

Management Board of SUNCE HOTELI d.d. with registered seat in Zagreb, Trpinjska 9 (hereinafter: the “Company”) on 10 November 2021 adopted the following:

MANAGEMENT BOARD REPORT ON REASONS FOR COMPLETE EXCLUSION OF PRIORITY RIGHT OF EXISTING SHAREHOLDERS TO SUBSCRIPTION OF NEW SHARES IN THE COMPANY

Under provisions of Article 308 paragraph 5 of the Companies Act (NN 111/93, 34/99, 121/99, 52/00, 118/03, 107/07, 146/08, 137/09, 125/11, 152/11, 111/12, 68/13, 110/15, 40/19) (hereinafter: the “Companies Act”), Management Board of the Company submits to the Company’s Shareholders’ Meeting Report on reasons for complete exclusion of shareholders’ priority right to subscription of new shares in share capital increase by way of issuance of new share with cash contribution.

Taking into consideration planned and necessary capital expenditures that need to be financed in the upcoming shorter term for the purpose of increasing the quality of Company’s facilities for tourist season 2022, adopting of the Decision on Company’s share capital increase and issuance of shares with complete exclusion of priority right of the existing shareholders’ to subscription of new shares is hereby proposed. In particular, Company’s Management Board deems it necessary to perform a comprehensive share capital increase procedure in the Company with the purpose of raising additional capital required for financing Company’s business plans and ensuring Company’s market competitiveness as soon as possible and as cost-effective as possible, which would allow for Company’s further development and adequate preparation of the upcoming tourist season.

Proposed share capital increase in the Company would result in share capital increase from the amount of HRK 595,458,500.00 (five hundred ninety five million four hundred fifty eight thousand five hundred kuna) for the amount of up to HRK 119,021,700.00 (one hundred nineteen million twenty one thousand seven hundred kuna) to the amount of up to HRK 714,480,200.00 (seven hundred fourteen million four hundred eighty thousand two hundred kuna), by issuance of at least 996,331 (nine hundred ninety six thousand three hundred thirty three), and at most 1,190,217 (one million one hundred ninety thousand two hundred seventeen) new ordinary registered shares, in dematerialised form, in nominal amount of HRK 100.00 (one hundred kuna) per share.

Amount for which the described new shares would be issued is set at HRK 184.00 (one hundred eighty four kuna) for one new share. Portion of the paid amount for which the new shares are issued that exceeds the nominal amount of shares shall be contributed into capital reserves of the Company. Shares would be issued for precisely the respective amount due to the fact that the takeover offer with respect to the Company was performed in July 2021 whereby the offered consideration per share in the Company in such procedure amounted to HRK 184.12 (one hundred eighty four point twelve kuna) and therefore the Management Board considers such price adequate indicator of market value of shares in the Company, as oppose to the current price achieved on the Zagreb Stock Exchange which is subject to material oscillations due to the modest trade volume upon the completion of the takeover procedure with respect to the Company.

Company's Management Board considers the Company's financial statements to date, the relevant references and Company's reputation in domestic and international markets, to undoubtedly show Company's development potential. However, within the Sars-Cov-2 virus pandemic which has significantly effected the business operations especially in the tourist sector in which the Company operates and the consequences inevitable effecting Company's business operations, additional capital for enhancing Company's market competitiveness and increasing the quality standards of services the Company provides needs to be accumulated. Furthermore, the Company entered into a long term facility loan agreement dated 2 November 2021 with ERSTE&STEIERMÄRKISCHE BANK d.d. and OTP banka d.d. with the purpose of refinancing the entire existing financial debt of the Company and financing Company's investment into increasing the quality of its facilities for season 2022. Under the respective loan agreement, one of the conditions for utilising a portion of the approved funds is precisely successful performance of share capital increase of the Company by contribution in cash.

With the intention to raise the required funds as soon as possible, model of share capital increase by contributions in cash with complete exclusion of shareholders' priority right to subscription, accelerating significantly share capital increase procedure, has been selected. In accordance with Article 1 paragraph 4 (d) and paragraph 5 (a) of the Regulation (EU) 2017/1129 of the European Parliament and the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, there is no obligation for publishing the prospectus for the public offering in the event the offer is addressed to fewer than 150 (one hundred fifty) natural or legal persons per member state, that are not qualified investors. In addition, there is no obligation to publish the prospectus for admission to trading on a regulated market related to issuing and admission to trading securities fungible with securities already admitted to trading on the same regulated market, provided that they represent, over a period of 12 (twelve) months, less than 20% (twenty per cent) of the number of securities already admitted to trading on the same regulated market.

Due to the above, the Management Board proposes that the right of subscription and payment of new shares in the respective share capital increase procedure is granted to Eagle Hills Zagreb Real Estate d.o.o. with registered seat at Hektorovićeve ulica 2, Zagreb, registered with the court register of the Commercial Court of Zagreb under MBS: 081260303, PIN (OIB): 63572346734 (hereinafter: "**Eagle Hills Zagreb Real Estate d.o.o.**"), as the shareholder holding the majority share in the Company, whether directly or indirectly, and Erste Ltd - mandatory and voluntary pension funds management company with registered seat at Ivana Lučića 2a, Zagreb, registered with the court register of the Commercial Court of Zagreb under MBS: 080407542, PIN (OIB): 49659289650 (hereinafter: "**Erste Ltd**") for the account of pension funds Erste Ltd manages, as the institutional investor holding a significant share in Company's share capital and Company's long-term partner. The respective shareholders of the Company are expected to be able to participate in the proposed share capital increase of the Company with the required funds and in shorter time periods, in order to achieve the intended purpose of the proposed share capital increase. The respective subscribers would have the right to subscribe for the new shares in accordance with the following ratio: Eagle Hills Zagreb Real Estate d.o.o. right to subscribe to up to 996,331 (nine hundred ninety six thousand three hundred thirty three) new shares, i.e. 83.71% (eighty three point seventy one per cent) of new shares, and Erste Ltd right to subscribe to up to in total 193,886 (one hundred ninety three thousand eight hundred eighty six) new shares, i.e. 16.29% (sixteen point twenty nine per cent) of new shares, for the account of pension funds it manages. In the event that any of the above subscribers does not execute (or does not execute in its entirety) its right to subscription and payment of new shares as described under this paragraph, the remaining subscriber would have the right to subscribe and pay for the portion of new shares to which the latter subscriber had the right of subscription and payment as well.

Using of the above described exception from the obligation to publish the prospectus for the public offering of shares would not be possible without the exclusion of priority right of existing shareholders of the Company to subscription of new shares. In the event that the existing shareholders' priority right to subscription of new shares was enabled, such circumstance would inevitably be associated with high process implementation costs and the lengthiness of raising the required capital. Company's Management Board therefore, for the purpose of cost-effectiveness and maximum acceleration of share capital increase procedure, decided to use the exception from the obligation to publish the prospectus for the public offering of shares and consequently exclude the shareholders' priority right to subscription of new shares entirely. Lengthiness of capital raising process could have negative effect to financial position of the Company and its market competitiveness due to the fact that it could potentially jeopardise performance of required preparatory work for tourist season 2022, which is precisely now in its most sensitive and critical stage. Prolongation of capital raising would definitely lead to insufficiency of funds for settlement of obligations towards the investment work contractors for season 2022, which would result in delays in completion of construction works. Any delays in openings of Company's hotels which are under renovation for season 2022 would have significant financial consequence for the Company, by way of loss of business revenue. The above described capital raising process with complete exclusion of priority right of existing shareholders to subscription and payment of new shares is therefore in the best interest of the Company, and hence its shareholders as well.

Taking into consideration best interests of the Company, Company's Management Board wishes to continue positive growth trends and increase of competitiveness and therefore proposes the adoption of the Decision on share capital increase in the above proposed manner as soon as possible and believes that the proposed decision is entirely appropriate, necessary and in the interest of the Company and the shareholders.



Shaikh Mubarak Ali Abdulla Hamad Alkhalifa,
Management Board chairman



Hrvoje Veselko,
Management Board member

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