REPORT OF THE SUPERVISORY BOARD OF VALAMAR RIVIERA d.d.

on the merger of company EPIC Hospitality Holding GmbH with joint-stock company Valamar Riviera d.d.

In Poreč, 20th March 2018

Preamble

Pursuant to Article 515.a in conjunction with Article 549.a(5) *of the Companies Act*, the supervisory board of Valamar Riviera d.d. with registered office in Poreč, Stancija Kaligari 1 (hereinafter: Valamar Riviera, the Acquiring Company or the Company), entered in the court register of the Commercial Court in Pazin under company registration number 040020883, PIN: 36201212847, hereby delivers its opinion, i.e. verifies the merger of EPIC Hospitality Holding GmbH **with** registered office in Vienna, Plößlgasse 8, A-1040 Vienna, Republic of Austria, entered in the court register of the Commercial Court in Vienna under trade register number 482446 f, PIN: 08264868830 (hereinafter: EPIC Hospitality Holding or the Acquired Company).

Legal aspects of the merger

The merger process is performed as a cross-border merger pursuant to the *Companies Act* (hereinafter: the CA) and the Austrian *EU Merger Act* (hereinafter: **EU Merger Act** or **EU-VerSchG**)[1], with the appropriate application of other regulations of the Republic of Croatia and the Republic of Austria.

Pursuant to the provisions of Article 549.a(1) of the *Companies Act*, a cross-border merger is defined as a merger where at least one of the companies participating in the merger (the acquired company or the acquiring company) is validly incorporated in accordance with the law of the Republic of Croatia, and at least one of the companies participating in the merger is a limited liability company within the meaning of Article 2(1) of Directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies, which was validly incorporated in accordance with the law of another EU member state or an European Economic Area member country.

Thus, in this merger, EPIC Hospitality Holding is merged with Valamar Riviera as the Acquiring Company.

With the merger, the Acquired Company would cease to exist and the Acquiring Company would become the universal successor in law of the Acquired Company. In addition to the assets, all liabilities of the Acquired Company to its creditors (tax liabilities, other liabilities to creditors) would be transferred to the Acquiring Company.

Legal effects would result from the entry of the merger in the Acquiring Company's court register before the Commercial Court in Pazin, whereby the Acquired Company would cease to exist, and all of its assets and liabilities would be transferred by operation of law to the universal successor in law, the Acquiring Company.

Given that the assets of EPIC Hospitality Holding GmbH materially consist of Valamar Riviera company shares and cash at bank, it will not be necessary to initiate the procedures for the entry of the transfer of ownership rights or other rights in public registers to Valamar Riviera.

Given that EPIC Hospitality Holding GmbH has no employees, no employment contracts and similar liabilities are transferred to the Valamar Riviera company. Therefore, the merger has no implications for the employees of the Acquiring Company. No changes in the operation or measures relating to the staff are planned in the context of the merger. The merger has no implications for employee representatives, the works council, the agreements between the employer and the works council or the collective agreement of the Acquiring Company.

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[1] EU Merger Act (German: *EU-Verschmelzungsgesetz*), Federal Law Gazette (BGBl) 2007/72.

In the event of merger, the creditors of EPIC Hospitality Holding GmbH shall be granted insurance if they register in writing for that purpose within two months from the publication of the Joint Merger Plan in the court register. That right shall be granted only to the creditors with claims made before or at the latest 15 days after the publication of the merger plan, who prove that the merger jeopardises the settlement of their claims.

The Acquired Company is a shareholder of the Acquiring Company holding a total of 55,594,884 shares, which represents 44.11% of the Acquiring Company's share capital.

In accordance with Art. 224(3) of the AktG and Art. 512(1)of the CA, those shares held by the Acquired Company shall be used in full to compensate, i.e. exchange the shares of the members of the Acquired Company, in the way that Valamar Riviera shall transfer those shares of the Acquiring Company to the members of the Acquired Company in a ratio proportional to the size of the share held by each individual member in the Acquired Company (aliquot).

Accordingly:

a) In the exchange, **Wurmböck Beteiligungs GmbH**, with a 45% (forty-five percent) business share in the Acquired Company's share capital, shall receive a total of **25,017,698** shares of the Acquiring Company and thereby the corresponding share for its business share in the acquired company, which shall be cancelled in the merger, in accordance with Art. 225.a(3)(3) of the AktG and Art. 522(4) of the CA by the law itself;

b) In the exchange, **Goldscheider Keramik Gesellschaft m.b.H.**, with a 45% (forty-five percent) business share in the Acquired Company's share capital, shall receive a total of **25,017,698** shares of the Acquiring Company and thereby the corresponding share for its business share in the Acquired Company, which shall be cancelled in the merger, in accordance with Art. 225.a(3)(3) of the AktG and Art. 522(4) of the CA by the law itself;

c) In the exchange, **Dr. Franz Lanschützer**, with a 10% (ten percent) business share in the Acquired Company's share capital, shall receive a total of **5,559,488** shares of the Acquiring Company and thereby the corresponding share for his business share in the Acquired Company, which shall be cancelled in the merger, in accordance with Art. 225.a(3)(3) of the AktG and Art. 522(4) of the CA by the law itself.

Considering that the Acquired Company is a shareholder of the Acquiring Company, whose shares shall be allocated to the members of the Acquired Company in the exchange as stated above, the Acquiring Company shall not issue new shares in the merger procedure, i.e. it shall not increase its share capital, which shall remain completely unchanged.

The shares allocated to the members of the Acquired Company in the exchange shall grant them the same rights as to the current holder, as well as the right to the payout of dividends for 2017 and the following years, in accordance with the relevant decisions of the Acquiring Company's competent bodies.

Joint Merger Plan

EPIC Hospitality Holding GmbH and Valamar Riviera mutually agreed in negotiations that there is a common interest in the merger and rendered general decisions on the merger, whereby the merger procedure was formally and legally initiated.

The agreed draft Joint Merger Plan was initiated on 9 March 2018 and then submitted to the court register of the competent commercial courts in Pazin and Vienna.

The Joint Merger Plan materially lays down the following:

In the Joint Merger Plan, the Parties agree on a cross-border merger within the meaning of Art. 3(1) of the EU-VerSchG and Art. 549.a(1) of the CA, whereby the Acquired Company shall merge with the Acquiring Company pursuant to the Joint Merger Plan and in accordance with the applicable legal provisions, by transferring all of its assets, including all rights and liabilities, with the effect of universal legal succession.

The Acquired Company is a shareholder of the Acquiring Company holding a total of 55,594,884 shares, which represents 44.11% of the Acquiring Company's share capital.

In accordance with Art. 224(3) of the AktG and Art. 512(1) of the CA, the shares of the Acquiring Company held by the Acquired Company shall be used in full to compensate, i.e. exchange the shares of the members of the Acquired Company, in the way that Valamar Riviera shall transfer those shares of the Acquiring Company to the members of the Acquired Company in a ratio proportional to the size of the share held by each individual member in the Acquired Company (aliquot).

Accordingly:

d) In the exchange, **Wurmböck Beteiligungs GmbH**, with a 45% (forty-five percent) business share in the Acquired Company's share capital, shall receive a total of **25,017,698** shares of the Acquiring Company and thereby the corresponding share for its business share in the acquired company, which shall be cancelled in the merger, in accordance with Art. 225.a(3)(3) of the AktG and Art. 522(4) of the CA by the law itself;

e) In the exchange, **Goldscheider Keramik Gesellschaft m.b.H.**, with a 45% (forty-five percent) business share in the Acquired Company's share capital, shall receive a total of **25,017,698** shares of the Acquiring Company and thereby the corresponding share for its business share in the Acquired Company, which shall be cancelled in the merger, in accordance with Art. 225.a(3)(3) of the AktG and Art. 522(4) of the CA by the law itself;

f) In the exchange, **Dr. Franz Lanschützer**, with a 10% (ten percent) business share in the Acquired Company's share capital, shall receive a total of **5,559,488** shares of the Acquiring Company and thereby the corresponding share for his business share in the Acquired Company, which shall be cancelled in the merger, in accordance with Art. 225.a(3)(3) of the AktG and Art. 522(4) of the CA by the law itself.

Considering that the Acquired Company is a shareholder of the Acquiring Company, whose shares shall be allocated to the members of the Acquired Company in the exchange as stated above, the Acquiring Company

shall not issue new shares in the merger procedure, i.e. it shall not increase its share capital, which shall remain completely unchanged. In that respect, the cross-border merger is neutral for the Acquiring Company.

The shares allocated to the members of the Acquired Company in the exchange shall grant them the same rights as to the current holder, as well as the right to the payout of dividends for 2017 and the following years, in accordance with the relevant decisions of the Acquiring Company's competent bodies.

In the Joint Merger Plan, Središnje klirinško depozitarno društvo d.d. (Central Depository and Clearing Company) with registered office in Zagreb, Heinzelova 62a, shall be designated as the trustee of the merged companies for the acceptance of shares.

The Acquiring Company shall not be obligated to provide any special benefits to the members of the management board or the members of the Acquired Company. The management and supervisory board of the Acquiring Company shall remain unchanged.

The Parties agree that the Acquired Company and the Acquiring Company both on the day of the merger and at the time of the application for the entry of the merger in the court register have a positive market value. The same applies to the Acquired Company even if the value of the Acquiring Company's share is not taken into account.

The fiscal year of the Acquired Company corresponds to the calendar year and ends on 31 December. The last annual fiscal statement of the Acquired Company was made on 31 December 2017.

The fiscal year of the Acquiring Company corresponds to the calendar year and ends on 31 December. The last annual fiscal statement of the Acquiring Company was made on 31 December 2017 and confirmed by the Decision of the Acquiring Company's supervisory board of 27 February 2018.

The merger shall be performed pursuant to the annual fiscal statement of the Acquired Company on 31 December 2017 as a corporate and legal closing balance sheet (hereinafter: the closing balance sheet), which is a basis for the carried forward assets and liabilities positions of the Acquired Company and evaluations. Therefore, the balance sheet of the Acquired Company on 31 December 2017 as the closing balance (Art. 220(3) of the AktG and Art. 521(3) of the CA) shall be used as the basis for this merger procedure. The assets and liabilities positions stated in the closing balance sheet were evaluated in the carrying amount. The Acquiring Company shall continue the evaluation (Art. 5(2)(11) of the EU-VerSchG and Art. 549(1)(11) of the CA). In that respect, the Parties agree that all their actions taken since 31 December 2017 be considered as actions taken for the account of the Acquiring Company, provided that the merger occurs.

In the event of merger, the creditors of EPIC Hospitality Holding GmbH shall be granted insurance if they register in writing for that purpose within two months from the publication of the Joint Merger Plan in the court register. Pursuant to Art. 549.h of the CA, that right shall be granted only to the creditors with claims made before or at the latest 15 days after the publication of the merger plan who prove that the merger jeopardises the settlement of their claims.

In terms of tax, from the perspective of the Austrian law the tax consequences of the merger are in accordance with Art. I of the UmgrStG[2]. Pursuant to Art. 2(5) of the UmgrStG, the term of the merger for tax purposes shall be 31 December 2017.

Likewise, the Acquired Company does not own any land or have any property rights equivalent to land rights, so the merger shall not result in the application of the Croatian or Austrian real estate transfer tax, and the merger shall also be neutral with regard to the Croatian corporate tax pursuant to Art. 20 of the *Corporate Income Tax Act*, whereas, with regard to the Croatian value added tax, the merger shall not represent a taxable transaction pursuant to Art. 30 of the *Value Added Tax Act* and Art. 18 of the *Value Added Tax Ordinance*.

We consider that the Joint Merger Plan covers all necessary provisions stipulated by law and that it gives a clear picture of the planned course of the merger.

Economic aspects of the merger

With regard to the economic aspects of the merger, the supervisory board examined the detailed Joint Management Report on the Merger (hereinafter: the Report), which, in addition to providing detailed explanations of the merger procedure and other data, shows the following:

Same as in the legal sense (no change in control), the proposed merger of Valamar Riviera d.d. and EPIC Hospitality Holding GmbH is materially neutral in the economic sense.

The economic neutrality is primarily reflected as neutrality with respect to the Company's business, where the proposed merger does not have any direct economic implications for the Acquiring Company (no significant changes in the profit and loss statement, balance sheet, etc.).

Moreover, the merger is neutral in terms of the transferred Company's rights and obligations, which remain completely unchanged.

As already mentioned, the merger is also neutral in terms of tax, whereby no tax obligations arise from the merger, neither for the Acquiring Company nor for the Acquired Company.

As also mentioned before, in accordance with Art. 224(3) of the AktG and Art. 512(1) of the CA, the shares of the Acquiring Company held by the Acquired Company shall be used in full to compensate, i.e. exchange the shares of the members of the Acquired Company, in the way that Valamar Riviera d.d. shall transfer the shares now held by the Acquired Company to the members of the Acquired company in a ratio proportional to the size of the share held by each individual member in the Acquired Company (aliquot) after the merger is entered. In that regard, the merger will be neutral both for the Company and the shareholders, while the members of the Acquired Company will directly become shareholders of the Acquiring Company. Thus, the Acquiring company will not materially (de facto: from indirect to direct shareholders) change its shareholder structure, which is why no significant changes in share liquidity on the capital market are expected.

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[2] The Austrian Reorganisation Tax Act (German: *Umgründungssteuergesetz*), Federal Law Gazette (BGBl) 1991/699 (hereinafter: **UmgrStG**).

From the above-mentioned, explained in detail in the Report, the supervisory board considers that the Management carefully analysed and provided reasons for the merger of the aforesaid companies.

Explanation of the valuation

In their report, the management boards stated a method used in the valuation.

Thus, in the explanation of the valuation of companies participating in the merger, the management boards stated that the considered transaction is a specific case where the Acquiring Company acquires own shares which are consequently transferred in a corresponding ratio to the members of the Acquired Company immediately after the merger. In the process, the value of the company being acquired is predominantly represented exactly by those shares that the Acquired Company holds in the Acquiring Company (the value of the acquired company is predominantly expressed in the value of those shares). Therefore, what is introduced in the Acquiring Company at the same time constitutes in the most significant part what the members of the Acquired Company will receive in exchange for their business shares in the Acquired Company. In that respect, in the nature of things and for the purpose of efficiency, there was no need for a special valuation of the Acquiring Company, for which the concerned transaction is materially neutral because of the aforesaid reasons.

Thus, company valuation is limited only to the valuation of the Acquired Company for the purpose of merging that company with the Acquiring Company. For that reason, company valuation does not involve any assessments of expected synergy effects or evaluations of capital market reactions to this merger. Company valuation therefore exclusively refers to the pre-acquisition valuation of the Acquired Company.

The analysis of the Acquired Company's value was based on the adjusted net asset value method considering that EPIC Hospitality Holding GmbH does not perform any business activity and that the basic value of the Acquired Company arises from the fact that it holds shares of Valamar Riviera d.d., which is why other value analysis methods were not applicable.

The adjusted net asset value method was therefore used as a method recommended for fair market value assessment for companies whose fair market value is derived from asset ownership rather than the use of those assets in broader business activities (holding companies) and, as already mentioned, because of the specificity of this case.

The supervisory board completely agrees with the explanations and methods used by the management.

Merger Audit

For the purpose of inspecting this merger, the supervisory board, together with the management board of EPIC Hospitality Holding GmbH as the Acquired Company, proposed to the competent Commercial Court in Pazin to designate certified auditor Goran Horvat, Chairman of the Management Board and Company Member of KPMG Croatia d.o.o. for auditing, with registered office in Zagreb, Ivana Lučića 2/a, entered in the court register of the Commercial Court in Zagreb under company registration number 080098593; PIN: 20963249418, as the merger auditor.

The Commercial Court in Pazin, as the competent commercial court, on 9 March 2018 rendered a decision ref. no. 2 R1-14/2018-2 designating certified auditor Goran Horvat, Chairman of the Management Board and

Company Member of KPMG Croatia d.o.o. for auditing, with registered office in Zagreb, Ivana Lučića 2/a (hereinafter: the Auditor) to audit the merger concerned.

The Auditor delivered a Report on the Audit of the draft Joint Merger Plan of EPIC Hospitality Holding GmbH with Valamar Riviera d.d.

The Auditor inspected the draft Joint Merger Plan and the Joint Management Report on the Merger and determined that the most appropriate method for the valuation of the Acquired Company is the adjusted net asset value method. Namely, the concerned transaction is a direct merger of EPIC Hospitality Holding GmbH with Acquiring Company Valamar Riviera, where Acquired Company EPIC Hospitality Holding GmbH is also a shareholder holding 55.594.884 shares of the Acquiring Company, which will be used in the merger to compensate, i.e. exchange the shares of the members of the Acquired Company proportionally to their shares in the Acquired Company.

In that respect, company valuation is limited only to the valuation of the Acquired Company for the purpose of merging that company with the Acquiring Company. For that reason, company valuation does not involve any assessments of expected synergy effects or evaluations of capital market reactions to the performed business transaction. The valuation of the company therefore exclusively refers to the pre-acquisition valuation of the Acquired Company in the business transaction.

In that respect, the auditor confirmed that the share exchange ratio is appropriate.

Conclusion

In view of the aforementioned, the supervisory board of Valamar Riviera d.d. considers that the performance of the merger on the bases stated in the draft Joint Merger Plan, the Joint Management Report on the Merger and the Merger Auditor Report will be materially neutral both for the Acquiring Company and the Acquired Company, but ultimately beneficial to both companies participating in the merger and their shareholders, i.e. members, and that the performance of the merger is prepared in accordance with positive regulations. Therefore, the Company's supervisory board proposes that the general assembly of Valamar Riviera d.d. adopts a decision on the approval of the Joint Merger Plan and all other decisions necessary for its implementation.

Valamar Riviera d.d. – Supervisory Board

Gustav Wurmböck,
Chairman of the Supervisory Board

VALAMAR RIVIERA dd
POREČ (2)