

# PLAVA LAGUNA

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## **SUPERVISORY BOARD**

Poreč, June 2017

### **SUPERVISORY BOARD REPORT**

**about the verification of the intended merger**

**of ISTRATURIST UMAG j.s.c. Umag to PLAVA LAGUNA j.s.c. Poreč**

Pursuant to Article 515a of the Companies Act, the Supervisory board of PLAVA LAGUNA j.s.c. Poreč, verified the intended merger of ISTRATURIST UMAG j.s.c. Umag to the Company, on the basis of the Managements' joint merger report and the Auditor's report by PRICEWATERHOUSECOOPERS Ltd. Zagreb, and in consequence compiled this written report.

The merger as a change in status of companies is regulated by the Companies Act. In this specific case, the associated company is being merged with the acquiring company with the former transferring its entire assets and all appertaining obligations to the latter in replacement for shares in the acquiring company. By entering the merger in the Court register of the acquiring company, the assets of the associated company and its liabilities are transferred to the acquiring company who is the universal legal successor of the associated company, thus entering in all its existing legal relationships. By entering the merger in the Court Register of the acquiring company, the associated company ceases to exist. In addition to liabilities and property, the employment contracts of the associated company's employees are also transferred to the acquiring company.

The acquiring company PLAVA LAGUNA joint stock company for catering and tourism, seated in Poreč, Rade Končara 12, OIB: 57444289760, registered in the Court Register before the Commercial Court in Pazin, registration number MBS: 040020834, and share capital in the amount of HRK 1.385.151.471,47, divided in 546.318 ordinary shares class A, without nominal value, marked as PLAG-R-A, of which 9 142 are own shares and 105.000 preferred shares class B, nominal value HRK 1.000,00 marked as PLAG-P-A.

The associated company ISTRATURIST UMAG, hotel, tourism and tourist agency, j.s.c., Umag, Jadranska 66, OIB: 22738374612, registered in the Court Register before the Commercial Court in Pazin, registration number MBS: 040002769, and share capital in the amount of HRK 467.499.500,00 divided in 4.674.995 ordinary shares of nominal value HRK 100,00 marked as ISTT-R-A.

The Boards of Managers of both companies participating in the merger rendered the decisions about the initiation of merger procedure in April 2017, and the same were given consents by the Supervisory Boards of both companies. At the same time, it was proposed to appoint PRICEWATERHOUSECOOPERS Ltd. Zagreb as the merger auditor. Competent court, the Commercial Court in Pazin, accepted the given proposal with a decree no. R1-29/17-4 of 9 May 2017.

The acquiring company's Supervisory Board, for the purpose of this report, examined the Draft of the Merger Agreement, Managements' joint merger report of companies participating in the merger and the Auditor's Independent report expressing reasonable assurance.

### **Merger Agreement**

The Merger Agreement between the above said companies regulate their mutual relations regarding merger in accordance with Article 513 of the Companies Act, and determines the following:

- the companies participating in the merger are properly stated with their names and descriptions as well as their capacity,

- it is established that based on the decisions rendered by the acquiring company's Board of Managers and the Supervisory Board, the share capital will be increased by reinvesting profits from year 2016
- the assessed values of both contracted parties are stated
- includes the provisions on the merger procedure related to bank accounts of the associated company and guarantees,
- stated is the accordance of transfer of the assets, especially the real estates and vehicle fleet, with the consent that upon the completed merger the acquiring company is registered as owner
- as a prerequisite to the merger, the increase of the share capital of the acquiring company is planned by reinvesting profits
- the subdivision of shares in the acquiring company is foreseen for the purposes of merger in a way that one ordinary share is divided in four new ordinary shares and that one preferred share is divided in four preferred shares, all without increasing the share capital of the acquiring company
- stated is the estimated value of one share of the acquiring company after the subdivision in the amount of HRK 1.579,58, and estimated value of one share of the associated company which amounts to HRK 315,08, and subsequently the share replacement ratio of shares of the associated company given for shares of the acquiring company as 1:0,1994686,
- for the purposes of replacement of shares, the increase of the acquiring company's share capital is planned by HRK 7.618.681,88 and issuing 12.500 new ordinary shares
- it is regulated that in the process of share replacement, for those shareholders of the associated company that shall not receive one whole share of the acquiring company by rounding to the first lower integer, there will be balance payment in cash by the acquiring company
- the acquiring company's shares which are out of newly issued and own shares transferred to the shareholders of the associated company provide equal rights as all other ordinary shares of PLAVA LAGUNA j.s.c. and enable them to take part in profit from the moment of acquisition of its shares in the same manner as other shareholders of the same class of shares.
- The trustee appointed for receiving shares and payments in cash is SREDIŠNJE KLIRINŠKO DEPOZITARNO DRUŠTVO j.s.c. Zagreb (Central Depository and Clearing Company).
- Creditors who report to the acquiring company within 6 months of the day of announcement of the entry of merger in the Court Register of the company they are creditors of are provided with guarantees for their receivables.
- The acquiring company undertakes to acknowledge to the holders of securities of the associated company all rights pertaining to the same
- The beginning of the associated company's shareholders participation in profit of the acquiring company is the moment of acquisition of shares
- It is regulated that upon the merger, the acts and bodies of the associated company cease to exist, and the employment contracts are transferred to the acquiring company
- Members of the Board of Managers and Supervisory Board of the associated company are responsible for any damages that would result from the merger, to the associated company, its shareholders or creditors, in accordance with the Companies Act

- It is established that as final financial statements are considered statements prepared as of 31 December 2016.
- As confirmed, the merger auditor is PRICEWATERHOUSECOOPERS Ltd. Zagreb

Consequently, it is established that the agreement contains all necessary elements prescribed by the Companies Law and that it fully regulates relations between parties regarding merger. It is foreseen that the agreement is concluded in the prescribed form of a notarial act, that is, the agreement is solemnised by a notary public and delivered without delay to the Court Register of the competent Commercial Court in Pazin. The agreement will enter into force upon the approval of General Assemblies of both companies participating in the merger.

We find that the Merger Agreement is concluded in accordance with Article 513 of the Companies Act and other applicable provisions, as well as complete of all the prescribed and required aspects of merger. The agreement reflects a clear picture of the progress of the intended merger.

### **Joint merger report of the Managements of companies participating in the merger of June 2017**

Pursuant to Article 514 of the Companies Act, the Boards of Managers of each company participating in the merger must compile a report where the merger agreement shall be clarified in terms of legal and economic reasons, especially focusing on the share replacement ratio and the additional payments in moneys. The Board of Managers of companies participating in merger exercised their right provided by paragraph 3 of the same article and compiled a joint report. The report was made by taking into consideration particularly the assessment of the companies participating in merger so that the expressed replacement ratio is as precise and correct as possible for shareholders of both companies.

The introduction is based on the legal framework and the purpose of the report, the standards implemented in the assessment of the companies' values, taking account in particular the use of same standards and principles for both companies, in order to achieve consistency.

Further, the report includes the descriptions of both companies participating in merger with their historical, corporate, business and financial characteristics.

Legal aspects of the merger are stated in accordance with the Companies Law, taking into account the specific merger, or foreseen increase of share capital and subdivision of acquiring company's shares.

Economic aspects of the Merger Agreement describe the main advantages both companies shall experience upon the finalisation of the merger. Thus, the tourist portfolio will be unified with the goals of segmentation, differentiation and strategic positioning, joint umbrella brand will be created for better recognition on the market, synergies will be achieved by centralising business functions, savings in costs of having separate businesses, IT support and technology will be unified by doing business in the same business entity and the possibility of converting real estates used as offices into commercial buildings is opening up. With the merger, usage of best practices in processes and

systems of work will continue, market position will strengthen which, although already existing within the same group, becomes stronger and more visible to outside entities. With increase of revenues and assets, financial strength of the company also increases which will have a positive effect on the investment potential as well. The possibilities to improve the management of human resources are opening up by the transfer of knowledge and experience, best practices between companies participating in merger. Finally, the synergy effects will also be seen in the area of the development of events under a common brand, which will positively affect the recognition on the market.

Afore mentioned synergy effects are assessed as realistic and expected.

The evaluations of companies participating in merger were carried out by an independent assessor – company Deloitte Savjetodavne usluge Ltd. Zagreb. The main applied method of assessment was the discounted cash flow method with the market approach methods (market multiples method) were used to support and validate the values obtained by the main method. The report explicates the reasons, advantages and disadvantages of applying particular methods, and their principles.

The value of PLAVA LAGUNA j.s.c. Poreč determined on the basis of the above said methodology is HRK 4.039.565.000,00, where the value of equity of one ordinary share after subdivision is HRK 1.579,58. The determined value of ISTRATURIST UMAG j.s.c. Umag is HRK 1.472.983.000,00, so the value per share is HRK 315,08.

Consequently, the resulting share replacement ratio, according to which a shareholder of the associated company shall receive 0,1994686 share of PLAVA LAGUNA j.s.c. Poreč in exchange for one share of ISTRATURIST UMAG j.s.c.

Upon analysing the assessment process, focusing particularly on equal approach to the assessment of both companies, the Supervisory Board assumes that the Boards of Managers carefully analysed reasons and consequences of the merger, and expresses its consent to the Managements' joint merger report, the share replacement ratio and the explicated reasons and the effects the merger shall produce for companies.

#### **Auditor's Independent report expressing reasonable assurance**

Upon the appointment by the Commercial Court in Pazin, based on the proposal of the Supervisory Boards of companies participating in merger, in accordance with the legal provision contained in Article 515 of the Companies Act, the auditor company PRICEWATERHOUSECOOPERS Ltd. Zagreb approached the revision of the merger by reviewing the evaluation, the draft of the Merger Agreement and the Managements' joint merger report, with the obligation to report whether the share replacement ratio and methods applied and shown in the merger report used during the evaluation are in accordance, in all their materially significant aspects, to the criteria prescribed in articles 513 and 514 of the Companies Act.

The auditor examined the methods applied for establishing the share replacement ratio, reasons for applying the said methods and results that would be obtained by applying different methods, and it was determined that for establishing the share replacement ratio the discounted cash flow method applied in this case, is more acceptable, together with market approach methods (market multiples method) and comparable transactions method to support and validate the values obtained by the basic method. They also examined methods that have not been applied by the Company. Regarding the share replacement ratio the Merger Auditor concluded that the share replacement ratio and applied methods shown in the Merger Report are in accordance, in all their materially significant aspects, to the criteria prescribed in articles 513 and 514 of the Companies Act.

## **Conclusion**

Taking into consideration the Merger Agreement, the Managements' joint merger report and the Auditor's report, the Supervisory Board concluded that the merger has been prepared in accordance with the Companies Act and other positive regulations applicable directly or indirectly to the merger.

Focusing on the effects the merger shall produce on PLAVA LAGUNA j.s.c., the Supervisory Board rated the merger as a positive step towards strengthening of the company itself and its market position. The Supervisory Board took into account the position of the shareholders of the associated company and the effects the merger shall have on the latter, and concluded that the intended merger is of mutual interest.

Finally, the Supervisory Board of PLAVA LAGUNA j.s.c. Poreč proposes the General Assembly to render the decision on approval of the Merger Agreement, as well as other decisions required for its implementation at the competent commercial court and other bodies.

President  
Davor Luksic Lederer