

VALAMAR RIVIERA d.d.

SUPERVISORY BOARD

No: 152-1/17.

Poreč, 22 March 2017

Pursuant to Article 263, paragraph 3 and Article 300c, paragraph 3 of the Companies Act the Supervisory Board of VALAMAR RIVIERA d.d. from Poreč at its meeting held on 22 March 2017 presented the following

R E P O R T

to the General Assembly of VALAMAR RIVIERA d.d. from Poreč on the performed supervision of the Company's business management in 2016

I

In the course of the year 2016 (i.e. reporting period) the Supervisory Board consisted of: Gustav Wurmböck, Chairman, Franz Lanschützer and Mladen Markoč, Deputy Chairmen, and Members: Georg Eltz, Mariza Jugovac, Hans Dominik Turnovszky and Vicko Ferić.

Apart from the Supervisory Board, the Supervisory Board Members formed the following three bodies: Presidium of the Supervisory Board, consisting of: Gustav Wurmböck, Chairman and SB Deputy Chairmen: Franz Lanschützer and Mladen Markoč; Audit Committee, consisting of: Georg Eltz, Chairman and Members Franz Lanschützer, Mladen Markoč, Vicko Ferić and Dubravko Kušeta; Investment Committee, consisting of: Franz Lanschützer, Chairman and Members Georg Eltz, Vicko Ferić, Hans Dominik Turnovszky and Gustav Wurmböck.

II

In the course of 2016, the Supervisory Board regularly received written reports on business operations, as well as other reports, proposals and decisions by the Management Board. The Supervisory Board examined and decided on the said reports, proposals and decisions pursuant to regulations and the Company's Statute. During the year 2016, the Supervisory Board held ten (10) meetings out of which 6 via correspondence, all pursuant to the Company's Statute. At the said meetings, it discussed many issues related to the Company's business and supervised the management of the Company's business.

The Supervisory Board committees together with the Management Board and other responsible persons and company experts held sixteen (16) meetings in 2016. During the said meetings, they examined documents and proposals on which the Supervisory Board rendered its decisions. This improved the Supervisory Board's efficiency and understanding of the Company's business while performing the supervision.

III

Pursuant to the assigned duties, during the entire 2016 the Supervisory Board performed the supervision through meetings, committees and through documents and detailed information submitted by the Management Board and therefore

established

that VALAMAR RIVIERA d.d. from Poreč conducts its business pursuant to the law, the Company Statute and other documents and Company's decisions.

IV

The Supervisory Board examined in particular the following reports and proposals submitted by the Management Board:

- The Annual financial reports of VALAMAR RIVIERA d.d. from Poreč for 2016 – consolidated and non-consolidated, consisting of the following: Income statement, Balance sheet, Notes to the financial statements, Cash flow statement, Statement of changes in equity and the Report on the performed audit by the Auditor KPMG Croatia d.o.o. from Zagreb,
- The Annual Management Report on the Company's status,
- The proposed decision on the distribution of profit and dividend payout,
- The Report on related party transactions for 2016 with the Auditor's report.

The Audit Committee at its meeting in the presence of the Auditor KPMG Croatia d.o.o. from Zagreb, and afterwards the Supervisory Board at its meeting, examined the submitted Annual financial reports for 2016 and established that they were formed in accordance with the Company's business records and that they rendered a veritable presentation of the Company's business status and had no objections to them.

Pursuant to the previously submitted opinion by the Audit Committee, the Supervisory Board has no objection to the Auditor's report on the performed audit. Furthermore, the Supervisory board has no objections to the Annual Management Report on the Company's status.

The Supervisory Board also has no objection after examining the submitted Management Board Report on related party transactions with the Auditor's report.

V

Besides the examination of the documents specified in the previous point, pursuant to the Company Statute, the Supervisory Board supervised the management of the Company's business by previously considering the Management board proposals that required the Supervisory Board's approval. In that part, the Supervisory Board paid particular attention to approving the conditions for concluding legal transactions, concessions and the management of real estate. In addition, the Supervisory Board particularly focused on the approval of each Company's borrowing and regularly monitored the Company's financial status and cash flow.

Besides the above mentioned, the Supervisory board regularly reviewed the monthly business results by focusing on each individual property and the Company as a whole, all in relation to the previously adopted business plans. In this area, special attention was devoted to the business plan for 2017.

Furthermore, in the course of 2016, the Supervisory Board particularly focused on reviewing, directing and approving the planned investments in all stages of their preparation and realization. This was done by considering the real needs for upgrading the overall level of quality and standards of the Company's facilities, real sales opportunities for such facilities (services) on source markets and their financial feasibility and profitability.

The Supervisory Board examined and approved the merging of the companies HOTELI BAŠKA d.d. and BASTION UPRAVLJANJE d.o.o. to the Company (transferee). The mergers were finalized upon their entry into the court register on 31 March 2016, and 30 June 2016, respectively.

The Supervisory Board particularly monitored the Management Board in the processes of expressing interest for the purchase of shares and business stakes and potential acquisitions of strategic importance for the Company. One of the most important activities to which the Supervisory Board paid particular attention in 2016 was the establishment of cooperation with Allianz ZB d.o.o. društvo za upravljanje obveznim mirovinskim fondom from Zagreb (hereinafter: AZ mirovinski fond) and all the procedures and documents prescribed for preparing and concluding the purchase of shares in the company IMPERIAL d.d., Rab, including the Takeover Bid process. The takeover process was finalized on 27 December 2016, when the Company acquired 54.71% and AZ mirovinski fond acquired 34.16% of IMPERIAL d.d. 's shares.

Regarding IMPERIAL d.d., the Supervisory Board approved the conclusion of an agreement by which the Company takes over the management of Imperial's hospitality facilities and amenities. This management agreement was entered into the court register of the Commercial Court in Rijeka on 4 January 2017 and has been applied since.

VI

Pursuant to all mentioned, and according to the comprehensive insight gained through the supervision of the Company's business management and information received during the course of work of the Supervisory Board and its committees in the period from 1 January to 31 December 2016, and conducted examinations from point V of this Report, on its meeting held on 24 February 2017, the Supervisory board

A)

granted approval to the

1. Annual financial reports of VALAMAR RIVIERA d. d. from Poreč for 2016,
2. Report on the performed audit made by the Auditor KPMG Croatia d.o.o. from Zagreb,
3. Annual Management Board Report on the Company's status,
4. Proposed decision on the distribution of profit realized in 2016

and hereby, according to Article 300d of the Companies Act, the Annual financial statements of VALAMAR RIVIERA d. d. from Poreč for 2016 are considered to be approved both by the Management Board and by the Supervisory Board.

B)

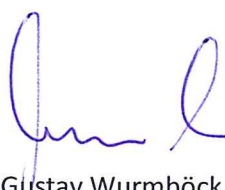
has no objection to

the Management Board statement given in the Report on related party transactions for 2016 pursuant to the provisions of Article 497, paragraph 3 of the Companies Act.

and

agrees with

the Auditor's examination by KPMG Croatia d.o.o. of the Management Board Report on related party transactions for 2016.



Gustav Wurmböck

Supervisory Board Chairman

VALAMAR RIVIERA dd
POREČ (2)