

Translation from Lithuanian

**REPORT ON THE CROSS-BORDER MERGER
BETWEEN**

AB City Service

and

City Service EU AS

19 May 2015

1. INTRODUCTION

1.1. This report on merger (hereinafter, the **Merger Report**) relates to a proposed cross-border merger (hereinafter, the **Merger**) between AB City Service, a public limited liability company registered in the Republic of Lithuania, legal entity code 123905633, address of the registered office Konstitucijos Av. 7, Vilnius, Republic of Lithuania, data about it is collected and kept in the Register of Legal Entities of the Republic of Lithuania (hereinafter, the **Company Being Acquired**), and City Service EU AS, a public limited liability company registered in the Republic of Estonia, registry code 12827710, address of the registered office J. Kunderi St. 8a, Tallinn, Republic of Estonia, data about it is collected and kept in the Commercial Register of the Republic of Estonia (hereinafter, the **Acquiring Company** and together with the Company Being Acquired, the **Merging Companies**).

1.2. Upon the Merger, the Acquiring Company shall take over all of the assets, rights and liabilities of the Company Being Acquired (hereinafter, the **Assets and Liabilities**) in exchange for the allotment and issuance of 31,610,000 shares with the nominal value of EUR 0.3 each in the capital of the Acquiring Company (hereinafter, the **Consideration Shares**) to the current shareholders of the Company Being Acquired (hereinafter, the **Shareholders of AB City Service**). The Company Being Acquired will be dissolved after the Merger without going into liquidation.

1.3. This Merger Report has been drawn up in accordance with Directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies (hereinafter, the **Directive**), as well as with the relevant national legal acts implementing it, respectively, Law No. X-1367 of the Republic of Lithuania on Cross-Border Merger of Limited Liability Companies, dated 13 December 2007 (hereinafter, the **Lithuanian Merger Law**) and the Commercial Code of the Republic of Estonia, dated 1 September 1995 (hereinafter, the **Estonian Commercial Code**).

1.4. The Merger Report has been jointly prepared by the Management Boards of the Merging Companies. The Merger Report has been approved by the decisions of the Management Boards of each Merging Company on 19 May 2015.

1.5. No later than 40 days before the General Meeting of Shareholders of the Company Being Acquired with the adoption of the decision about the Merger on its agenda, and no later than 30 days before the Sole Shareholder's Decision of the Acquiring Company regarding the Merger, the Merger Report will be made available to the shareholders, creditors and employees of the Merging Companies at the established time and in the established manner.

2. PURPOSES OF THE MERGER

2.1. The legal purpose of the Merger is to merge the Company Being Acquired into the Acquiring Company. The Acquiring Company shall acquire all the Assets and Liabilities of the Company Being Acquired in exchange for the allotment and issuance of the Consideration Shares to the Shareholders of AB City Service. Accordingly, as a result of the Merger, the Acquiring Company will become directly owned by the Shareholders of AB City Service as on the Effective Day of the Merger (as defined in paragraph 3.2.2 below). The Company Being Acquired will be dissolved without going into liquidation.

2.2. The economic purpose of the Merger is to reinforce the positions of the Company Being Acquired in the current markets, as well as to get established in new markets, to increase its

competitiveness and visibility on the EU scale and to plan and develop the business of its subsidiaries more effectively.

3. EXPLANATION OF THE MERGER TERMS

3.1. In addition to this Merger Report, the Management Boards of the Merging Companies have prepared and approved the common terms of cross-border on 19 May 2015 (hereinafter, the **Merger Terms**).

3.2. The following information related to the Merger is *inter alia* set out in the Merger Terms:

3.2.1. Detailed information in relation to the Merging Companies (names, legal forms, codes/registration numbers, registered addresses, registers where information about the Merging Companies is collected and kept, share capitals and their compositions, etc.).

3.2.2. The Effective Day of the Merger, which shall be the moment when the Articles of Association of the Acquiring Company are registered and when the Merger is entered on the registry card of the Acquiring Company resulting from the Merger with the Commercial Register of the Republic of Estonia (hereinafter, the **Effective Day of the Merger**).

3.2.3. Information about the ratio applicable to the exchange of shares of the Company Being Acquired for the shares issued by the Acquiring Company, including the basis for the ratio, the amount of share capital of the Acquiring Company and the proposed terms of allotment of the shares to the Shareholders of AB City Service, *inter alia*, establishing that:

(i) Upon the Merger of the Company Being Acquired to the Acquiring Company, all 250,000 shares of the Acquiring Company of EUR 0.10 nominal value each, that are owned by the Company Being Acquired prior to the Merger, shall be annulled on the Effective Day of the Merger.

(ii) Upon the Merger the shareholders of the Company Being Acquired shall decide to increase its share capital from the own funds of the Company Being Acquired, i.e. from the share premium. The share capital of the Company Being Acquired shall be increased by EUR 316,100 by increasing the nominal value of already issued each ordinary registered share of the Company Being Acquired by EUR 0.01, i.e. up to EUR 0.3. Prior to the Effective Day of the Merger this increased share capital shall be registered with the register of legal persons of the Republic of Lithuania, therefore, on the Effective Day of the Merger the registered share capital of the Company Being Acquired shall be equal to EUR 9,483,000, which shall be divided into 31,610,000 ordinary registered shares with the nominal value of EUR 0.3 each.

(iii) On the Effective Day of the Merger, the share capital of the Acquiring Company shall be increased by and up to EUR 9,483,000, whereas 31,610,000 new shares of EUR 0.3 nominal value each shall be issued to the Shareholders of AB City Service (the nominal value of 1 share of the Acquiring Company shall be changed from EUR 0.1 into EUR 0.3).

(iv) On the Effective Day of the Merger all 31,610,000 ordinary registered shares of the Company Being Acquired of EUR 0.3 nominal value each are being exchanged to the newly issued shares of the Acquiring Company of the nominal value of EUR 0.3 each under the proportion 1:1, i.e. each shareholder of the Company Being Acquired is issued, allotted and given 1 newly issued share of the Acquiring Company of EUR 0.3 nominal value each for 1 ordinary registered share of the Company Being Acquired of EUR 0.3 nominal value each. In total, all 31,610,000 ordinary registered shares of the Company Being Acquired shall be exchanged for 31,610,000 newly issued shares of the Acquiring Company. All newly issued shares of the Acquiring Company shall be considered as fully paid by making non-monetary contribution to the Acquiring Company by transfer of assets of the Company Being Acquired to the Acquiring Company upon the Merger.

(v) The ratio of the share exchange is established taking into consideration that on the day of drafting the Merger Terms, the Company Being Acquired is the sole shareholder (parent company) of the Acquiring Company, upon the completion of the Merger, all the Shareholders of AB City Service shall become the shareholders of the Acquiring Company directly holding 100 percent of all votes in the Acquiring Company, and the Merger shall be effected on the basis that, immediately following completion of the Merger, each Shareholder of AB City Service should hold the same number of shares in the Acquiring Company that it had held in the Company Being Acquired up to and until the Effective Day of the Merger.

(vi) Since no difference in the price of the shares occurs upon the share exchange, no monetary disbursements shall be made to the shareholders.

3.2.4. The moment from which the Shareholders of AB City Service shall be entitled to a share in the profits/loss of the Acquiring Company.

3.2.5. The moment from which the Assets and Liabilities shall transfer to the Acquiring Company.

3.2.6. The moment from which the transactions of the Company Being Acquired shall be considered as being those of the Acquiring Company.

4. LEGAL AND ECONOMIC ASPECTS OF THE MERGER

4.1. The Merger shall be effected pursuant to the Directive and the national laws implementing it as well as in accordance with the Merger Terms and the conditions established (if any) by the competent authorities in Estonia or Lithuania.

4.2. The Merger shall be carried out in the manner provided for in Article 2(2)(a) of the Directive (merger by way of acquisition) “whereby one or more companies, on being dissolved without going into liquidation, transfer all their assets and liabilities to another existing company, the Acquiring Company, in exchange for the issue to their members of securities or shares representing the capital of that other company and, if applicable, a cash payment not exceeding 10% of the nominal value, or, in the absence of a nominal value, of the accounting par value of those securities or shares”, as transposed into Lithuanian law by Article 2(5)(1) of the Lithuanian Merger Law and into Estonian law by Article 391(1) of the Commercial Code of the Republic of Estonia.

4.3. The Merger shall be considered completed and shall take effect on the Effective Day of the Merger.

4.4. The Merger Terms have been drawn based on the interim financial accounts of the Acquiring Company for the period ended 30 April 2015 and on the annual financial accounts of the Company Being Acquired for the period ended 31 December 2014.

4.5. The value of the assets, rights and liabilities of the Company Being Acquired is determined at the balance sheet value thereof as at 31 December 2014.

5. IMPLICATIONS OF MERGER FOR SHAREHOLDERS, GROUP COMPANIES, CREDITORS AND EMPLOYEES

5.1. Implications of the Merger for the shareholders and group companies:

With effect from the Effective Day of the Merger:

5.1.1. The Acquiring Company shall allot and issue the Consideration Shares to the Shareholders of AB City Service;

5.1.2. The Assets and Liabilities shall pass to the Acquiring Company;

5.1.3. The Shareholders of AB City Service shall become the direct shareholders of the Acquiring Company holding the same number of shares in the Acquiring Company that they had held in the Company Being Acquired up to and until the Effective Day of the Merger;

5.1.4. The shareholding of the Company Being Acquired in the Acquiring Company (comprising 250,000 shares of EUR 0.1 each) shall be cancelled;

5.1.5. The Company Being Acquired shall be dissolved without going into liquidation;

5.1.6. The parent company shall change in respect of the subsidiaries. Accordingly, it is not anticipated that the Merger will negatively affect the group companies, including the subsidiaries.

5.2. Implications of the Merger for creditors:

As a result of the Merger, persons or entities who were shareholders of the Company Being Acquired prior to the Effective Day of the Merger will become creditors of the Acquiring Company with effect from the Effective Day of the Merger. As of that day transactions with creditors and other third parties shall be treated as concluded on behalf of the Acquiring Company. Accordingly, it is not anticipated that the Merger will negatively affect the creditors of the Merging Companies.

5.3. Implications of the Merger for employees:

On the Effective Day of the Merger, employees of the Company Being Acquired will become employees of the Acquiring Company by operation of law. Their terms of employment will not be changed by the Merger. It is therefore not anticipated that the Merger will have any negative impact on the employees of the Merging Companies.

5.4. The governance structure of the Acquiring Company shall remain the same as is established in the Company Being Acquired prior to the Merger, save for changes due to the mandatory Estonian law requirements:

5.4.1. General Meeting of Shareholders;

5.4.2. Management Board consisting of 1 Board member elected for a term of 4 years;

5.4.3. Supervisory Board consisting of 3 to 5 members elected for a term of 4 years.

5.5. The Management Board of the Acquiring Company shall be a sole-person governing body who is responsible for organization, management and supervision of day-to-day activities of the Acquiring Company, whereas the Supervisory Board shall plan the activities of the Acquiring Company, organize the management of the company and supervise the activities of the Management Board.

The Merger Report is signed on 19 May 2015.

For and on behalf of AB City Service:

(signature)

Andrius Janukonis

Chairman of the Management Board

For and on behalf of City Service EU AS:

(signature)
Ignas Krasauskas
Member of the Management Board

Translated from Lithuanian into English by Asta Čiurlionytė-Narušienė, translator

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