

VZMD Council

Mrs. Janja Žlogar Piano, President of the VZMD Council
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SUBJECT: Resignation as the VZMD President

In Ljubljana, August 25, 2017

Dear Mrs. Janja Žlogar Piano, President of the VZMD Council!

I hereby inform you that on August 2, 2017 the Delo newspaper was one of the first - with the [article](#) titled "Certification of the court's decision: Mr. Kristjan Verbič convicted of the misuse of inside information" - to cover that my case has probably been the only example of such court's decision regarding misuse of inside information. While judicial vacations were at its peak, when "courts do not service judicial documents, and procedural deadlines are suspended" (source: [Supreme Court](#)), rejection of my appeal and certification of the first instance court's decision (as covered by the Delo, and the information was disseminated by numerous [other media](#) (www.vzmd.si/novice/mediji-o-vzmd/pravnomocno-obsojen-tik-pred-zastaranjem), [STA](#), legal portals, August 12, 2017 [RTV Slovenia](#), and this week anew the media agency STA, newspapers Finance and Delo disseminated the press release of the Securities Market Agency (ATVP) as of August 22, 2017: "The first court's decision regarding misuse of inside information": www.a-tvp.si/Default.aspx?id=151&key=640, while being referenced by the [Slovenian Sovereign Holding](#) (SDH), in the press release "Response from the Slovenian Sovereign Holding regarding interpretations of the study of the renown international consulting company McKinsey & Company by the board of the Port of Koper", and published by the STA) had not been serviced.

For that reason, I personally made my way to the registry of the Lower Court in Ljubljana on August 14, 2017, where I received/was served with the decision of the Higher Court in Ljubljana (see attachment) which decided that my appeal along with the appeal of my counsel were dismissed as being unfounded and that the first instance court's decision was certified with which I was convicted of the misuse of inside information. The Higher Court in Ljubljana has substantiated the decision by using the proposal of the Shareholder's agreement drafted by the VZMD and sent to all 542 minority shareholders of Velana d.d. in September 2007 (being attached for that reason, although the VZMD Council was familiarized with it back then). The intention and preparation of the Shareholder's agreement and key parameters (fair share price) were publicly communicated by the VZMD (that is I myself) long before my first purchase of Velana's shares made on September 5, 2007, and the information was published publicly at least one week before my purchase (the Dnevnik newspaper: www.vzmd.si/novice/mediji-o-vzmd/mali-delnicarji-za-zdaj-ubranili-velanino-zemljisce and www.vzmd.si/images/PDF2/Velana.pdf on August 29, 2007, and on August 27, 2007 - www.vzmd.si/novice/mediji-o-vzmd/apetiti-po-zemljiscu-velane-bi-lahko-ogrozili-proizvodnjo).

In light of the fact that I was convicted of the misuse of inside information in a ten-year long legal proceeding - in accordance with my personal belief - I would like to tender my resignation as the VZMD President which I have been since the establishment of the Association in 2005. I hereby kindly ask you to also inform other members of the VZMD Council about this situation and to take a stance in this regard at your earliest convenience. I would also like to let you know that I want to inform the members of the VZMD Expert Council

of the aforementioned facts and my decision, who - as well as the Council - had been kept updated about the VZMD activities (and mine personally) in the case of Velana on a regular basis, and they also had made their stands regarding actions taken against me and the VZMD by the ATVP and the Public Prosecution Service.

Please allow me to remind you and express my belief that in this specific case of the manager buyout of the company Velana d.d. (VIDEO: www.youtube.com/watch?v=Me8f91_W6n0) neither the VZMD, nor I as typical "outsiders", and not "insiders" at all, had had no access to any insider information. In August 2007, when the management was the only one to purchase the shares for about a year at a pitifully small price and by even exerting pressure on employed small shareholders, it was the [VZMD to publicly communicate](#) this situation and to prepare the Shareholder's agreement, which was on multiple occasions [published in mass media](#), as well as the fact that the share price was underpriced at least tenfold. Only after that - in September 2007 - I purchased (by means of a regular order at the organized market of the Ljubljana Stock Exchange) 2,271 shares of Velana (0.16 %), which was [subject to substantial coverage by the media](#), and immediately before that the share of Velana saw a considerable price increase at the stock exchange (342 %). With the purchase, I wanted to, as you know, by personal example clearly demonstrate that I believe in the exceptional underpricing of the Velana share, and organizing of minority shareholders as part of the VZMD Section and Shareholder's agreement as basically the only official linking agent of minority shareholders. All of this was subject to discussions within the Velana Section at the VZMD as well as among the members of the the VZMD Expert Council at the extended 8th regular session of the Council on April 20, 2010, (VIDEO: www.youtube.com/watch?v=WzOwGSEqYCg and www.youtube.com/watch?v=-nTy66sLTmk).

In this story, it was the management of Velana d.d. that was probably the only one to have had the access to all the information regarding business operations of Velana, and thus was the only genuine insider in this matter. For that reason, I deem it inconceivable on what grounds the court recognized someone as an insider, someone who stood up to the management of a public limited company, and had access only to publicly published information about the public limited company and having only personal convictions about the share underpricing. I also find it incomprehensible that someone who is convinced of the share underpricing and wants to connect minority shareholders through public interventions (!) - so as not to make them victims of their own fragmentation, and by being able to substantiate his belief with his own property, that is with his own investments - can be reproached for the readiness and efforts. Therefore, the insider information was basically the only linking agent of minority shareholders - Shareholder's agreement - which was publicly offered to shareholders as a proposal in the case of Velana.

How many acquirers of public limited companies who began gaining and accumulating significant shares of the target company before publishing their acquisition intentions - normally at a price excluding the bonus for the acquisition - were processed by the ATVP and courts? Why are potential acquirers allowed to acquire stakes of a target company and do not publish this fact once they reach at least the threshold of a significant share (5%)? How would it be then possible that the insignificant share of a target company based on personal publicly communicated plans is not allowed to be purchased by minority shareholders at a reasonable price? Is the purchase at a reasonable price only the privilege of a company's management?! Obviously it is, which is also explicitly conflicting with the underlying mission of the VZMD which is unfortunately exemplified by the Velana case. Namely, after all those years of the VZMD's efforts to apply and carry out a fair valuation of Velana - which has been all these years a subject to outrageous manipulations, cover-ups and misrepresentations, which is why the share price never actually reflected the actual capital of the company - the minority shareholders were squeezed-out at a price of EUR 3.00 per share in the meeting on June 5, 2015!

Thus, the Executive board of the Velana Section at the VZMD, which consisted of 265 shareholders of Velana (with jointly 9.94% of all company's shares included in the Shareholder's agreement) met for the last time before the squeeze-out and decided to publicly warn the acquirer and the main shareholder (Kompas Shop)

about the fact that the price of EUR 3.00 per share is absolutely too low. Together with the representative of the Section Mr. Danilo Peteh this was substantiated - also in the [letter to the main shareholder of Velana](#) - among other things by the fact that in the capital of the company, the land was valued at the purchase price in the year of 1969(!) in the amount of less than a million EUR, which is less than EUR 50 per square meter (m²) of the land. We also added that 1.8 hectare of land in the center of Ljubljana was also then worth significantly more - according to pessimistic estimates the price of such land was between EUR 6.3 - 7.2 million (EUR 350 - 400 per m²) and we warned that, according to information at our disposal, the management of Velana had possessed assessments of the property as of January 2005 and the assessments commissioned by the management of Velana were carried out by the certified valuers of property. The assessments exceeded (!) the indicated book value at least threefold and were carried out for the following properties: land and office buildings and manufacturing facilities at Šmartinska cesta in Ljubljana, two summer houses in Terme Čatež, four bungalows at the seaside in Umag, and a villa in Ukanc near the lake of Bohinj (Triglav National Park)...

My purchase of shares (and my example) was already in September 2007 followed by the [first procedure before the ATVP](#), which was suspended in 2008, but in 2010 the ATVP within the [same subject matter\(!\) initiated a new procedure](#) and issued an order, whereas the procedure - after submitting of the entire documentation anew to the ATVP - was suspended again and the order withdrawn. In 2011, [the media wrote about](#) initiation of criminal proceedings against me, although the Public Prosecution Service had no such information a few days after I had personally inquired about the potential procedure, and there was no official documentation whatsoever. Against all odds, the legal proceedings officially started, and I was tried by the Lower Court judge Ms. Anja Gregorič Lozej, then the wife of Mr. Samo Lozej, the Chairman of the Supervisory Board of the State Capital Holding (KAD) and the Slovenian Sovereign Holding (SOD, which is SDH today), whose member was also Ms. Simona Razvodnik Škofič, the wife of Mr. Damjan Škofič, the Chairman of the Supervisory Board of Velana. Therefore, throughout the entire procedure, the ["exceptional coincidences"](#) such as convening the court hearings with all the witnesses on the same day and at the same time when the general meeting of Velana took place were not surprising in the least (VIDEO: www.youtube.com/watch?v=S9BLG95BHNE). The requests of my counsel, Mr. Miha Kunič, the lawyer, for the [recusal of the judge](#) due to the reasonable doubt as to her impartiality and her direct and closest family links, were rejected by the court.

Allow me with this resignation - as the only one (!) convicted of the misuse of insider information to date - to emphasize the fact that the VZMD since its establishment in 2005 in most cases has been the first to raise its voice, often was the only one to oppose the "untouchables", warned about the by-ways in the management of public assets and initiated over a hundred of legal proceedings in a myriad of cases (attempts) of detrimental actions. Let us remember the high profile cases of [SCT](#), [Aktiva](#), [Vzajemna](#), [Mercator](#), [Zvon 1 & 2 Holding](#), [Maksima holding](#), [Istrabenz](#), [NLB](#), [Nova KBM](#), [Luka Koper](#), [Sava](#), [Pivovarna Laško](#), [Petrol](#) and last but not least the questionable [takeover of Mlinotest](#) by its management, whereby the [VZMD sued the ATVP](#) due to the approval of such a takeover, while the management brought no less than two actions against me.

Let us also remember numerous cases of squeeze-outs/expropriations of minority shareholders from the following companies: [Adria Airways](#), [Dana](#), [Dinos](#), [HIT Alpinea](#), [Jelovica](#), [Kovinoplastika Lož](#), Metalka Commerce, [Tekstina](#), [Trimo](#), Turboinštitut, [Varstroj](#), etc. Efficiently - having obtained additional cash compensation for squeezed-out shareholders - completed procedures were in case of the following companies: [Aktiva Invest](#), [Color](#), [Gorenjski tisk](#), [Terme 3000](#), [Ilirija](#), [Modra Linija Holding](#), [SCT](#), [SGP Kograd-Igem](#), [Swaty](#), [Večer](#), as well as payments pertaining to rights of minority shareholders to withdraw from the company: [AG](#), [Triglav Naložbe](#), [Turistično podjetje Portorož](#), Yulon and [Kemofarmacija](#), and Shareholder's

Agreements in case of the following companies: [ETRA 33](#), [Farme Ihan](#), [IBI](#), LIP Radomlje, [Monter Dravograd](#), [Pekarna Grosuplje](#), [SCT Strojegradnja](#), [Varis Lendava](#), [VIPA Holding](#), idr.

In light of legal proceedings which have affected the VZMD (at the same time me personally), it would be difficult to overlook recent high profile cases: wipe-out of holders of subordinated bonds and shares of Slovenian banks "Plunder of the century" (VIDEO: www.youtube.com/watch?v=vXpezi0t5as), where the VZMD (via the member of the Expert Council Mr. Tadej Kotnik) was the first to lodge the initiative for a constitutional review of the contentious amendment of the Banking Act and was the only one to file criminal charges against the management of the Bank of Slovenia and notification of a suspicion of a criminal act against the management of NLB bank (main Slovenian bank). Even recently the VZMD has often addressed issues regarding (non)functioning of the legal system in case of expropriated holders of subordinated bonds and shares, greed of the financial industry and non-responsiveness of the ATVP and the amendment to the Financial Instruments Market Act (ZTFI), which was designed solely to destroy the "Share SUPPORT" at the VZMD as the only earnest alternative to pillaging of minority shareholders by the financial industry. Not long ago, the procedures to prevent detrimental ramifications of the appointment of the new Supervisory board at the [Port of Koper](#) and [Krka](#) were initiated.

In view of all of this, in my personal opinion, the fact that I was - as the only one (!) to date - convicted of the misuse of insider information speaks volumes about the legal system and the regime in the Republic of Slovenia in the first place as well as about the pressuring methods to penalize the few who still dare to oppose the disputable conduct of the disaffected government and the interests of influential brokers of wealth and capital amassed over a number of generations.

Despite all obstacles and serious attempts to "penalize" the VZMD, we have managed to establish an institution virtually from nothing, which for 12 years - as effectively as possible - has been protecting the interests of the minority (shareholders), defying the unrestrained robbery, and also achieving a better economic position of the entire community. Having this in mind and over tens thousands of investors directly involved in the shareholder's agreements and associations, the VZMD has gained extraordinary recognition on the international stage as well. In particular, we were elected to Executive Board of the European Federation of Investors (Better Finance) for the third time, and the same time, since 2008, we have been an active member of the World Federation of Investors (WFI), International Fund for Cooperation and Partnership of the Black Sea and the Caspian Sea (BSCSIF), and we were invited as speakers at international conferences of the International Monetary Fund (IMF), the World Bank (WB), the Convention of Independent Financial Advisors (CIFA), the International Financial Litigation Network (IFLN), the European Federation of Building Societies (EFBS); the European Business Angel Network (EBAN), the Knowledge Economy Network (KEN), etc. Among other things, I was also engaged in the consultative working group of the Corporate Finance Standing Committee at the European Securities and Markets Authority (ESMA), and we were also participants of international delegations led by the European Commission.

Looking forward to seeing you soon. Best regards,

Kristjan Verbič

