

REPORT OF THE BOARD OF DIRECTORS OF ACTION SPÓŁKA AKCYJNA ON THE MERGER OF ACTION S.A. WITH ACTIVEBRAND Sp. z o.o.

I. GENERAL INFORMATION

The present report justifying the merger (hereinafter: the “**Report**”) was prepared on 18 May 2022 pursuant to Article 501 of the Act of 15 September 2000 – the Code of Commercial Companies (consolidated text: Dziennik Ustaw of 2020, item 1526, as amended – hereinafter: the “**CCC**”), and in accordance with the provisions of the Merger Plan agreed between ACTION Spółka Akcyjna with its registered seat in Zamienie (acquiring company) and ACTIVEBRAND Spółka z ograniczoną odpowiedzialnością with its registered seat in Kraków (acquired company) signed by the Boards of the merging companies on 18 May 2022 (hereinafter: the “**Merger Plan**”) regarding the planned merger of:

a) **ACTION Spółka Akcyjna** with its registered seat in Zamienie, entered into the register of entrepreneurs of the National Court Register under entry no. KRS 0000214038, registry files kept by the District Court for Capital City of Warsaw, XIV Commercial Department of the National Court Register, assigned the tax identification number NIP 5271107221 and the National Business Registry Number (REGON) 011909816, paid up share capital of PLN 2,003,700.00 PLN (as an acquiring company – hereinafter: “**ACTION**” or the “**Acquiring Company**”)

b) **ACTIVEBRAND Spółka z ograniczoną odpowiedzialnością** with its registered seat in Kraków, entered into the register of entrepreneurs of the National Court Register under entry no. KRS 0000438104, registry files kept by the District Court for Kraków-Śródmieście, XI Commercial Department of the National Court Register, assigned the tax identification number NIP 1231273690 and the National Business Registry Number (REGON) 146368221, paid up share capital of PLN 50,000.00 (as an acquired company – hereinafter: “**ACTIVEBRAND**” or the “**Acquired Company**”)

the Acquiring Company and the Acquired Company are jointly referred to as the “**Companies**” and individually as a “**Company**”.

II. LEGAL GROUNDS FOR THE MERGER

The merger will be carried out in accordance with the Merger Plan.

Pursuant to Article 500 § 2¹ KSH, the Merger Plan is made publicly available on the merging Companies' websites no later than on 22 May 2022.

According to the provisions of the Merger Plan, the merger will be carried out by transferring all assets owned by the Acquired Company to the Acquiring Company, *i.e.* a merger by acquisition pursuant to Article 492 § 1 of the CCC.

Due to the fact that the Acquiring Company directly owns 100% of all shares in the Acquired Company's share capital, pursuant to Article 514 of the CCC, the merger will be carried out without increasing the share capital of the Acquiring Company.

Also, pursuant to Article 516 § 6 in conjunction with Articles 516 § 5 and 500 § 2¹ of the CCC, the Merger will be carried out in the following manner:

- share capital of the Acquiring Company will not be increased (Article 514 of the CCC);
- the Merger Plan does not include elements indicated in Article 499 § 1(2)-(4) CCC, *i.e.*: the ratio of exchange of shares of the Merged Company for shares of the Merging Company; rules concerning the allocation of shares in the Merging Company; the date from which the shares of the Merging Company granted to the Merged Company's shareholder entitle to participate in the profits of the Merging Company (Article 516 § 6 of the CCC)
- the Merger Plan will not be *ex lege* subjected to audit by a statutory auditor (Article 516 § 6 in conjunction with Article 516 § 5 of the CCC);

- the Merger Plan will not be published in the Court and Commercial Gazette, but instead will be publicly available at no additional cost on the merging Companies' websites (Article 500 § 2¹ of the CCC).

In order to lay down the detailed reasons for the Merger and its expected outcomes, the Boards of Directors of the merging Companies will draw up non-mandatory reports justifying the Merger as provided for in Article 516 § 6 in conjunction with Article 516 § 5 of the CCC (the reports will include all necessary elements as indicated in Article 501 of the CCC).

Due to the fact that the planned Merger will be carried out without increasing the share capital of the Acquiring Company, and at the same time, there arise no additional circumstances which would require amendments to the Acquiring Company's articles of association, the articles of association of ACTION S.A. will not be amended as a result of the Merger. Accordingly, the statutory requirement specified in Article 499 § 2 of the CCC – according to which the Merger Plan should include the draft amendments to the Merging Company's articles of association – does not apply.

According to Article 506 § 1 and § 4 of the CCC, a merger requires resolutions adopted by the general meetings or the shareholders meetings of the merging companies. The said resolutions shall include the Merger Plan approval.

According to the Merger Plan, the merger does not constitute a concentration required to be mandatorily disclosed to the President of the Office of Competition and Consumer Protection.

As a result of the merger:

- the Acquiring Company will grant no special rights to the shareholders of the Acquired Company or any persons enjoying special rights in the Acquired Company;
- no benefits will be granted to the members of the corporate bodies of the merging companies or other participants in the merger.

III. ECONOMIC GROUNDS FOR THE MERGER

1. PRELIMINARY REMARKS AND REASONS JUSTIFYING THE DECISION ON MERGER

From 1 August 2016 to 15 December 2020, the Acquiring Company was subjected to the restructuring (sanative) proceedings as referred to in the Act of 15 May 2015 – Restructuring Law (hereinafter: "**Restructuring Law**").

ACTION S.A. restructuring plan (hereinafter: the "**Restructuring Plan**") was filed to the District Court for the Capital City of Warsaw in Warsaw, 10th Commercial Department for bankruptcy and restructuring, during the aforementioned proceedings, on 2 November 2016, pursuant to Article 313 of the Restructuring Law. The Restructuring Plan was published in the Current Report No. 55/2016 dated 2 November 2016.

On 4 July 2017, the Restructuring Plan was approved by the Judge-commissioner in accordance with Article 315 of the Restructuring Law (file reference: X GRs 8/16). The said Restructuring Plan set forth, *inter alia*, consolidation of ACTION Capital Group. In that regard, the Restructuring Plan has already been concluded. On 24 November 2017 a merger by acquisition of four subsidiaries was registered.

Adopted consolidation strategy has been then continued after the aforementioned merger by carrying out another merger with the Company's subsidiary, as well as the liquidation of three other subsidiaries.

In the Board's opinion, the restructuring process shall not be limited to individual steps and actions oriented to cost minimization and facilitation of the Capital Group's operation but should instead involve a continuous performance of tasks in accordance with adopted guidelines. Thanks to the already undertaken consolidation activities, both the considerable savings and facilitations in operations of the entire Capital Group have been recorded. Additionally, once the restructuring proceedings were concluded, the process of implementing the Arrangement concluded with the Company's creditors in sanative proceedings has been commenced. Company's obligations under the concluded Arrangement require it to maintain and continue its policy directed towards minimizing the costs and improving the synergy. Therefore, the Boards of merging companies have made the decision to carry out another merger by acquisition within ACTION Capital Group, which has been disclosed and explained in detail in the Merger Plan.

2. ECONOMIC BENEFITS STEMMING FROM CONSOLIDATION PROCESSED CONTINUED WITHIN ACTION S.A. CAPITAL GROUP

In the Board's opinion, the merger of ACTION S.A. and its subsidiary ACTIVEBRAND will successfully reorganise the internal structure of the Capital Group and thus, facilitate its operation and further minimise the costs of its operations.

The Board opines that the costs reduction expected by ACTION S.A. Capital Group following the merger will in particular include costs associated with operations of managerial bodies as well as accounting and financial services. Additionally, commencement and subsequent execution of the merger will simplify the managerial procedures within ACTION S.A. Capital Group, as well as facilitate the process of exercising control within ACTION S.A. Capital Group.

ACTIVEBRAND Sp. z o.o. has conducted trading activity in pet products industry, in particular by running the online store krakvet.pl. On 1st April 2021 ACTIVEBRAND Sp. z o.o. ceased its trading and investment activities, whilst the project itself was taken over and subsequently conducted by the Acquiring Company. In the light of the above, once all necessary steps aimed at the formal termination of ACTIVEBRAND Sp. z o.o.'s commercial activity are completed, it would be unjustified for the subsidiary to continue performance of any further commercial operations.

In the Board's opinion, the planned merger by acquisition of the Company's subsidiary (because of relying on the simplified mode of executing the merger) constitutes the least costly and the quickest method enabling a successful realisation of aims and objectives indicated above.

The expected cost reductions within the ACTION Capital Group will primarily include cutting the personnel costs (by centralisation of: management operations, financial and accounting operations, customer service and the process of product delivery) and financial costs (associated with providing financial assistance and security for the subsidiary).

Commencement and successful completion of the merger will – in the Board's opinion – enable to achieve the following objectives:

- increased efficiency and consolidation of the distribution channel krakvet.pl. The said objectives are intended to be achieved by focusing solely on the logistic infrastructure, due to the broader range selling of ACTION S.A., as well as by cooperation with suppliers and recipients at a new considerably higher level. ACTION S.A. possesses sufficient staff resources to adequately serve new clients. Additionally, the Company is aiming to increase synergy by incorporating the most valuable resources of each of the merging companies. By following its novel business model, ACTION S.A. is prioritising operations aimed at increasing the entire Capital Group's margin; accordingly, the Board recognises the opportunity to increase the margin by engaging in a direct distribution of pet products and excluding from this process its subsidiary company without further incurring the costs of its operations;
- organising the internal structure of ACTION Capital Group, simplifying management of the Capital Group, and facilitating the process of exercising control within ACTION S.A. Capital Group – especially in the following aspects: financial liquidity control, risk assessment, efficiency and performance indicators, and cost reduction.

Furthermore, it should be noted that erstwhile activities of ACTIVEBRAND Sp. z o.o., enabled the Acquiring Company to learn about the specificity of pet products market, its requirements, and new selling trends. In the Board's opinion, this knowledge may be relied on in the future operations undertaken directly by the Acquiring Company.

IV. RATIO OF THE SHARES OF THE ACQUIRED COMPANY TO BE EXCHANGED FOR THE SHARES OF THE ACQUIRING COMPANY

In accordance with the Merger Plan, the merger will be carried out pursuant to Article 492 § 1(1) in conjunction with Article 514 of the CCC, *i.e.* without increasing the share capital of the Acquiring Company.

Consequently, the shares of the Acquired Company will not be exchanged for the shares of the Acquiring Company and the ratio of exchange will not be set forth. Accordingly, the rules of allotments of shares in the Acquiring

Company, as well as the day as of which these shares would entitle to participate in the profits of the Acquiring Company, will not be laid down.

The Report was agreed on and signed on 18 May 2022.

ACTION Spółka Akcyjna

Piotr Bieliński – President and CEO

Sławomir Harazin – Vice-President