

---

**ODYSSEY EUROPE AS**  
**TAKEOVER REPORT**  
**REGARDING TAKEOVER OF MINORITY SHARES OF OLYMPIC**  
**ENTERTAINMENT GROUP AS FOR CONDUCTING MERGER**

---

**6 August 2018**

## 1. GENERAL INFORMATION

Odyssey Europe AS (a public limited liability company incorporated under the laws of Estonia, registered with the Estonian commercial register under the registry code 14437516 and with a legal address at Harju county, Tallinn, Sõpruse pst 145, 13417, Estonia; “**Odyssey**”) has compiled the current takeover report (“**Report**”) in connection with taking over the shares of Olympic Entertainment Group AS (a public limited liability company incorporated under the laws of Estonia, registered with the Estonian commercial register under the registry code 10592898 and with a legal address at Harju county, Tallinn, Pronksi tn 19, 10124, Estonia; “**OEG**”) belonging to the minority shareholder of OEG for a monetary compensation.

Odyssey, as the majority shareholder holding more than nine-tenths of the share capital of OEG, will submit the Report to the management board of OEG on 6 August 2018 together with its application for the takeover of the shares belonging to the minority shareholders of OEG (“**Minority Shareholders**”).

## 2. BACKGROUND INFORMATION

On 19 March 2018, Odyssey entered into a share sale and purchase agreement (“**SPA**”) with the two major shareholders of OEG, namely OÜ HansaAssets (who held 68,361,890 shares of OEG which represented 45.04% of all the shares of OEG) and Hendaya Invest (who held 28,761,910 shares of OEG which represented 18.95% of all the shares of OEG). The purchase price for the shares under the SPA was EUR 1.90 per one share.

On 4 April 2018, Odyssey launched a voluntary public takeover offer to the other shareholders of OEG with the intention to acquire all shares of OEG. The purchase price for the shares was the same – EUR 1.90 per one share (“**VTO**”). The VTO period ended on 2 May 2018 and Odyssey acquired at the end of VTO 134,241,513 shares of OEG, which represented 88.46% of all the shares of OEG (excluding 31,040 treasury shares held by OEG).

Since then Odyssey has continued acquiring shares in OEG and at the date hereof it owns 136,630,452 shares in OEG.

Odyssey will carry out a merger of OEG into Odyssey (“**Merger**”), which plan was initially introduced to the shareholders of OEG by the press and stock exchange releases published on 2 May 2018.<sup>1</sup> The Merger does not affect other subsidiaries or affiliate companies of the group.

Odyssey is of the opinion that all the shares of OEG shall be fully owned by Odyssey to execute the Merger for the purposes of economic growth and strategic expansion of the business of OEG, in particular, and the Olympic Group, in general. In addition, the Merger

---

<sup>1</sup> <https://cns.omxgroup.com/cdsPublic/viewDisclosure.action?disclosureId=837989&messageId=1053692>

shall be carried out to eliminate a legal entity which is no longer required and therefore the Merger will streamline the group operational structure and will result in cost efficiency. The original structure was necessary for the initial acquisition, but has lost its purpose post acquisition. The aim of Odyssey is to further streamline the Olympic Group's legal structure after the Merger through reorganisations and mergers for cost and operational efficiency purposes. For conducting the merger majority shareholder wants to takeover also the shares of the minority shareholders.

Deriving out of the fact that Odyssey will own 100% of the shares of OEG on the date when the Merger will be registered with the Estonian commercial register, it has been agreed on by the management boards of Odyssey and OEG, that OEG will be merged to Odyssey and the assets and liabilities (all the rights and obligations) will be transferred to Odyssey as of the date when the merger entry has been entered to the Estonian commercial register. Since all the shares of OEG will belong to Odyssey prior the merger entry, the shares shall not be exchanged and shall become invalid as of the date of when the merger entry has been entered to the Estonian commercial register. As of the entry of the Merger into the Estonian commercial register, OEG as the company being acquired shall be deemed dissolved pursuant to Section 403 (2) of the Estonian Commercial Code ("ECC").

As of the date of the Report, Odyssey holds 136,630,452 shares of OEG, which represents 90.03 % of all shares in and share capital of OEG (excluding own shares). Thus, Odyssey has the right to submit an application for the takeover of shares for monetary compensation ("**Takeover Application**") for conducting the Merger pursuant to Section 421<sup>1</sup> in conjunction with Section 363<sup>1</sup> (2) of the ECC. Following the submission of the Takeover Application, Odyssey and OEG will enter into a merger agreement where Odyssey acts as an acquiring company and OEG acts as a company being acquired.

### **3. LEGAL BASIS OF THE TAKEOVER OF MINORITY SHARES IN COURSE OF A MERGER**

Odyssey applies for the takeover of the shares of OEG for conduction a merger pursuant to Section 421<sup>1</sup> in conjunction with Section 363<sup>1</sup> (2) of the ECC. According to the Section 421<sup>1</sup> (1) of the ECC, the general meeting of a public limited company being acquired may decide on the takeover of the shares held by the minority shareholders on the application of the majority shareholder, who at the time of submitting the takeover application holds at least nine-tenths of the share capital of the public limited company being acquired, within three months as of conclusion of the merger agreement. In order to complete the takeover, the regulation and procedures specified in Section 363<sup>1</sup> to Section 363<sup>10</sup> of the ECC must be followed taking into consideration the peculiarities provided for in Section 421<sup>1</sup> of the ECC.

According to the Section 363<sup>1</sup> (1) of the ECC, the general meeting may decide in favour of the shares belonging to the minority shareholders of the public limited company to be taken

over by the majority shareholder in return for a fair monetary compensation based on the application of a shareholder whose shares represent at least nine-tenths of the share capital.

The resolution on the takeover of shares belonging to the minority shareholders shall be deemed to be adopted if at least nine-tenths of the votes represented at the general meeting by shares are in favour according to the Section 421<sup>1</sup> (3) of the ECC.

The amount of compensation payable to the minority shareholders shall be decided by the majority shareholder. According to the Section 363<sup>2</sup> (1) of the ECC, the amount of compensation shall be determined on the basis of the value of the shares, which are being taken over, that these shares had ten days prior to the date of which the notice calling the general meeting was sent out.

According to the Section 363<sup>4</sup> (1) of the ECC, the majority shareholder shall submit a written takeover report to the general meeting, which will include explanations and justifications of the conditions of taking over shares belonging to the minority shareholders and the basis for determining the amount of compensation payable for the shares. According to the Section 363<sup>4</sup> (2) the written takeover report shall be audited by an auditor. The auditor shall prepare a written report on his/her own, stating in particular whether the amount of compensation determined by the majority shareholder meets the criteria set forth by the law.

Section 363<sup>5</sup> (1) of the ECC enumerates the documents, which shall be made available to the shareholder for examination at least one month before the general meeting. The following documents shall be presented to the shareholders:

- (a) the draft resolution of the general meeting to decide on the takeover of shares belonging to the minority shareholders;
- (b) the three preceding annual reports of the public limited company;
- (c) the takeover report;
- (d) the auditor's report;
- (e) the merger agreement (Section 421<sup>1</sup> (5)).<sup>2</sup>

Section 363<sup>9</sup> (1) of the ECC stipulates that within one month as of the adoption of the resolution of the general meeting specified in Section 421<sup>1</sup> (3) of the ECC, the management board of the public limited company shall submit a petition to the registrar of the Estonian register of securities for the shares of minority shareholders to be transferred to the majority shareholder. The transfer of the shares shall be carried out via delivery-versus-payment (DVP) settlement procedure, which means, that cash payment must be made simultaneously with the delivery of the shares.

---

<sup>2</sup> The merger agreement shall state that due to the merger the takeover of the shares held by the minority shareholders of the public limited company being acquired is taking place.

## **4. COMPENSATION AND THE VALUATION THEREOF**

### **4.1. Compensation payable to the minority shareholders of the Company**

The Compensation determined by Odyssey is EUR 1.40 per each share in OEG, representing the fair value of the shares as of 29 July 2018. Odyssey itself considers this sum to be a fair compensation within the meaning of the Estonian Commercial Code, Chapter 29.

Section 363<sup>4</sup> (2) of the ECC does not provide for a specific valuation method for determining the fair compensation to be paid to the minority shareholders. The method has to be determined on a case-by-case basis. The Supreme Court of Estonia has suggested in its case law that such methods may, *inter alia*, include a liquidation value, comparative pricing, discounted cash flow method or trading price method.

Odyssey has concluded that the discounted cash flow method is appropriate in valuing OEG and determined the Compensation for the shares belonging to the Minority Shareholders (see section 4.2 below).

Odyssey has also considered alternative valuation methods (see section 4.3 through Section 4.6 below):

### **4.2. DCF method**

The Discounted Cash Flow method (“**DCF method**”) corresponds to the almost uniform practice in the case law when determining equity values.

Based on the assumption that exclusively financial goals are pursued, the value of an enterprise is determined by the present value of future net cash flows to the owners of the enterprise/shareholders (value of future success). In order to determine the present value of these surpluses, a capitalisation interest rate is used which reflects the return on investment from an appropriate alternative investment compared to the investment in the enterprise being valued.

The basis for the forecast of future cash flows is the corporate planning as well as an estimate of the long-term result which can be realized as the permanent average expectation for the period of time beyond the planning horizon. For purposes of valuation, a breakdown of the planning into two phases is normally made. The first phase which is closer in terms of timing is determined by the detailed planning period, while the second phase is described as a long-term extrapolation of developments in trends (terminal value).

The value of an enterprise is determined by the amount of the net cash flows to the investor which are at the free disposition of the investor. These net cash flows must be determined by taking into account the income taxes on the enterprise and distribution taxes if they replace corporate taxes. Only the net cash flows that flow to the shareholders are relevant for valuation purposes. When determining the net cash flows retention of profits and the purpose of those need to be considered.

Generally, the present value of the financial surpluses of the operating assets must be determined first. Assets that are not directly included in the calculation are valued separately and recognized as a special value. This includes both non-operating assets and other items that are not directly included in the valuation-relevant income. Non operated assets are defined as Assets, which can easily be transferred into cash without affecting the actual purpose of the company. To determine the enterprise value, the special values needs to be added to the present value of the financial surpluses of the operating assets.

The enterprise value can be determined either using the DCF method in the form of the Entity approach (e.g. APV approach or WACC approach) or in the form of the Equity approach (Flow to Equity Approach). If the financing assumptions are the same, the methods lead to the same enterprise values, since they are based on the same investment theory.

Historical analysis of the company's trading and financial surplus is generally used as the basis for forecasting and assessing the plausibility of future financial surpluses. It should be noted that only the financial surpluses resulting from measures already initiated or sufficiently substantiated within the frame of the corporate concept as well as the market conditions as of the valuation date. Potential but not sufficiently concrete measures are not relevant in determining a fair value.

Based on the DCF valuation, the present value of operational business of OEG as of 29 July 2018 amounts to 173,712 kEUR.

The equity value results from the sum of the value of operating business and the special values as of the valuation date 29 July 2018.

It amounts to **212,950 kEUR**:

Equity Value	
	July 29, 2018
in mEUR	Val. Date
<b>Value of operating business</b>	<b>173.7</b>
<b>Special Values</b>	<b>39.2</b>
Excess cash	45.1
Transfer of shares in Olympic Casino Eeesti AS	-6.3
Forest land & buildings	0.3
Not operating entites	0.2
<b>Equity Value</b>	<b>213.0</b>
Number of shares	151,760,166
<b>Equity Value per share</b>	<b>1.40</b>

*Source: Analysis Rödl & Partner*

The value per share, therefore, is 1.40 EUR.

#### **4.3. Stock exchange share price is not Relevant due to Illiquidity**

The stock of OEG is or has been traded on several European Stock Markets, however, no significant trade volume has ever been achieved on any of them.

In the case of the OEG stock, we can see an immediate effect of the announcement of the transaction. This itself is a strong indicator that data should be used prior to the announcement

in order to analyze the market price of the stock without the impact of the announced transaction.

Within a timeframe of 24 months before the take-over announcement, the stock price weighted by the trade volume equals on average 1.74 EUR.

The main question however, is to what degree this market price should be used to calculate the fair compensation payment. The answer depends on whether the OEG stock exhibits sufficient liquidity over the observed period.

Therefore, we conducted an extensive analysis, to determine whether the observable market price of OEG provides a good proxy for the intrinsic value of the company. In order to make a precise decision on the representativeness of a stock market price two major aspects have to be analysed:

- the market, where the stock is being traded
- the trading characteristics of the stock itself.

Given the analysis we came to the result that the trading volumes with respect to OEG shares are insufficient and therefore the observable "market price" on the stock exchange does not provide for a viable valuation of the intrinsic value of OEG.

Further: After the transaction was announced in March 19, 2018 the only relevant trading volume related to stock acquired in course of the voluntary take over offer. These transaction were no longer relevant for a price finding as the price was fixed. The same applies to the trades after May 2, 2018 (after the take over offer period had expired) as the main trades related to further acquisitions by Odyssey to reach the 90% threshold – the stock price offered here contained a premium to implement a later corporate structural measure and had nothing to do with the intrinsic value of OEG. The time lag of four months between the announcement as of 19 March 2018 and the valuation date on 29 July 2018 leads to further distortion. Major value deteriorating elements were either not publicly known or were triggered by events / published information between 19 March 2018 and 29 July 2018 and therefore not factored into the share price prior to the voluntary take over offer being announced (e.g. gaming tax increases in Italy, increased probability regarding close down of casinos in Riga and Slovakia, budget adjustments, change of the competitive environment in Latvia, slowed growth in the Online Business etc.).

#### **4.4. Trading Multiples are not a suitable indicator for the intrinsic value of OEG**

Simplified pricing based on multiples (multiplier methods) is also used in valuation practice to check the plausibility of the results of a company valuation based on the discounted cash flow method. Like the discounted cash flow valuation, this concept follows the principle of an earnings-oriented valuation, but the enterprise value is determined on the basis of a multiple

of a performance indicator. The multiplier method is based on a comparative company valuation in the sense that suitable multiples are derived from capital market data of listed comparable companies or transactions.

The marked-based valuation method is based on the premises that business which have significant comparable parameters, e.g. industry sectors, business models, size, earnings performance, will have comparable values, and transactions which are comparable based on e.g. industry sectors, size, circumstances and proximity of time will be completed based on comparable market values.

Most trading multiples are based on the Enterprise Value, which is derived from the Market Capitalization of a company. In order for trading multiples being of any good use for valuation purposes, the market price of each peer has to represent a good proxy for its fair value. As mentioned in other parts of the report, this is usually the case when a stock is being traded in a sufficient volume and frequency, for it to be a reliable proxy for the value of a company. In other words, stocks that are not liquid and exhibit a low trading volume are prone to overreact to even the smallest of transactions, thus their market price cannot be taken at face value. Such is the case with the stocks of the land-based gaming and betting peers that we examined.

Due to the low trade volumes exhibited by the majority of peers, there is no reliable data available to derive a credible Enterprise Value.

Furthermore, we restrained from expanding the peer group with companies that are based outside of Europe. The main reason is that the regulatory framework faced by casinos, gaming and betting companies in e.g. North America is significantly different than the ones we observe in Europe. The different legal framework includes different corporate and gambling taxes as well as market specific restrictions. Needless to say, enterprises outside of Europe are exposed to a different macroeconomic environment. All of the above imply a completely different business risk outside of Europe, which is why only European companies can be seen as comparative.

Online gaming and betting companies cannot be used as bench mark to derive trading multiples for the relative valuation of OEG. The completely different growth rates are not the only major difference between the two business segments. Another factor that deems the comparison between the two segments inappropriate, is the different asset structure and thereof resulting different operating leverage. Land-based gambling and betting providers are characterized by capital-intensive investments in buildings and gambling infrastructure, which are amortized over a long period of time. In contrast, the capital expenditure and fixed asset intensity of property, plant and equipment of an online competitor are way lower and of completely different nature. As a result, both business models face completely different economies of scale in their business models.



Therefore, any trading multiple valuation based on an online peer group would deliver distorted results, which cannot be used as a reliable proxy for the valuation of OEG.

#### **4.5. Liquidation Values and Net Asset Value do not provide for reliable guidance for the fair market value of OEG**

The cost-based valuation method is based on the premise that a buyer will only pay either the amount needed to replace the assets generating the income or the hypothetical liquidation proceeds.

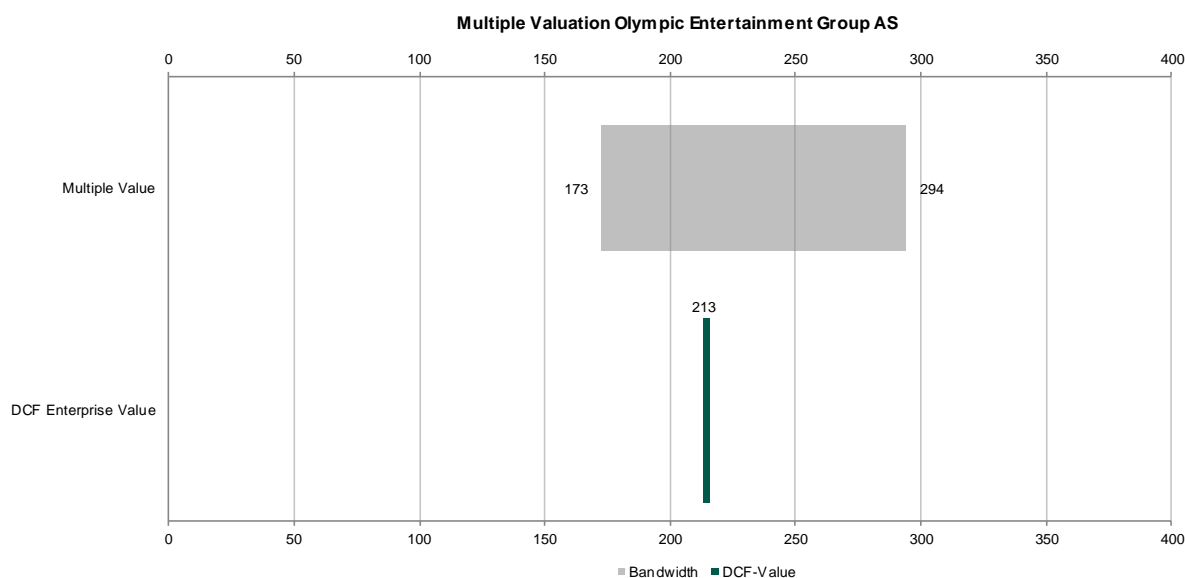
The valuation of the company substance from the point of view of replacement leads to the so-called reconstruction value of the company. Due to the intangible assets (e.g. value of customer relationships, market position, established brands), which cannot be fully recorded and measured in detail, this is usually only a partial reconstruction value. Only in a few exceptional cases, e.g. if the best alternative capital allocation would be a reconstruction of the company, does the cost based valuation method have an independent significance. In the present case, the net asset value of OEG is of no independent meaning. Therefore, no net asset value was determined.

In the event that the present value of the financial surpluses resulting from the liquidation of the entire company exceeds the going concern value, the liquidation value is to be used as a basis for valuation, unless legal or actual restrictions prevent this. Since in the present case OEG is to be continued indefinitely and it can also be assumed that the Going-Concern value would exceed the liquidation value due to the costs incurred during liquidation (e.g. social plans, compensation), we have refrained from presenting the liquidation value within the scope of our expert opinion.

#### **4.6. Comparison/Transaction Multiple is not suitable for lack of sufficiently comparable peers**

As discussed in section 4.4 trading multiples are not appropriate to value OEG. Besides the trading multiples, one can also use transaction multiples for the purpose of valuing a company. However, similar to the trading multiples, the scope of the examined deals has to include companies, that have comparable business models. Only then, there is a common ground for comparison and conducting a relative valuation would not lead to any distorted values. Therefore, we have examined only transactions that included land-based gambling and betting companies in Europe. The reason, for excluding online gambling and betting companies as well as enterprises that primarily conduct business outside of Europe, has already been thematised in previous parts of the report. Furthermore, we limited our research to transactions that took place from the year 2015 up to July 2018 to increase the representativeness of the multiples. We consider that market conditions are dynamic and older transactions reflect a market that does not accurately represent the current market conditions.

Based on comparable transactions we have derived the following ranges for OEG:



The bandwidth comprises both the Revenue and EBITDA multiples from the analyzed deals. It can be seen that the DCF-value of 212,950 kEUR lies within the derived bandwidth, which includes the values from both the first and third quartile of the EV/Sales and EV/EBITDA – multiples.

Nevertheless, we do not consider the Transaction multiples to be fully compatible with the purposes of this report. Firstly, the multiples are based on only five company transactions, two of which are of the same company (Les Ambassadeurs Club Limited). In addition, one of the peers (Sisal SpA) is also partially active in the lottery business.

Furthermore, transaction multiples are based on subjective deals, partially concluded by strategic investors with synergies in mind, which strongly reduces the validity of the numbers behind them. A financial investor would have different financial considerations, leading to a different transaction value. In addition, the deal values of the transactions under consideration are partly undisclosed (deal values were partly estimated on the basis of press releases) leaving important aspects of the deal unanalyzed.

Finally, the underlying EBITDA and Revenue are partially distorted as extraordinary events might be included, hence leading to a further distortion of the valuation results.

#### **4.7. Conclusion**

Thus, for OEG, an objective enterprise value results to the 29. July 2018 in the amount of 212,950,000- EUR,

and a value of 1.40 EUR per share based on 151,791,206 no-par shares and 151,760,166 no-par shares excluding treasury shares.

*[Signature page to follow]*

---

Stefan Kowski  
Legal representative of Odyssey Europe AS

*[Signature page to takeover report]*