statements of the Group since the usage of the cash is restricted based on the prosecutor's order. According to management judgment no provisions are recorded in respect of this matter.

Contingencies related to foreign subsidiaries

Group subsidiaries, carrying out business operations in the region of St. Petersburg, namely ZAO City Service, OAO City Service, OOO Жилкомсервис № 3 Фрунзенского района used office and storage premises providing free of charge under agreement with Housing Agency of district. There is a risk that the tax authorities may perform an estimation of theoretical gain received, accrue additional profits tax, fines and late payment interest. The maximum exposure of additional tax risk, including penalties, estimated by the management to amount up to approximately 34.2 million ruble (0.4 million EUR).
Throughout the period of 2012-2013 there were internal shares sales-purchase transactions between Group subsidiaries operating in St. Petersburg which resulted in loss. These transactions are not considered as being regulated under transfer Russian pricing rules. However, there is a risk that tax authorities may challenge the market level of prices and/or justification of tax benefit under the transactions. The maximum exposure of additional tax risk, including penalties, estimated by the management to amount up to approximately 19.0 million ruble (0.2 million EUR).
Subsidiaries operating in St. Petersburg maintained generalized input VAT allocation methodology. There is a risk that tax authorities may challenge the offset of input VAT and may accrue fines and late payment interest. The maximum exposure of additional tax risk, including penalties, estimated by the management to amount up to approximately 37.2 million ruble (0.5 million EUR).

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32 Commitments and contingencies (cont'd)

Due to contradictory court practice, there is a risk that tax authorities may challenge non-VAT object exemption applied on rendering of certain housing administration services by subsidiaries operating in St Petersburg. The maximum exposure of additional tax risk, including penalties, estimated by the management to amount up to approximately 63.4 million ruble (0.8 million EUR).

Due to disputed classification criteria subsidiaries operating in St. Petersburg treat certain regulated public territories administration activity as non-VAT object. However, there is a risk that tax authorities may challenge such approach. The maximum exposure of additional tax risk, including penalties, estimated by the management to amount up to approximately 7.7 million ruble (0.1 million EUR).

All above mentioned tax risks are estimated by the management of the Group to be not probable. Thus no provisions in respect of these tax contingencies have been accounted for in these financial statements.

As of 31 December 2015 Concentra Servicios y Mantenimiento, S.A. had non-current provisions associated with legal claims due to disputes with employees for amount of EUR 461 thousand (EUR 527 thousand as of 31 December 2014).

33 Related party transactions

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

- Global energy consulting OÜ – the ultimate parent of the company from 2013;
- 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 (for the list of the associates, see also Note 1);
- J. Janukėnas, V. Turonis, E. Paulauskas, V. Junevičius, J. Šimkevičius (Management of the Group companies).
- R. Jakubauskas, A. Górecka – Kolasa, F. López Abril (Management of the Group companies).

Transactions with related parties include sales and purchases of goods and services in the ordinary course of business, and acquisitions and disposals of property, plant and equipment. Property, plant and equipment to related parties in 2015 and 2014 were sold in accordance of arm's length principle.

Prices for the intercompany purchase and sale transactions are established by the management and shareholders of UAB ICOR and/or UAB Lag&d and City Service SE considering the results of independent valuations, if any, undertaken for the purposes of the transfer pricing regulations – which may not always be at their fair value.

There are no guarantees or pledges given or received in respect of the related party payables and receivables. Related party receivables and payables are expected to be settled in cash or netted-off with payables / receivables to / from a respective related party.

2015

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

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33 Related party transactions (cont'd)

2014

Group	Purchases	Sales	Receivables and prepayments	Payables and advances received
UAB ICOR	543	8	1	108
Subsidiaries of UAB ICOR				
AB Axis Industries	574	295	19	90
Other subsidiaries of UAB Lag&d	561	456	46	3
Other shareholders of the Company	-	-	8	-
Associates	2,627	290	8	1,131
	4,305	**1,049**	**82**	**1,332**

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
2014	60	6	1	1	4	10	**82**
2015	68	20	-	-	3	15	**106**

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

The Group's management remuneration amounted to EUR 921 thousand in 2015 (to EUR 916 thousand in 2014*). In 2015 and 2014 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 2015 and 2014.

* Range of employees treated as key management personnel was revised in 2015 thus comparative 2014 data does not fully correspond with amount provided in 2014 financial statements.

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34 Capital management

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

The Group and the Company manage capital structure and makes adjustments to it in the light of changes in economic conditions and risk characteristics of the activities. To maintain or adjust the capital structure, the Group and the Company may issue new shares, adjust the dividend payment to shareholders and/or return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2015 and 2014.

The Group companies registered in Lithuania and Estonia are obliged to upkeep their equity at not less than 50% of its share capital (comprised of share capital), as imposed by the Law on Companies of the Republic of Lithuania and the Commercial Code of the Republic of Estonia. The Group companies registered in Russia are obliged to upkeep their net assets at not less than the minimum amount of share capital, as imposed by the Law on Joint Stock Companies of the Russian Federation. As of 31 December 2015 some Group companies did not meet these requirements (UAB Antakalnio būstas, UAB Nemuno būstas and OAO City Service). A company, which does not comply with these legal requirements, may become a subject for liquidation. If the company does not decide on its liquidation, creditors may claim early termination or the execution of the company's liabilities and compensation of losses, if any. In practice, such actions of the creditors are not usual and the management of the Group considers such risk as remote.

In addition the Group has committed to its lenders to keep to certain minimum capital requirements. There were no other externally imposed capital requirements on the Group. As of 31 December 2015 and 2014 the Group was not in breach of the above mentioned requirements.

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

	Group	
	2015	**2014**
Non-current liabilities (including deferred tax)	18,328	21,800
Current liabilities	47,322	50,512
Liabilities	**65,650**	**72,312**
Equity	**70,569**	**65,208**
Debt to equity ratio	**93%**	**111%**

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35 Subsequent events

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

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

On 15 February 2016 the Board of AB Nasdaq Vilnius decided to fulfil the request of the Company and to delist its shares (ISIN code: EE3100126368, ticker CTS1L) from trading on AB Nasdaq Vilnius. The shares of the Company will be removed on April 30, 2016 (the last trading day on the Baltic Main list of City Service SE shares will be April 29, 2016). Following delisting of shares of the Company from trading on AB Nasdaq Vilnius, the shares of the Company will continue to be listed and traded on the Warsaw Stock Exchange.

The Group, through its Polish subsidiary, acquired the company Parama Group sp. z o.o. engaged in administration of residential and commercial property. Residential area under management of Parama Group amounts to 1.5 million square meters. At the moment of issuance of these financial statements Group's managements was not able to obtain reliable financial information of the newly acquired group and evaluate fair value of net assets as at the acquisition.

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

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36 Parent company's separate primary financial statements

The unconsolidated primary financial statements of the parent company have been prepared in accordance with the Accounting Act of the Republic of Estonia and these are not separate financial statements of the parent company in the meaning of IAS 27 "Consolidated 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 2015**	**As of 31 December 2014**
ASSETS		
Non-current assets		
Other intangible assets	117	160
Property, plant and equipment	466	356
Investments into subsidiaries	32,603	32,604
Investment into associate	-	1,480
Non-current receivables	16,363	19,842
Deferred income tax asset	58	118
Total non-current assets	**49,607**	**54,560**
Current assets		
Prepayments	57	36
Trade receivables	939	3,020
Receivables from related parties (including loans granted)	19,821	8,329
Other receivables	45	602
Prepaid income tax	-	117
Cash and cash equivalents	7,101	5,837
Total current assets	**27,963**	**17,941**
Total assets	**77,570**	**72,501**

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

Statement of financial position (cont'd)	As of 31 December 2015	As of 31 December 2014
EQUITY AND LIABILITIES		
Equity		
Share capital	9,483	9,155
Share premium	21,067	21,383
Reserves	2,653	2,653
Retained earnings	27,632	17,988
Total equity	**60,835**	**51,179**
Liabilities		
Non-current liabilities		
Non-current borrowings	12,421	13,779
Financial lease obligations	147	153
Provisions for employee benefits	-	6
Non-current payables	34	113
Total non-current liabilities	**12,602**	**14,051**
Current liabilities		
Current portion of non-current borrowings	2,096	2,267
Current portion of financial lease obligations	56	52
Trade payables and payables to related parties	829	4,061
Advances received	929	685
Provisions for employee benefits	3	9
Other current liabilities	220	197
Total current liabilities	**4,133**	**7,271**
Total liabilities	**16,735**	**21,322**
Total equity and liabilities	**77,570**	**72,501**

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

Statement of comprehensive income	2015	2014
Sales	3,227	11,816
Cost of sales	(2,394)	(9,608)
Gross profit	**833**	**2,208**
General and administrative expenses	(2,108)	(3,582)
Other operating income	265	260
Other operating expenses	(174)	(178)
Profit from operations	**(1,184)**	**(1,292)**
Finance income	12,988	6,454
Finance expenses	(932)	(1,440)
Profit before tax	**10,872**	**3,722**
Income tax	(268)	(3)
Net profit	**10,604**	**3,719**
Other comprehensive income	-	-
Total comprehensive income for the year, net of tax	**10,604**	**3,719**

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

Statement of changes in equity	Share capital	Share premium	Legal reserve	Other reserves	Retained earnings	Total
Balance as of 1 January 2014	**9,155**	**21,383**	**915**	**1,738**	**15,432**	**48,623**
Net profit for the year	-	-	-	-	3,719	3,719
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	3,719	3,719
Dividends declared	-	-	-	-	(1,163)	(1,163)
Balance as of 31 December 2014	**9,155**	**21,383**	**915**	**1,738**	**17,988**	**51,179**
Book value of holdings under control or significant influence						(32,604)
Value of holdings under control of significant influence, calculated under equity method						48,249
Adjusted unconsolidated equity as of 31 December 2014*						**66,824**
Balance as of 1 January 2015	**9,155**	**21,383**	**915**	**1,738**	**17,988**	**51,179**
Net profit for the year	-	-	-	-	10,604	10,604
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	10,604	10,604
Increase in share capital	316	(316)	-	-	-	-
Currency translation effect to share capital	12	-	-	-	(12)	-
Dividends declared	-	-	-	-	(948)	(948)
Balance as of 31 December 2015	**9,483**	**21,067**	**915**	**1,738**	**27,632**	**60,835**
Book value of holdings under control or significant influence						(32,603)
Value of holdings under control of significant influence, calculated under equity method						45,080
Adjusted unconsolidated equity as of 31 December 2015*						**73,312**

*Adjusted unconsolidated equity differs from the consolidated equity as of 31 December 2015 and 2014 because the Company's share of losses of certain subsidiaries exceeds its interest in respective subsidiaries, accounted for based on equity method.

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

Statement of cash flows	2015	2014
Cash flows from (to) operating activities		
Net profit from	10,604	3,719
Adjusting items:		
Income tax expenses	268	3
Depreciation and amortisation	161	122
Impairment and write-off of accounts receivable	(116)	1,184
Loss (gain) on disposal of property, plant and equipment	(6)	6
Dividend (income)	(9,510)	(5,120)
(Gain) loss from sale of investments	(2,114)	93
Interest (income)	(1,132)	(631)
Interest expenses	356	646
Other financial activity result, net	345	(2)
	(1,144)	20
Changes in working capital:		
Decrease in trade receivables, receivables from related parties, other receivables and other current assets	3,988	705
(Increase) decrease in prepayments	(21)	18
(Decrease) increase in trade payables and payables to related parties	(3,432)	(6,819)
Income tax (paid)	(161)	(13)
Increase in advances received and other current liabilities	176	5
Net cash flows (to) from operating activities	**(594)**	**(6,084)**
Cash flows from (to) investing activities		
(Acquisition) of non-current assets	(194)	(160)
Proceeds from sale of non-current assets	25	25
(Acquisition) of investments in subsidiaries and associates (net of cash acquired in the Group)	-	(23)
Disposal of investments in subsidiaries	3,595	13,421
Interest received	612	132
Dividends received	9,510	5,120
Loans (granted)	(8,800)	(1,392)
Loans repaid	-	2,590
Net cash flows from (to) investing activities	**4,748**	**19,713**
Cash flows from (to) financing activities		
Dividends (paid)	(948)	(1,163)
Proceeds from loans	800	1,383
Financial lease (payments)	(56)	(51)
Loans (repaid)	(2,330)	(7,491)
Interest (paid)	(356)	(741)
Net cash flows (to) from financing activities	**(2,890)**	**(8,063)**
Net increase (decrease) in cash and cash equivalents	**1,264**	**5,566**
Cash and cash equivalents at the beginning of the year	**5,837**	**271**
Cash and cash equivalents at the end of the year	**7,101**	**5,837**

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of City Service SE

We have audited the accompanying consolidated financial statements of City Service SE, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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 and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of City Service SE as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Tallinn, 29 April 2016

Ivar Kiigemägi
Authorised Auditor's number 527
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Audit Company's Registration number 58

Tanel Paide
Authorised Auditor's number 603