

LIST OF RISK FACTORS RELATED TO THE ACTIVITIES AND SHARES OF CITY SERVICE AS

This document provides information on the risk factors related to the activities and shares of City Service AS (previous name – City Service EU AS, a public limited liability company entered into the Commercial Register of the Republic of Estonia, registry code 12827710, registered office J. Kunderi St. 8A, Tallinn, 10121, the Republic of Estonia, hereinafter the “Company” or the “Issuer”). Following finalisation of the cross-border merger of AB “City Service” (a public limited liability company entered into the Register of Legal Persons of the Republic of Lithuania, registry code 123905633, registered office Konstitucijos ave. 7, Vilnius, Republic of Lithuania) to City Service AS, based on the Common Draft Terms of Cross-Border Merger, dated 19 May 2015, City Service AS took over all the assets, rights and liabilities of AB “City Service”, and AB “City Service” shall be dissolved without going into liquidation. City Service AS continues the activities following the completion of the merger and is the legal successor of AB “City Service”.

The risk factors exist, related to activities of the Issuer and investment into its shares. If any of the events described below actually occurs, the Issuer’s or the group’s to which the Issuer belongs (hereinafter, the “Group”) business, financial condition or results of operations could be materially adversely affected, and the value and trading price of shares of the Issuer may decline, resulting in a loss of all or part of any investment in the shares. Furthermore, the risks described below are not the only risks the Issuer and the Group faces. Additional risks not currently known or which are currently believed to be immaterial may also have a material adverse effect on the business, financial condition and results of operations of the Issuer and the Group.

Risk factors, related to the activities of the Issuer and the Group

General economic situation

The Group’s business, financial performance and financial condition may be materially affected by changes in general economic, political and financial market conditions, such as a global or local recession, inflation and/or fluctuations in interest rates.

The demand for facility management services generally correlates with economic activity, including growth in gross domestic product, in the countries in which the Group operates. Although the facility management services industry is normally considered to be less sensitive to economic cycles than a number of other industries, both weak and strong economic activity, presents a challenge for the Group. Periods of recession may have an adverse impact on prices, payment terms and on the demand for services. This may adversely affect the Group’s financial performance and financial condition.

In periods of rapid economic growth, the Group may encounter problems in recruiting qualified employees and tends to experience inflation-driven increases in certain of its costs, such as staff costs, that are sensitive to rises in the general price levels. In this situation, due to competitive pressures or administratively set tariffs in case of residential facility management segment, the Group may not be able to raise the prices it charges on its services sufficiently to preserve operating margins. Accordingly, high rates of inflation could increase the Group’s costs and have a material adverse effect on the Group’s financial performance and its financial condition.

Regulatory and legislation risk

The Group’s business is subject to extensive regulation and associated regulatory and legal risks (including the effects of changes in the laws, regulations, policies or their respective interpretations) which could have a material adverse effect on the Group’s business, prospects, financial performance and financial position.

The tariffs of residential facility management and other parameters are subject to regulation by municipalities

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 (except in Poland and Spain, where these issues are negotiated directly

with the housing partnerships or owners of apartments (houses)). 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.

Key personnel

The Group is strongly dependent on its executives and other highly qualified and experienced personnel, having knowledge in real estate maintenance. Should the Group fail to attract, maintain and motivate these workers, it could lose them to competitors. Additional time and financial resources would be needed to find and select their replacements which could have an adverse effect on the Group's business, prospects, financial performance and financial position.

Risk related to sufficient supply of qualified personnel in the market

The Group's competitive strength depends upon its ability to attract, train and retain employees. The facility management services industry, in general, is characterized by a relatively high staff turnover. To the extent that the Group is unable to offer satisfactory pay and working conditions, the Group could experience labour shortage. Labour shortage may also arise due to low unemployment and increased competition for workers, which would likely increase personnel costs. Thus, the Group's inability to attract and retain the required number of qualified employees could have a material adverse effect on its business, financial performance and financial condition.

Increase of salaries in the Baltic States and Poland

Labour costs make a considerable part of the cost of the Group's services. Though workforce is cheaper in the Baltic States and Poland than in old EU Member States, the difference should decrease constantly as the economy of these countries is catching up with the average of the EU. Willing to remain competitive and retain its employees, the Issuer and the Group may be forced to increase its labour costs at a faster pace than it used to do previously. If they fail to increase labour efficiency and effectiveness by increasing these costs, this may have a considerable adverse effect on the Group's financial situation and business results.

Competition risk

The Group faces competition from a number of different market players in many spheres of its activities in every geographic region and business segment including competition for clients, employees and acquisitions.

Each market is characterized by intense competition. In each of the markets and business segments, the Group competes primarily on the basis of its service range, pricing, established client relationships, technical knowledge and the efficient handling of service contracts. If the Group is unable to continue to provide its services to existing clients, to develop new services portfolios and to attract new clients, to respond to client trends, to increase its operating efficiency and to reduce its operating and overhead costs, it may not be able to successfully compete in the relevant markets. Should the Group fail to maintain its market position in the relevant markets and business segments, this could have a material adverse effect on the net assets, financial position and financial performance of the Group.

It is also important that in Eastern Europe the competition (especially in the activities of cleaning and security of houses) is distorted by entities, which potentially do not pay or partly pay the applicable taxes. For this reason the Group must seek as much as possible efficiency in its activities, which would allow competing with such potentially dishonest market players as well.

Political and legal uncertainty related to operations in Russia

A part of the Group's operational assets is located in, and important part of its revenues derive from, Russia. There are certain risks associated with an investment in developing markets, including Russia, which may be greater than risks inherent in more developed markets.

Generally, investing in Russia is suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with investing in the Russian market. In particular as related its operations in Russia, the Group bears the risk to be undermined by economic instability, high level of crime and corruption, changes in the foreign policy of the Russian Government, expropriation and nationalization, uncertain business environment due to underdeveloped legal system, tax law and practice being not fully developed and subject to frequent changes. Russian legislation and administrative policy may more than commonly accepted be influenced by changes in the political arena. Moreover, administrative discretion may be exercised in a manner that is detrimental to a particular market participant or the whole industry. Accordingly, economic, legal, tax or political instability in Russia could have a material adverse effect on the business, prospects, financial performance and financial condition of the Group.

It is also important that the income of the Group in Russia is *inter alia* increased by the resale of energetic sources, which is stipulated by the specific legal regulation. Thus, in case of change of such resale rules and/or requirements in a way, which is unfavourable to the Group, this could have an adverse effect on the business, prospects, financial performance and financial condition of the Group.

Furthermore, taking into consideration that during the year 2014 certain sanctions were applied to Russia for the 2014 pro-Russian unrest in Ukraine, the Group is even more exposed to political risks that could have a negative impact on the Group's sales and profitability, and the value of its assets. In this market with increased political risk, the Group is monitoring even more closely the operations of its companies and adjusting its business activities to the given level of risk. Despite these efforts, the Company finds the political risks increased, in part due to the current political turmoil in Ukraine and in some other countries.

Dependency on major contracts

The municipalities, government institutions and corporate entities, which regularly award contracts to the Group, could limit or discontinue the awarding of major contracts. Outsourcing of services depends on the economic and political climate. A decline in contracts could have a material adverse effect on the net assets, financial performance and financial position of the Group. However, taking into consideration that such agreements are concluded by way of tenders, the management of the Company considers, that the political climate should not have a decisive impact on conclusion and execution thereof, if the Group duly participates and wins the respective tenders.

Tax risks

The Group regularly reviews the applicable local and foreign taxation rules in order to identify new developments and make the relevant adjustments. Due to the complexity and dynamics of both tax legislation and the interpretation of applicable law by the tax authorities, it is possible that the outcome of the tax audits performed in the Baltic States, Poland and in other states where the Group operates may not be as expected and that the tax amounts determined by the tax authorities may exceed the provisions set up for this purpose, so that additional liquid funds must be applied to pay the tax owed, which would affect the net assets, financial position and results of operations of the Group.

Contingencies related to foreign subsidiaries

Due to lack of taxation practices and clear legislative requirements, Group subsidiaries, carrying out business operations in the region of St. Petersburg, namely ЗАО „Сити сервис“, ОАО „Сити сервис“, ООО Жилкомсервис № 3 Фрунзенского района were dealing with some uncertainties related to tax treatment of bad debts and its validity. The management of the Company (former City Service AB) accounted bad debts based on the market operating practices methodology, but it is not stipulated by the Tax code. In case local authorities challenge the management's view on treatment of bad debts and its validity, for companies, operating in the region of St. Petersburg, additional profit taxes may be calculated.

Estimation of the management of the Company regarding the maximum exposure of additional tax risk, including penalties, is provided in note 33 of the Consolidated and Company's Financial Statements for the year ended 31 December 2014.

As of 31 December 2014 the subsidiary of the Company Concentra Servicios y Mantenimiento, S.A. had non-current accruals associated with legal claims due to disputes with employees for amount of EUR 527 thousand.

The Group entities are exposed to liability against clients

The Group entities get access to a number of customers' premises with all equipment, personal belongings and other assets located inside those premises under facility management contracts and as service provider the Group assumes civil liability for the damage to the customers' property, operations, as well as to the persons that may be present in the facilities. Subject to negotiations with the customers, to limited extent the Group restricts its liability contractually. In addition the Group has taken out civil liability insurance to protect itself against risks in an amount it believes is appropriate.

However, there is no guarantee that the Group will be able to obtain corresponding coverage on acceptable terms in the future or that the insurance will provide sufficient coverage for all potential claims. If sufficient insurance coverage is not in place in any individual case, or the cover amount is not sufficient for a claim asserted against the Group, this could have a material adverse effect on the net assets, financial performance and financial position of the Group.

Reputation may be affected by adverse publicity in relation to the Group and its services

The public interest in the facility management services and, concurrently, the publicity of the service are increasingly growing. Moreover, the residential facility management business inherently includes solving of utility problems many of which are beyond the Group's control, and dealing with a wide circle of price-sensitive private individuals. Therefore, by nature many major events including accidents, breakdowns, emergencies and also price changes in residential facility management are periodically followed and in many cases inadequately reflected in the local mass media. As the Group is the largest provider of facility management services in Lithuania, the Group occasionally draws adverse publicity and may get engaged in public disputes for the Group's reputation. If the latter occurs, the adverse publicity and disputes may impose additional costs for defending these disputes and harm the Group's reputation, which could thereby have adverse effect on the Group's financial performance and its financial position.

Subcontractor risks

In provision of facility management services the Group relies heavily on provision of services by external subcontractors. If such subcontractors fail to provide their services in a quality manner or on time, this may have an adverse effect on the reputation, business, financial performance and financial position of the Group.

Furthermore, the market price and availability of subcontractor services which the Group uses for its operations may be subject to significant fluctuations. Generally the Group seeks to secure the prices and availability of subcontractor services or to enter into contractual arrangements aiming to pass on corresponding price increases to its customer in full or in part, the success of such measures is not certain. This could have a material adverse effect on the net assets, financial position and financial performance of the Group.

Transactions with related parties

In the past the Group has engaged in significant transactions with other companies controlled by its main shareholder ICOR UAB and by other related parties. The Issuer believes that such related party transactions have been on arm's length terms, however, there has been no independent assessment of the terms of such transactions (except for intra-group sale of subsidiaries/investments).

Furthermore, the Group has not fully adopted a formal transfer pricing policy supporting the pricing of intra-group transactions (except for intra-group sale of subsidiaries/investments), and the lack of documentation may give rise to the tax claims to the Group. If any related party transactions were to transfer excessive benefits from one or more of the members of the Group to related parties that do not form part of the Group, or give rise to the tax claims, they could have a material adverse effect on the Group's financial performance or its financial position.

Dependence on subsidiaries

The Company does not own operating assets and is to a large extent dependable on the cash flows generated by its subsidiaries. These cash flows are supposed to finance the Company's expenses and dividend payments to shareholders. The Company may encounter limitations on free and unlimited fund transfers from the subsidiaries as may be imposed by legal regulations of incorporation countries or restricted by covenants in bank loans.

Acquisition and integration of acquired companies

In the past, the Group has acquired numerous businesses in order to expand its operations. The Group intends to continue to acquire businesses in a targeted manner in the future. In this regard, there is no guarantee that the Group will be able to identify suitable businesses and to acquire them on favourable terms. Moreover, the Group cannot guarantee that it will be able in the future to generate sufficient funds to finance envisaged corporate acquisitions. There is also a risk that not all material risks in connection with the acquisition of a company will be identified in the due diligence process and will not be or could not be sufficiently taken into account in the decision on the acquisition and in the purchase agreement. These risks could materialize only after a company has been acquired, and may not be covered by the warranties in the purchase agreement or by insurance policies.

The integration of newly acquired businesses is always associated with considerable uncertainties and risks and, among other things, requires the ability to integrate the newly acquired companies into the Group and to retain, or quickly replace, a sufficient number of qualified management staff and other key personnel. In the past, a large number of businesses have been successfully integrated into the Group. There is no guarantee, however, that the integration process will also be successful with potential future acquisitions. Moreover, with regards to corporate acquisitions the Group may not be able to realize planned savings, synergies and/or growth potentials. The businesses acquired or the joint ventures could also turn out to be less profitable than expected. As a result, depreciations on the assets of the businesses acquired or an impairment of goodwill reported in connection with the acquisition could be necessary. Each of the aforementioned factors could have a material adverse effect on the net assets, financial position and financial performance of the Group.

Dependence on IT

The Group is dependent on an efficient and uninterrupted operation of its information and communication systems. Information and communication systems are generally prone to failures, damage, power outages, computer viruses, fire and similar events. A failure or interruption in the operation of these systems can therefore not be ruled out. Failures or interruptions in the operation of the computer and data processing systems used by the Group could encounter losses and/or they may cause reputational damage to the Group (e.g. in case of disorders of timely and quality provision of services, the claims of the clients would be possibly incurred and/or they would possibly initiate termination of the respective agreements). This could have an adverse effect on the net assets, financial position and financial performance of the Group.

Litigation risks

In the course of their ordinary business operations, companies of the Group are involved in several court and official proceedings, as plaintiffs or defendants, the outcome of which cannot currently be predicted with any certainty. For more information on the material governmental, legal or arbitral proceedings, which may have or have had in the past, significant effects on the Issuer's and or the Group's financial position or profitability please see note 33 of the Set of Annual Financial Statements of the Company for the year 2014.

The Group may be required under a court order or settlement agreement to pay considerable amounts, which may also exceed any provisions set up for this purpose. In addition to these amounts, the legal costs incurred by the Group and in some cases of its opponent would also have to be borne. This could have a material adverse effect on the net assets, financial position and financial performance of the Group.

Credit financing

The Group's operations are partially financed by short and medium term loans from several financial institutions. As of 31 March 2015, the Group's borrowings and financial lease obligations constituted EUR 24,505 thousand, including current and non-current financial liabilities in the amounts of EUR 7,046

thousand and EUR 17,459 thousand respectively. The existing credit facilities of the Group contain financial covenants and provide for certain other obligations and representations the violation of which may lead to an event of default and acceleration of the loans.

While the Group has not breached such provisions in the past, however, the Group's ability to comply with covenants and restrictions contained in the loan agreements may be affected by events beyond its control, including, without limitation, prevailing economic, financial, legal and industry conditions. In the event that these obligations were to be breached, the creditors would be able to declare an event of default pursuant to the relevant facility agreements and require prepayment of the entire outstanding amounts. Such events may cause interruptions in regular business activities, loss of collateral or, in extreme cases, a financial distress for the Issuer.

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 and EONIA, which create an interest rate risk. This exposes the Group to a risk that borrowing costs might increase significantly in the event that the relevant benchmark market interest rates rise. Adverse interest rate fluctuations, if not hedged, may negatively impact the Group's financial performance and its financial position. There are no financial instruments designated by the Group to manage the exposure to the interest rate risk outstanding.

Liquidity risk

Risks arise from the process of ensuring adequate liquidity to meet the Group's financial obligations in due time. The Group is dependent upon adequate free lines of credit at banks, as well as free cash and cash equivalents in order to meet its financial obligations. In the event that the Group does not have sufficient liquidity, this would result in material adverse effect on the assets, financial position and results of operations of the Group.

Inflation and deflation risk

It is likely that during its operational period the Company and/ or the Group will face both inflation and deflation risks.

Credit risk

The Group's and the Company'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. Credit risk of the main customer of the Company Vilnius City Municipality, is considered as relatively low. Receivables from Vilnius City Municipality as of 31 December 2014 amounted to 20% and 82% of the Group's and the Company's trade accounts receivable, respectively (25% and 97% as of 31 December 2013, respectively).

Foreign exchange risk

Majority of the Company's monetary assets and liabilities as of 31 March 2015 are denominated in EUR, except for loan issued in PLN which amounts to EUR 1,228 thousand as of 31 March 2015 (EUR 1,202 thousand as of 31 March 2014) and the receivable in Russian Rouble, which amounts to EUR 699 thousand as of 31 March 2015 (there were no material receivables in Russian Rouble as of 31 March 2014). Therefore, the management of the Company believes that foreign exchange risk is insignificant.

Reorganization risk

Following the cross-border merger the Issuer took over all the assets, rights and liabilities of AB "City Service" and it is the legal successor of AB "City Service". For any obligation of AB "City Service" the Issuer, continuing operations after the cross-border merger, took the responsibility.

Risk, related to change of the jurisdiction of the legal acts, applicable to the Company's activities

Up until the cross-border merger City Service AB was registered in the Republic of Lithuania. Consequently, legal acts of the Republic of Lithuania were applicable to its activities, regulation of activities, tax regime and to other aspects. Following completion of the cross-border merger, whereby the Issuer took over all the assets, rights and liabilities of City Service AB, legal acts of the Republic of Estonia became applicable to all the requirements of activity of the Issuer.

Although the Company takes all the necessary actions, that following the merger of City Service AB to the Issuer, its activities and other issues in connection therewith fully complied to the applicable Estonian legal requirements, a theoretical risk remains, that the Issuer will implement such new requirements not to their full extent, will apply or interpret them not correctly, etc.

In case of occurrence of such circumstances, the competent Estonian institutions could require to execute the requirements of the respective legal acts, impose fines or other sanctions, which could harm the reputation of the Company and/or have adverse effect on the Company's financial performance and its financial position.

Limitations on enforcing judgments against the Company

Foreign judgements against the Company could be difficult to enforce. The Company is incorporated in Estonia. The recognition and enforcement of the judgments and other execution documents of member states of the European Union like Lithuania is subject to the restrictions and limitations set forth in the legal acts of the European Union, including the Regulation (EU) No. 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters.

Risks relating to Company's shares

The price of the Company's shares may fluctuate significantly

The trading price of the Company's shares may be subject to significant price and volume fluctuations in response to many factors including, but not limited to:

- variations in the Group's operating results and those of other companies operating in the same sphere of activities as the Group operates;
- negative research reports or adverse brokers comments;
- future sales of shares owned by the Issuer's major shareholders, or the perception that such sales will occur;
- general economic, political or regulatory conditions in the Baltic States or in the sector, where the Group operates generally; and
- price and volume fluctuations on AB NASDAQ OMX Vilnius (hereinafter, the "OMX") or other stock exchanges, including those in other emerging markets.

Fluctuations in the price and volume of the shares may not be correlated in a predictable way to the Group's performance or operating results.

Turmoil in emerging markets could cause the value of shares to suffer

Financial or other turmoil in emerging markets has in the recent past adversely affected market prices in the world's securities markets for companies operating in the affected developing economies. There can be no assurance that renewed volatility stemming from future financial turmoil, or other factors, such as political unrests, that may arise in other emerging markets or otherwise, will not adversely affect the value of shares even if the Estonian economy remains relatively stable.

The market value of shares may be adversely affected by future sales or issues of substantial amounts of shares

There can be no assurance as to whether the shares of the Company will be sold on the market. The Company cannot predict what affect such future sales or offerings of shares, if any, may have on the market price of the shares. However, such transactions may have a material adverse effect, even if temporary, on the market price of the shares. Therefore, there can be no assurance that the market price of the shares will not decrease due to subsequent sales of the shares held by the existing shareholders of the Company or a new share issue by the Company.

The shareholders may be not able to exercise preferential right to subscribe for new shares and may face dilution as a result

Pursuant to the Commercial Code of the Republic of Estonia, shareholders of a company have generally the preferential right to subscribe for new shares in proportion to their existing shareholding. However, such preferential right can be barred by a resolution of the general meeting of shareholders by a majority

of 3/4 of the votes represented at such general meeting of shareholders. As a result of an issuance of additional shares with exclusion of preferential right to subscribe for new shares, the shareholding and voting rights in the Company and the earnings per share may be diluted. If a shareholder is unable to exercise preferential right to subscribe for new shares, such shareholder's shareholding may be diluted as a result.

The marketability of the Company's shares may decline and the market price of the shares may fluctuate disproportionately in response to adverse developments that are unrelated to the Company's operating performance

The Company cannot assure that the marketability of shares will improve or remain consistent. Shares listed on regulated markets, such as the OMX, have from time to time experienced, and may experience in the future, significant price fluctuations in response to developments that are unrelated to the operating performance of particular companies. The market price of shares may fluctuate widely, depending on many factors beyond the Company's control. These factors include, amongst other things, actual or anticipated variations in operating results and earnings by the Group companies and/or its competitors, changes in financial estimates by securities analysts, market conditions in the industry and in general the status of the securities market, governmental legislation and regulations, as well as general economic and general market conditions, such as recession. These and other factors may cause the market price and demand for the shares to fluctuate substantially and any such development, if adverse, may have an adverse effect on the market price of shares which may decline disproportionately to the Group companies' operating performance. The market price of shares is also subject to fluctuations in response to further issues of shares by the Company, sales of shares by the Company's major shareholders, the liquidity of trading in the shares and capital reduction or purchases of shares by the Company as well as investor perception.

Securities or industry analysts may cease to publish research or reports about the Company's business or may change their recommendations regarding the shares

The market price and/or trading volume of shares may be influenced by the researches and reports that industry or securities analysts publish about the Company's business or the business of the subsidiaries of the Company. There can be no guarantee of continued and sufficient analyst research coverage for the Company, as the Company has no influence on analysts who prepare such researches and reports. If analysts fail to publish researches and reports on the Company regularly, or cease to publish such reports at all, the Company may lose visibility in the capital markets, which in turn could cause the Company's shares price and/or trading volume to decline. Furthermore, analysts may downgrade the Company's shares or give negative recommendations regarding the Company's shares, which could result in a decline of the share price.

The Issuer has been, and will continue to be, influenced by the major shareholder

As of the date of the information document of references for the investors the major shareholder (ICOR UAB) owns 66.23% of the Issuer's share capital. Thus, this major shareholder generally has the ability to influence most actions requiring shareholders' approval, including electing the supervisory board members and determining the outcome of most corporate matters, without recourse to the Issuer's minority shareholders. As a result, the major shareholder could, for example, cause the Group to pursue transactions, which may involve higher risk for the Group. Moreover, the interests of the indicated major shareholder may, in some circumstances, conflict with the interests of other holders of the shares. If circumstances were to arise where the interests of the major shareholder conflicted with the interests of other holders of the shares, it could take actions materially adverse to the interests of holders of the shares.

The shares of the Issuer may be listed on the Warsaw Stock Exchange and delisted from the OMX

As it was indicated in the material event notification of the Issuer, dated 30 April 2015, the general meeting of shareholders of AB "City Service", which was merged to the Company and ceased to exist following the completion of the cross-border merger, has *inter alia* decided to initiate the admission of all the outstanding shares of the company to trading on the regulated market the Warsaw Stock Exchange (hereinafter, the "WSE"). It has also established that the Board of the company has the right to select such a mechanism of admission of shares of the company to trading on the regulated market the WSE, which would ensure either direct admission of shares of the European company (*Societas Europaea*), formation of which is provided for in the decision on agenda matter No. 7 of the indicated general meeting of

shareholders, to trading on the above-indicated regulated market, or at first of the shares of AB "City Service" (following completion of the cross-border merger, this alternative became irrelevant), then of the shares of City Service AS, and only then of the shares of the European company (*Societas Europaea*).

Furthermore, the indicated general meeting of shareholders has decided taking into account the method of formation of the European company (*Societas Europaea*) chosen by the decision on agenda matter No. 7 of the indicated meeting, to postpone adoption of the decision on initiation of the delisting of shares of the Company from trading on the regulated market OMX until the European company (*Societas Europaea*) is formed and its shares are admitted to trading on the regulated market the WSE.

Thus, if both of the aforementioned conditions are met (transformation of the Issuer to the European company and listing thereof to trading of the WSE), the decision regarding delisting of shares of the Company from the OMX will most probably will be put for voting and (if approved) the shares of the Company will be delisted from the indicated market under the procedure, established under the applicable legal acts.

The Issuer intends to take all the necessary actions, aiming that its shares are introduced to trading on the WSE, as indicated above. However, there is no guarantee that following application for listing of shares to this regulated market, they shall actually be listed. In case for any reason the shares of the Issuer will not be listed on the WSE, the price of shares of the Issuer on the OMX may fluctuate disproportionately disregarding the Company's operating performance.

Tax and legal risk

Changes in the equity-related legislation or state tax policy can affect attractiveness of shares of the Company. This may reduce the liquidity of the shares and/or share price.

Further, the Company is a company established and existing under the laws of the Republic of Estonia and as such the Estonian tax regime applies to distribution of profit and other payments from the Company to its shareholders. The taxation of incomes from such payments as well as other incomes, from the disposal of shares, may vary depending on tax residence of particular investors as well as on provision of double tax treaties with Estonia in force. Provisions applying to particular investors may be unfavorable or may change adversely.

Inflation risk

When inflation increases, the risk that the stock price change may not offset the current rate of inflation appears. In this case, return on equity from capital gain on market shares for traders may be less than expected.

There can be no assurance regarding the future development of the market for the shares and their liquidity

Prior to completion of the cross-border merger all the shares of AB "City Service" were listed on the OMX. However, the past performance of such shares on the OMX cannot be treated as indicative of likely future development of market and future demand for the shares of the Issuer. The lack of liquid public market for the shares may have a negative effect on the ability of shareholders to sell their shares, or adversely affect the price at which the holders are able to sell their shares. There can be no assurance as to the liquidity of any trading in the shares, or that the shares will be actively traded on the OMX in the future.

The initial City Service AS stock price risk

The shares of the Company, prior to trading on the OMX, have not been publicly traded. As a result, their stock price, after the admission on the Main List of the OMX (if admitted), will be determined on the basis of the purchase and sale orders, which may depend on subjective factors, such as the market and the economic situation, performance evaluation of the Company announced in public as well as the interest of investors. As a result, the initial share price may not reflect accurately the true value thereof and have high fluctuations.

Conflicts between different jurisdictions

The Company is established and organized under Estonian law, however, trading of the shares will be governed by the Lithuanian law. The obligations of the Company towards its shareholders as well as the

corporate governance of the Company will be subject to requirements of Estonian law. Therefore, the rights and obligations of the investors will be subject to various jurisdictions and the rights of the shareholders and the rules applicable to the corporate governance of the Company vary from respective rules applicable to the Lithuanian issuers.

Risks regarding the use of nominee accounts

All shares in the Company must be registered and held in the securities' accounts opened in the Estonian Central Register of Securities (Est. *Eesti väärtpaperite keskreister*). An investor may either open a securities account or contact a nominee account holder to hold the shares in the nominee account opened in the Estonian Central Register of Securities on the account of the investor. If the investors decide to hold the shares in a nominee account, such investor becomes exposed to the specific risks related to the nominee account, including the risk that the owner of the nominee account does not comply with the requirements arising from the Estonian laws or breaches its contractual obligations towards the investor. Further, it is not clear whether the company must treat each investor whose shares are held via a nominee account as a separate investor. As a result, there can be no assurance that such investors intending to exercise their shareholders' rights (including voting rights and pre-emptive rights) will be able to do so. Investors holding the shares of the Company on a nominee account may not be able to exercise pre-emptive rights, and as a result may experience substantial dilution.