

PLAVA LAGUNA

joint stock company for hotel management and tourism

Supervisory board

Poreč, September 28th 2012

SUPERVISORY BOARD REPORT

about the verification of the intended merger
of HOTEL BONAVIA j.s.c. to PLAVA LAGUNA j.s.c.

Pursuant to Article 515a of the Companies Act, the Supervisory board of PLAVA LAGUNA j.s.c. Poreč verified the intended merger of HOTEL BONAVIA j.s.c. Rijeka to PLAVA LAGUNA j.s.c. Poreč, 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 acquiring company, PLAVA LAGUNA joint stock company for hotel management and tourism, with headquarters in Poreč, Rade Končara 12, PIN: 57444289760, recorded at the court's registry of the Commercial court in Rijeka, Permanent office in Pazin under MBS: 040020834, and the share capital in the amount of 1.088.372.400,00 kuna, divided into 546.318 ordinary shares of the A series, with the nominal value of 1.800,00 kuna, labelled PLAG-R-A, of which 9.470 treasury shares, and 105.000 preferred shares of the B series, with the nominal value of 1.000,00 kuna labelled PLAG-P-A.

The associated company, HOTEL BONAVIA j.s.c., with headquarters in Rijeka, Dolac 4, PIN: 80194180622, recorded at the court's registry of the Commercial court in Rijeka under MBS: 040000036, and the share capital in the amount of 31.769.300,00 kuna, divided into 85.863 ordinary shares with nominal value of 370,00 kuna, labelled HBNV-R-A. On August 30th 2012, when the Company's General Assembly was held, the decisions on decrease and increase of the share capital were rendered, so that the new share capital of the Company amounts to 14.917.630,00 kuna, and shall be divided in 1.491.763 ordinary shares without nominal value, labelled HBNV-R-A. This report, as well as other reports and documents regarding this merger were made under the presumption that the said decisions shall be registered in the court's registry.

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. The names and descriptions of the companies participating in the merger, their capacity, their assessed value and in accordance thereof, the value of one ordinary share of each of them, have been properly stated in the agreement. The value of one ordinary share of the associated company is 0,88 kuna, while the value of one share of the acquiring company is 3.987,95 kuna, thus the established exchange ratio was properly determined. Therefore, in the exchange procedure a shareholder of the associated company shall receive 0,00022066 shares of PLAVA LAGUNA j.s.c. Poreč for one share of HOTEL BONAVIA j.s.c. Rijeka. The agreement also regulates the number of shares required to be transferred to shareholders of the associated company, as well as the payment in moneys in accordance with article 520 paragraph 4 of the Companies Act for those shareholders that shall not receive one whole share of PLAVA LAGUNA j.s.c. by rounding to the first lower integer in the exchange process.

The Merger agreement comprises the accordance on transfer of the assets of the associated company to the acquiring company, in order to make the acquiring company the universal successor of the associated company.

The shares of the acquiring company that are being transferred to the shareholders of the associated company provide equal rights as all other ordinary shares of PLAVA LAGUNA j.s.c. Poreč, 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.

Creditors who report to the acquiring company within six months of the day of announcement of the entry of merger in the court's registry of the company they are creditors of are provided with guarantees for their receivables. Also, the acquiring company undertakes the obligation to settle any damages in the name of members of the Management or Supervisory board of the associated company if such damages are determined by a decision of the court in accordance with article 526 of

the Companies Act, as well as to pay any additional payment to all shareholders if case the court finds the exchange ratio too low, regardless if they filed the claim or not.

Finally, the Agreement is concluded in the prescribed form of a notarial act, that is, the agreement is solemnised by a notary public on September 28th 2012 and delivered without delay to the registry of the competent Commercial court in Rijeka, Permanent office in Pazin.

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

Pursuant to article 514 of the Companies Act, the Management of each participating company must compile a report where the merger agreement shall be clarified in terms of legal and economic reasons, especially focusing on the share exchange ratio and the additional payments in moneys. The Management boards of the 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 exchange ratio is as precise and correct as possible for shareholders of both companies.

The introduction is based on the legal framework, 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.

The evaluation is based on historical data of both companies, assessment of the operational results for the current year as well as projections for the forthcoming years including the preconditions of macroeconomic variables.

No particular difficulties were encountered in the course of assessment.

The Management boards describe crucial facts of the companies' historical development and their current situation, and provide the legal explanation of the merger procedure and the draft agreement.

Economic aspects of the Merger agreement describe the main advantages both companies shall experience upon the finalisation of the merger. Thus, the associated company should experience a time of financial strength and security, operational efficiency through reduction of costs of business, improvement of marketing and sales by using channels of the acquiring company, better access to the specialised professions and improving management of human resources.

On the other hand, the benefits PLAVA LAGUNA j.s.c. shall experience upon the merger is implemented are widening of its tourist portfolio by adding capacities for congress tourism, territorial expansion and a more efficient market approach.

The applied method of assessment was the discounted cash flow method, followed by the Management boards' explanation of reasons for exclusion of other assessment methods.

Assets which do not "produce" cash flows were evaluated statically by considering their net cashable value. The value of PLAVA LAGUNA j.s.c. Poreč determined by accurate calculation is 2.279.013.726,75 kuna, where the value of one circulating ordinary share is 3.987,95 kuna. The

determined value of HOTEL BONAVIA j.s.c. Rijeka is 1.307.705,29 kuna, so the value per share is 0,88 kuna.

Thus, the resulting share exchange ratio, according to which the shareholders of the associated company shall receive 0,00022066 shares of PLAVA LAGUNA j.s.c. Poreč in exchange for one share of HOTEL BONAVIA j.s.c. Rijeka , or, 4.531,86 shares of HOTEL BONAVIA j.s.c. Rijeka are required to be exchanged for one share of PLAVA LAGUNA j.s.c. Poreč.

Upon analysing the assessment process, focusing particularly on equal approach to the assessment of both companies, the Supervisory board expresses its consent to the Joint merger report of the Managements of companies participating in the merger, the share exchange ratio, the explicated reasons and the effects the merger shall produce for the company.

Auditor's merger report

In order to verify this merger, and in accordance with article 515 of the Companies Act, this Supervisory board, together with the Supervisory board of the associated company, proposed to the Commercial court in Rijeka the appointment of a merger auditor, namely, the auditor company PRICEWATERHOUSECOOPERS Ltd Zagreb, Alexandera von Humboldta 4. By means of the decision of the Commercial court in Rijeka of July 2nd 2012 number: 9-R1-106/12-2, the said company was formally appointed as the merger auditor.

The auditor examined the methods applied by the companies in the course of determining the share exchange ratio, reasons why the said methods were employed, as well as effects resulting from the application of other possible methods. They established the widely accepted method of present value of future cash flows, i.e. the discounted cash flow method, applied by the Managements, as the most suitable one to determine the share exchange ratio. The merger auditor also confirmed the share exchange ratio was determined properly.

The auditor concluded that the assessment method according to the agreement was properly chosen, and that the share exchange ratio is appropriate.

Conclusion

Taking into consideration the Merger agreement, the Joint merger report of the Managements and the Auditor's report, the Supervisory board concluded that the merger has been prepared in accordance with the Companies Act as well as other regulations applicable directly or indirectly to the merger.

Focusing on the affects the merger shall produce on PLAVA LAGUNA j.s.c. Poreč, 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