MANAGEMENTS' JOINT MERGER REPORT

in the process of merger of the joint stock company ISTRATURIST UMAG j.s.c. with PLAVA LAGUNA j.s.c.

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INTRODUCTION – Legal framework and purpose of the Report

The Boards of Managers of the companies Plava laguna j.s.c. and Istraturist Umag j.s.c. drafted this joint written report on merger which is being carried out pursuant to the provisions of the Companies Act, along with the implementation of other pertinent laws and regulations of the Republic of Croatia in force.

The merger has been initiatied by the decision of the Boards of Managers of the two companies with the consent of their respective Supervisory Boards, whereby the company Istraturist Umag j.s.c., as the associated company, is merged into the company Plava laguna j.s.c., as the acquiring company, the former transferring its entire assets and liabilities to the latter, whereby the shareholders of the associated company become the shareholders of the acquiring company.

This report is made pursuant to Article 514 of the Companies Act and exclusively for the purpose and use regulated therein. The purpose of the mentioned report is to provide legal and economic explanation for the merger agreement for General assemblies of both companies and cannot be considered as substitute document for the due diligence process, nor can any statement, declaration or conclusion be interpreted in such a way. Also, the information provided in this report is not intended for potential investors and does not represent an invitation or obligation in relation to disclosure in accordance with the Capital Market Act but is in the function of establishing the share replacement ratio and arguments for its appropriateness.

In addition to basic information and description of the companies participating in the merger, the Report provides the detailed explanations to the legal aspects of the merger as well as economic justification of the transaction and its advantages in a view of the future course of business operations.

Furthermore, in accordance with the provisions of the above-cited Article, the Report explicates the standards and the methods implemented in the assessment of the companies' values, respecting the principle of consistency, i.e. emphasising the same standards or variables used for both companies, in case they are outside the sphere of their influence. It has to be mentioned that also explained are the starting points on which the assessment is based, from the business plan projection methodology, the time frame in terms of involving significant capital investments and the effects on operational efficiency, capital expenditures and other.

In general, projecting the future trends is subject to risks which are impossible to identify at present time although it is proper to conclude that the changes in the external starting points affect in the same direction the achievements of both companies participating in the merger, and thus affect to a lesser extent the possible discrepancies in the established share replacement ratios. In the sphere of internal factors, the companies invested efforts in minimizing the risk through the chosen principle of business plan projection based on maintaining the existing level of operating results, where the starting points were defined by the laws and regulations in force. Above mentioned changes as well as the occurrence of circumstances which the companies have not anticipated and estimated at at present time may affect the changes in the actually achieved cash flows when compared to the projected ones.

Process concerned with the completion of the merger transaction is prescribed by the provisions of the Companies Act where Article 515 imposes involvement of an auditor. An auditor is obliged to check the Merger Agreement and examine the appropriateness of the proposed share replacement ratios as well as to draft a written report on merger auditing they performed. The final decision on merger is rendered by the General Assemblies of the companies participating in the merger, and this decision has to be voted for by no less than three-fourths of the share capital represented at the General Assembly at which the decision is being rendered.

Description of the companies participating in the merger

PLAVA LAGUNA j.s.c.

Plava laguna j.s.c. is ranked among the most successful tourism companies in Croatia, which in year 2017, when the merger process started, marks the 60th anniversary of its establishment. During the period of growth and development, a modern company was set up on strong foundations – stability, strength and tradition, which is manifested in relations with all stakeholders.

Permanent investment in development and enrichment of own tourist portfolio, respecting at the same time the norms of sustainable development and having responsibility towards the community and the environment in which operates, made Plava laguna j.s.c., a company which at present offers modern, unique and attractive products which create solid basis not only for their present operation, but also for their future development.

Plava laguna j.s.c. seated in Poreč, Rade Končara 12 (MBS 040020834;OIB 57444289760) is established as a joint stock company in accordance with the Companies Act and is registered in the Court Register before the Commercial Court in Pazin. The majority owner of the Company is Sutivan Investments Anstalt of Liechtenstein (the Lukšić Group) whose share is 80,34% in ordinary shares and 100% in preferred shares.

The share capital of the Company at the time of drafting this report amounts to HRK 1.385.151.471,47 divided to 546.318 ordinary shares without nominal value and 105.000 preferred shares of HRK 1.000 in nominal value. The company's shares are listed on the ordinary joint stock companies market at the Zagreb Stock Exchange.

Until registration of the merger into the Court Register of the Commercial Court in Pazin, the companies' General Assemblies will be held on which the increase of the share capital by reinvesting profits will be proposed to shareholders, in the amount of HRK 51.759.903,83, which is in accordance with the provisions of the Income Tax Act and the use of tax relief related to it. After the implementation of the said decision, the Company's share capital will amount to HRK 1.436.911.375,30.

Furthermore, for the purpose of the merger implementation, the proposal of the decision for the General Assembly will include the corporate action of stock split in a way that every ordinary share without nominal value marked PLAG-R-A is divided to 4 ordinary shares (ratio 1:4). Also, a decision will be proposed to divide the preferred shares marked PLAG-P-A using the same ratio, with four shares giving their holders the same rights as the one existing share.

It should be noted that this entire report is made under the assumption of the adoption and implementation of the above mentioned decisions.

According to the chosen dualistic organization of the Company, the acquiring company's business affairs are managed by the Management Board which consists of one member, Mr. Neven Staver while the same processes are supervised by the Supervisory Board consisting of seven members. The President of the Supervisory Board is Mr. Davor Luksic Lederer, while the other members are Mr. Patricio Tomas Balmaceda Tafra, the Vice-President, Mr. Jose Ignacio Bulnes Leon, Mr. Borislav Škegro, Mr. Davor Domitrović Grubisic, Mr. Boris Šavorić and Mr. Stipe Liović, the workers' representative.

At the present time, Plava laguna j.s.c. possesses total accommodation capacity of 21.455 beds/places in hotels, apartment resorts and campsites and employs an average of nearly 950 employees per year while this number increases to even 1.300 employees in the main tourist season.

Tourist portfolio of the company consists of accommodation facilities of the following basic capacities: hotels with 6.894 beds, four apartment resorts with 1.771 beds and four campsites with 12.790 places. According to quality, hotel structure is dominated by the three-star capacity with a share of 44,8%, followed by four-star capacity with a share of 33,8%, and 21,4% in two-star category which represents a hotel with an excellent demand and occupancy, given the high degree of attractiveness compared to the demands of this category as well as the location and availability of other facilities within the resort.

The apartments are dominated by four-star category accommodation capacities with a share of 58% while the share of four-star level capacities in campsites is even 94,5%. The Company also possesses 360 berths in two marinas and a series of food and beverage, sports and other facilities which complete the basic offer of accommodation.

At the time of drafting this report, the majority ownership share of Plava laguna j.s.c. in the company Istraturist Umag j.s.c. is 94,83%.

Additionally, Plava laguna is the majority shareholder in the company Jadranski luksuzni hoteli j.s.c. of Dubrovnik holding the 32,48% of its share capital. Jadranski luksuzni hoteli j.s.c. is managing a portfolio of 8 hotels (3.158 beds) of which 5 are high-category hotels with five starts (2.428 beds), 1 categorized in the four-star class (346 beds) and 2 hotels in three-star category (384 beds) mostly in the destination Dubrovnik.

In 2016, Plava laguna j.s.c. achieved the total of 2.481.312 overnight stays with occupancy in days in hotels 158 days, in apartments 118 days (based on accommodation units) and in campsites of even 94 days. Traditionally, the most numerous are the guests coming from the West European emissive markets, among which the predominant segment belongs to the guests from Germany, the Netherlands, Austria, Slovenia and Italy with 71% in total overnight stays.

The Company completed the business year 2016 with business revenues of HRK 533,5 million, profit after tax in the amount of HRK 100,7 million and EBITDA of HRK 222,9 million. It achieves a significant operational efficiency measured by the EBITDA margin exceeding 40% which is considered to be an extraordinary achievement compared to the industry benchmark in which the company competes in the domestic as well as in the international framework.

ISTRATURIST UMAG j.s.c.

Istraturist Umag is a joint stock company with the tradition in tourism activity more than 50 years long in the area of northwestern Istria, mostly Umag and its surroundings. The Company is managing accommodation facilities in which over 21 thousand guests can stay on a daily basis and in addition, it possesses a number of food and beverage facilities, sports infrastructure and other.

Since 1990, the company has been licensed for the ATP tournament, one of the largest sports tourism manifestations in Croatia. The organization activities related to said tournament are entrusted to the company ISTRA D.M.C. d.o.o./Limited whose sole founder is Istraturist Umag j.s.c.

The Company Istraturist Umag j.s.c. seated in in Umag, Jadranska 66, (MBS 040002769;OIB 22738374612) is established as a joint stock company in accordance with the Companies Act and is registered in the Court Register before the Commercial Court in Pazin. The majority owner of the company is Plava laguna j.s.c. whose share in the company is 94,83%, as at the time of drafting this report.

The share capital of the Company amounts to total of HRK 467.499.500,00, divided to 4.674.995 ordinary shares of HRK 100,00 nominal value marked as ISTT-R-A. The Company's shares are not listed at the Zagreb Stock Exchange.

According to the chosen dualistic organization of the Company, the associated company's business affairs are managed by the Management Board which consists of the Director, Mr. Ronald Korotaj while the same processes are supervised by the Supervisory Board consisting of five members. The President of the Supervisory Board is Mr. Davor Luksic Lederer while the other members are Mr. Neven Staver, the Vice-President, Mr. Patricio Tomas Balmaceda Tafra, Mr. Jose Ignacio Bulnes Leon and Mr. Tomislav Sokač, the workers' representative.

The structure of accommodation capacity which in total amounts to 21.620 beds/places consists of hotels with the share of 17% and dominant quality level of four stars, apartment resorts with the share of 21% and 85% in four and three stars capacities, and campsites with the share of 62% in the accommodation structure.

The Company actively participates in the development of their offer by supporting a series of activities such as cycling, gastronomy, tennis, and by creating and organizing sports, cultural and entertainment events.

In 2016, the Company achieved 2.019.467 overnight stays with occupancy measured by booked days, in hotels 164 days, apartments 110 days (based on accommodation units) and 66 days in campsites. In the structure of overnight stays according to markets from which guests are arriving, most numerous are German guests with a share of 26% followed by the guests from Austria, Italy and Slovenia.

The Company on consolidated level (including Istra DMC d.o.o.) completed the business year 2016 with business revenues of HRK 463,6 million, profit after tax in the amount of HRK 77,8 million, with the fact of the use of deferred tax assets, and the EBITDA of HRK 171,0 million. It should be noted that in the period from year 2014, the operational efficiency indicators have been significantly improved which resulted with the growth of EBITDA of HRK 44,7 million from the level of HRK 126,3 million in 2014. Operating efficiency measured by the EBITDA margin (including Istra DMC d.o.o./Ltd.) from 29% in 2014 exceeded 37% in 2016.

In 2016, the Company converted its business relationship with the Melia Hotel International from the Management Contract into the Franchise Agreement with which all built capacities are included in the franchise agreement, with the exception of those in the resorts Kanegra and Savudrija and all campsites.

Legal and economic explanations to the Merger Agreement

Legal aspects and explanations to the Merger Agreement

The statutory change in the merger of joint stock companies is regulated by the Companies Act. In the course of merger of one joint stock company (the associated company) by the other joint stock company (the acquiring company), the associated company ceases to exist as a separate legal entity without conducting the liquidation process, but continues to exist economically through the acquiring company. The entire property belonging to the associated company is transferred to the acquiring company, while the shareholders in the associated company become the shareholders in the acquiring company, by the replacement of the shares.

Merger of the associated company ISTRATURIST UMAG, j.s.c. Umag to the acquiring company PLAVA LAGUNA j.s.c. Poreč was initiated by the decisions of the Boards of Managers, of which the decision by the associated company was rendered on 26 April 2017 and the decision by the acquiring company was rendered on 28 April 2017. The respective decisions, which determined the commencement of the merger procedure and proposed appointment of the merger auditor, were granted unanimous approval by the Supervisory Boards of both companies on 27 and 28 April 2017.

At the proposal of the Supervisory Boards and the Boards of Managers of both companies participating in the merger and in accordance with Article 515 of the Companies Act, the Commercial Court in Pazin issued a decree, docket no.: 10 R1-29/17-4 of 9 May 2017 appointing auditing company PricewaterhouseCoopers d.o.o. Zagreb, as an merger auditor. Upon the performed auditing, the merger auditor is obliged, in accordance with item 3 of the same Article, to draft a written report and to submit the same to the Boards of Managers and the Supervisory Boards of companies participating in the merger. On the basis of this joint report of the Boards of Managers and written report by the merger auditor, the Supervisory Boards of the companies participating in the merger have to verify the intended merger and draft a report thereof.

In accordance with the documentation verified by the merger auditor and Supervisory Boards of the companies participating in the merger, the merging companies represented by their Boards of Managers, conclude a Merger Agreement, which according to the explicit provisions of Article 518 of the Companies Act, must be in the form of a notary public document and in this actual case, the form of a private document ascertained by the notary public. The same becomes valid only upon being confirmed by the General Assemblies of the companies participating in the merger (Article 516 of the Companies Act). Article 516(2) of the Companies Act states that the decision on merger by the General Assembly of the joint stock company shall require votes representing not less than three-fourths of the share capital present at the General Assembly at which the decision is being rendered, and the same is directly applied, given that greater majority is not foreseen by the Statutes of the companies participating in the merger. The same majority is required for the consent to the decision of the General Assembly given by the shareholders of each class of shares (item 3 of the same Article of the Companies Act) or in the actual case, consent is needed by shareholders holding preferred shares in the acquiring company. Prior to convening a General Assembly that decides on the merger, the contract must be submitted to the Commercial Court in Pazin and also publish it or make it available on corporate web sites of the companies; http://biz.plavalaguna.hr/hr and http://biz.istraturist.hr/itu-hr.

For the purposes of the merger, it is necessary for the acquiring company to increase the share capital by issuing new ordinary shares in accordance with the explanations from this report, all in line with the provisions of Article 519 of the Companies Act.

Each company has to submit before the registering court a request for registration of the merger in the Court Register, however, the same can be done by the acquiring company on behalf of the both participating companies. Merger may be registered in the Court Register of the acquiring company only after it has been registered in the Court Register of the associated company. Legal effects commence upon registration of merger in the Court register of the acquiring company, at which moment all assets and liabilities of the associated company are transferred to the acquiring company, while the associated company ceases to exist. The acquiring company is universal legal successor of the associated company and as a result enters into all the legal relations of the associated company. Mutual obligations between associated and acquiring companies cease to exist upon registration of merger in the Court Register – given that the positions of creditor and debtor are being merged in a single person (Article 207 of the Obligations Act).

By registration of merger in the Court Register of the acquiring company, the shareholders in the associated company are becoming the shareholders in the acquiring company by replacing the shares in the associated company that they hold with the shares in the acquiring company in accordance with the established replacement ratio. The Merger Agreement whereby the company ISTRATURIST UMAG, j.s.c. Umag is merged with the company PLAVA LAGUNA j.s.c. Poreč stipulates that the shareholders in the company ISTRATURIST UMAG, j.s.c. Umag shall, in replacement of their shares marked as ISTT-R-A, receive shares of PLAVA LAGUNA j.s.c. Poreč marked as PLAG-R-A, which will be given from the own ordinary shares held by PLAVA LAGUNA j.s.c. and the newly issued ordinary shares of the same class, which will give the holders equal rights as the existing ordinary shares marked as PLAG-R-A. In order to respect the established replacement ratio and provisions of Article 520, paragraph 4, of the Companies Act, given that the replacement ratio of the shares in the associated company for the shares in the acquiring company is such that it does not allow for one or more shares of the associated company to be replaced for a whole number of shares of the acquiring company, the acquiring company shall, to those shareholders in the associated company who do not hold a sufficient number of shares, pay the compensation in cash (but the total amount of compensations cannot exceed the tenth part of the share capital relating to given shares), as well as to respect the existing rights and shareholders' relations, prior to the merger, it is foreseen to divide every share in the acquiring company into 4 shares. Thus, without the increase of the share capital of the acquiring company, ordinary shares marked as PLAG-R-A are increasing in number from 546.318 to 2.185.272, and preferred shares marked as PLAG-P-A are increasing from 105.000 to 420.000, reducing the nominal amount of the shares first issued from HRK 1.000,00 to HRK 250,00. At the same time, four shares give their holders the same rights as the existing one share.

The companies participating in the merger agree that Central Depository and Clearing Company, Inc. (SREDIŠNJE KLIRINŠKO DEPOZITARNO DRUŠTVO d.d.) seated in Zagreb, Heinzelova 62/a, shall be appointed as a trustee of the acquiring and associated companies for the purpose of receiving shares and carrying out their replacement, based on the conclusion of the Trust Agreement.

Mandatory content of the Merger Agreement is prescribed in Article 513 of the Companies Act. The Agreement has to stipulate the transfer of property, share replacement ratio, possible pecuniary payment of the balance and transfer of the acquiring company's shares, the rights of the shareholders in the assciated company as a holder of the security and especially the right to participate in the acquiring company's profit on the basis of the newly-received shares, as well as possible benefits to the managers, the members of the Boards of Managers or Supervisory Boards of the companies participating in the merger or the merger auditor.

Upon legal validity of the merger procedure, company ISTRATURIST UMAG, j.s.c. Umag ceases to exist and company PLAVA LAGUNA j.s.c. Poreč becomes its universal legal successor at which moment all assets and liabilities of the associated company are transferred to the acquiring company.

A key property issue, on which the decision on merger as well as the share replacement ratio depends, is assessment of the values of the respective property of the companies participating in the merger.

Economic aspects of the Merger Agreement

The participants in the merger approached this transaction believing that it is in their mutual interest to create operational, organisational, legal and financial connections between them. Appreciating the existing economic positions of both companies, the economic interests are fundamental reasons for the merger. In a view of the previously presented descriptions of the companies, it is apparent that belonging to and operation within the same branch of business can only further support the arguments in favour of the joint entity.

Economic purpose of merger can be seen from the perspective of the time dimension and the way of influencing the operational efficiency, increase in revenues and other performances of the company's success after the merger. Upon the completion of the transaction, direct and relatively immediate series of operational and financial advantages are gained through the synergy and market position. At the same time, there is room for development through processes that are the product of strategic decision making and whose effects will indirectly and in a wider timeframe result in a rise in shareholder value.

Essential aspects of the merger for both companies are revealed in the following:

1. Combining the tourist portfolio with the aim of segmentation and differentiation – By merging the company Istraturist Umag j.s.c. with the company Plava laguna j.s.c. there will be created a company that will operate the largest tourist capacity in Istria, including 20 hotels, 10 apartment resorts and 9 campsites, or a total in basic capacity measured by the number of beds or persons in campsites at the level of 43 thousand. Combining and consolidating the capacities will enable strategic positioning, segmentation and product differentiation at a single company level respecting in the process the basic characteristics of products, market preference, specific features of the location and destination as a whole and availability of sports and other infrastructure. Above mentioned will primarily result in the creation of a structured portfolio for the purpose of a more efficient sales function and better quality management in general.

2. Branding strategy – Upon the completion of the merger process, positioning on the market will be unified in terms of sales as well as promotion. A common umbrella brand will communicate a message of a unified identity which will also represent a vision for the combined entity. Defining a clear brand which includes all of the products and services the company combines is the key to optimizing company marketing efficiency. A unique brand strategy will enable greater recognition and better positioning on the market. With a sales-promotional effect, creating a new brand strategy will encourage unification of cultures and improvement of employee motivation by belonging to a stable company with strong brands on the market.

3. Achievement of synergy effects through following:

- centralisation of business functions will result in increased operational efficiency through savings in performing certain individual functions at acquiring company level compared to present separate organisational structures which existed simultaneously at the level of both companies. Above mentioned has already started in 2017, by centralisation of the laundry service activity for both companies on the location in Umag.

- reduction of costs that are generated by processes of fulfillment of various regulatory requirements, arising from functioning as separate business entities (auditing costs, costs of management bodies, reporting for the needs of various institutions)

- IT support and technology – performing jobs and processes of all business functions within one business entity determines the creation of unique and unified IT solutions which results in the reduction of costs in support systems and simultaneous rise in quality of the system as a whole. Furthermore, program modules and IT systems used in each of the companies become economically more accessible for use at the level of one business entity after the statutory change.

- Properties that are freed for conversion for business purposes at Poreč and Umag and that have been used so far for office space when performing business functions outside production. Given that the aim is to centrally organise business functions, by building the new headoffice, the existing properties become a resource which due to their excellent location can be improved with high quality.

4. Applying best practices in processes and systems of work in all organisational segments - this is a process that initiated upon the acquisition of the majority stake in the company Istraturist Umag j.s.c. in November 2014. The exchange of professional and specialist knowledge and insights as well as technology of implementing certain processes increases the degree of efficiency through the equalization of procedures by choosing better solutions. The mentioned will be intensified upon the merger completion, given the need for alignment of business policies, from the sales policy to business policies in operations. The application of the acquiring company's business model within the operations, related to lease of facilities outside accommodation segment and usage of professional services to a larger extent in the performance of its core activity will be analyzed in the coming period in the associated company.

5. Market position – which, given their belonging to the same Group and activity, have so far been used by both companies will, after the merger, bring a clearer expression in all spheres and interactions with external entities. The negotiating strength in combination with using the economy of volume will be more strongly implemented in the area of procurement of goods and services for both current business as well as capital investments. There will be strengthening of the negotiating position in the market of tourist services sales, and in contracting contingents by combining differentiated capacities, which will result in achieving synergy through maximizing sales. Further, the companies benefit from investing in marketing activity by conducting a joint campaign and unified promotional activities based on a single business policy with a more efficient reach of targeted market segments.

6. Financial strength – through the increase of revenues, operating profit and in general, assets of the company, Plava laguna j.s.c., after the merger, becomes one of the financially strongest companies in the tourism sector of Croatia. Indicators of indebtedness measured by the ratio between the financial debt and EBITDA will, after the statutory change, be established at approx. 1,5 which is significantly below the standard level imposed by the creditors over the duration of the credit relationship and borrowing period. Mentioned ratios of financial figures

completed with financial stability will position the company, in its relations with the financial sector but also with other stakeholders and interest groups, as a client and partner of high rating.

7. Investment potential – by merging companies, there is a huge potential for the development that can be directed to financially more demanding and more complex and challenging projects from the technical perspective, all in line with a unified development strategy and chosen business model. The investment potential is in correlation with financial strength and financial stability of the company after the merger.

8. Improving management of human resources – arising due to opening of the process of transferring knowledge, experiences and best practices between the existing companies. The merger will create a company with much greater potential for employement and the possibilities to improve the working conditions will increase too. The new company will provide new opportunities for personal development and promotion and given the size and options for development, the need will be created for further training and different specialist knowledge and skills which will positively influence the job satisfaction of employees besides material rights, which are at the level of the leaders in the industry, and the goal is to further increase them.

9. Development of events with stronger reversal effects on company promotion – which is already present in both companies through significant international sports and entertainment events. After the merger, all events will be communicated under the joint name and brand which is going to generate increased promotional effect as well as act in the direction of greater recognition on the market.

Evaluation of the companies for the purposes of determining fair value per ordinary share

Principles and criteria used in the evaluation process of companies

Prerequisites for the statutory change of merger, whereby shares in the acquiring company are given in exchange for the transfer of net assets of the associated company, represents the assessment of the value of the ordinary share in the company Plava laguna j.s.c. and company Istraturist Umag j.s.c.. The afore mentioned evaluations, based on which the share replacement ratio has been established, were carried out by an independent assessor – company Deloitte Savjetodavne usluge d.o.o./Ltd. (hereinafter: Assessor). The procedure was conducted in a way that the assessment of value of companies Plava laguna j.s.c. and company Istraturist Umag j.s.c. was done on an independent basis by virtue of the principle of unlimited business operation in the existing legal form. The assessment of the company Jadranski luksuzni hoteli j.s.c. was also conducted for the purpose of determining the fair value of the share of 32,48% which Plava laguna j.s.c. owns in the mentioned company, besides 94,74% in the company Istraturist Umag j.s.c. The evaluation of all companies was carried out on a basis of financial statments as of 31 December 2016 as the date of the evaluation.

Regarding the methods used in the evaluation procedure, the Discounted cash flow method (hereinafter: DCF method) was used as the main method, while the market approach methods (market multiples method) were used to support and validate the values obtained by the DCF method.

DCF method represents a dominant concept used for evaluating the property in financial and economic practice, given that it is a dynamic method that results with the assessment of company's economic value based on the ability to generate future net cash flows. It is assumed that the most objective values for the purpose of determining the share replacement ratio, will derive from the valuation method based on the cash flow, which along with the application of an adequate discounted rate, i.e. the weighted average cost of capital (WACC), are reduced to present value.

The main advantage of this method is that it can include all the pertinent future changes of the company. Surely, DCF method has its limitations, given that it is based on plans and prognosis of future results, realization of which may vary from set figures. However, the uncertainty that exists on the side of external influences acts in the same direction on all companies, given the same type of activity, with which this relative relation of the value assessment results in minimal changes.

The market multiples method was used for comparation and validation of the value obtained by the DCF method, using the median and average of the MVIC (Market value of invested Capital) /EBITDA 2016 multiple for selected domicile companies in the same industry and comparable numbers measured by revenues, profit and accommodation capacity, and companies whose securities are listed on regulated capital markets. Greater applicability of the results of this method is with companies that reached a stable level of earnings that, according to the available information at the time of valuation, can be maintained in the future without further risk. However, the application of the aforementioned method within our framework involves a limitation in a form of very shallow market. Also, said method implies the static approach which uses historical data or past achievements.

The Comparable transactions method is finding comparable, similar transactions that have recently been concluded, and the application of relationships and ratios to a specific targeted case. Mentioned method was used by the Assessor to assess the value solely in the domain of tangible assets out of function, based on the information on realized purchases and sales of real estates that are similar, from the eNekretnine database.

Establishing the value by using solely the accountancy data is also not applicable. Besides the fact that this method implies the static approach which also relies on on the past data, the use of the stated values for the mentioned purpose is questionable. Namely, the precursors to the companies which participate in the transaction in question are socially-owned companies, which in the course of ownership transformation altered their legal structure into joint stock companies, and given the size of their tangible assets, the approach to establishing their values and valuation methods are probably different.

The basic concept of value assessment, applied to all of the companies subject to valuation, represents the business plan for the period 2017-2021 projected according to the "as is" principle i.e. performing business activities in the same realistic numbers (business revenues, EBITDA) projected for year 2017. Starting point in the mentioned plan represents the Assessment of results for 2017 which was made on a basis of the Operating Budget for 2017 corrected in segments in view of relevant new insights for positioning of results (booking, possible savings in certain cost related categories and similar) with the goal of obtaining more realistic values for the purpose of transaction.

This model includes the inflation in a way that the fact of the input market which is in Croatia is taken into account, as well as the market of demand which is predominantly West-European, hence the projected rate of inflation is 1,9-2,0% per year.

Given the accepted valuation model based on the principle of realistically unchanged operating result level, an estimate of the required level of capital investment to maintain the level of results was done by using experience data per accommodation unit in built objects and per area unit (m2) in campsites. For Istraturist Umag j.s.c. the data was determined in a way that parameters of Plava laguna j.s.c. were increased by 20%, given the need for more intensive investment because of the existing level of attractiveness of company's assets.

In addition to the investments necessary for generating results, business plan and the projection of cash flows include significant investment projects already in progress that will be completed for the 2017 season or will begin during this year. Thus, company Plava laguna j.s.c. includes the investment value and the effects of the reconstruction of the Tourist Resort Laguna Park to a 4* planned to begin in the last quarter of 2017. In Istraturist Umag, the reconstruction of the hotel Sipar is in progress for 2017 season which will result with an upgrade in category from 3* to 4*. Company Jadranski luksuzni hoteli j.s.c. includes the renovation of hotel Excelsior in year 2017, and hotels Croatia and Bellevue in year 2018.

After year 2021, business plan and net cash flows for each company are projected up to the year when CAPEX equates with depreciation, with changes in the projection only relevant to the above mentioned categories.

In accordance with the valuation principle, possible future tax reliefs based on mentioned investments are not taken into consideration, but only the existing ones used by the companies Istraturist Umag j.s.c. and Jadranski luksuzni hoteli, both in 2017. The applied profit tax of 18% is valid from 1 January 2017.

The weighted average cost of capital (WACC) of 9,0% is applied with all companies, given that they all belong to the same Lukšić group. Current differences in the cost of debt between companies as of 31 December 2016 are not taken into consideration when determining WACC, while there is an evident and market-confirmed convergence of debt terms in 2017, which is again in correlation with the ultimate ownership association of all companies.

In the end of the projected period (year in which Capex and depreciation equalize), the project residual or terminal value is determined. It is calculated by applying the so called Gordon model in a way that the applied growth rate is 2% per year and which represents the projection of inflation in the above described manner.

The discounting of net cash flows to the present value was carried out by applying the discounting convention in the middle of the year on 30 June 2017 (mid –year discounting convention).

In evaluating the fair value of the regular share of the company Istraturist Umag j.s.c., the potential risk of the dispute with the Nova ljubljanska bank (NLB) and the risk is attributed to minority shareholders, given that Plava laguna as a ruling company has a guarantee, is not quantified and therefore included in the assessment.
Furthermore, the discount for lack of control over minority shares in the company Istraturist Umag j.s.c.has not been established nor applied.

In the end, it has to be reiterated that the evaluation method employed is based on projections of the net cash flows, hence the errors in that sense may result in differences in values. However, the the purpose of the evaluation in question is not to establish a nominal value of the companies, i.e. their equities, but to determine a relative share replacement ratio. Therefore, we continuously insisted on consistent and uniform application of preconditions for both companies.

Evaluation of the company PLAVA LAGUNA j.s.c.

According to the above described "as is" concept, flows have been projected for the explicit period 2017-2021. Starting point is the evaluation of categories for 2017 which are business revenues in the amount of HRK 548,9 million and the EBITDA of HRK 230,3 million. The planned amount of investment in the reconstruction of the Tourist Resort Laguna Park is included in the projection of net cash flows in year 2018, as well as the effects on business revenues and EBITDA from year 2018 onwards.

The level of investments necessary for maintaining the achieved actual level of the company's operational results is determined on a basis of the average of historical data in 2015. – The plan in 2017 in the amount of HRK 34,5 million which in total together with the costs of maintenance reaches the level of HRK 52,3 million per year. For the equalization of the Capex and depreciation, flows are projected until year 2027 when the mentioned categories are even with the changes in the projection relevant only to the above categories.

On the basis of the above stated, based on the DCF method, the value of long-term material assets in operation is HRK 2.426,9 million, which includes changes in working capital.

The evaluation of the fair value of ownership shares in the company Istraturist Umag j.s.c. and in the company Jadranski luksuzni hoteli j.s.c. (separate evaluations conducted by the Assessor) were added to the aforementioned value.

Evaluation of Istraturist Umag j.s.c. is presented below in the report while the evaluation of the company Jadranski luksuzni hoteli j.s.c., based on the same concept, and by including capital investments (from 2017: hotel Excelsior, and from 2018: hotel Croatia and hotel Bellevue) resulted in the value of operating material assets of HRK 1.923,9 million. After the inclusion of surplus assets (cash and deposits: HRK 166,2 million) and estimated material assets not in operation (HRK 73,0 million), and reductions for debts in terms of borrowings (HRK 557,7 million) the fair value of 100% equity of Jadranski luksuzni hoteli j.s.c. amounts to HRK 1.605,4 million. The fair value of the share (32,48%) that belongs to Plava laguna j.s.c. amounts to HRK 521,4 million.

Below is the projection of the Plava laguna equity and the fair value per ordinary share:

	in 000 HRK	PLAVA LAGUNA j.s.c.
Plus	**Evaluation of long-term material assets in operation**	**2.426.924**
	Fair value of 94,74% ownership share in Istraturist Umag j.s.c.	1.395.504
	Fair value of ownership share of 32,48% in JLH j.s.c.	521.443
	Other investments in shares	8.041
	Material assets not in operation	30.873
	Deposits	152.063
	Cash	3.891
Minus	Debt	**494.974**
	Fair value of 100% ordinary and preferred equity	**4.043.765**
	Fair value of preferred dividend	4.200
	Total equity after deduction of the fair value of preferred dividend	**4.039.565**
	Total number of shares (ordinary + preferred – treasury shares)	642.176
	Discount applied on preferred shares due to lack of voting rights (in%)	2,7
	Fair value of ordinary share (in HRK)	***6.318,3259***
	Dividion of shares in ratio 1:4	
	Fair value of ordinary shares after division (in HRK)	***1.579,5815***

The value of material assets not in operation relates to: the land Facinka purchased for the construction of a new administrative building, the hotel (Apart hotel Marina) which is not in a good state in the village Červar Porat, business building (Adriatic) in the centre of Poreč, the land in the village Vabriga and the premises of disco club in the village Plava laguna, valuated by applying the comparable transactions method from the eNekretnine database, amounts to HRK 30,9 million.

After the inclusion of surplus assets in the form of cash, deposits, financial assets available for sale (securities) and deduction for debt, the fair value of 100% ordinary and preferred capital is determined. The same is reduced for the fair value of preferred fixed dividend (HRK 4,2 million), which is paid to holders of preferred shares in the amount of HRK 1,00 per share per annum, determined by using the discounted rate of 2,50%, which represented the expected borrowing expense in the process of refinancing loans started in late 2016. Due to the lack of voting rights, the preferred shares were granted a discount of 2,7% in relation to ordinary shares, which were supported with studies by the Assessor.

On the basis of the above stated, the fair value of ordinary share in company Plava laguna j.s.c. amounts to HRK 6.318,3259.

Taking into account the decision on the implementation of the corporate action of stock splits (ordinary and preferred) in ratio 1:4, the fair value of the ordinary share of the company amounts to HRK 1.579,5815.

Evaluation of the company ISTRATURIST UMAG j.s.c.

The starting point for the projection of cash flows for the explicit period 2017-2021 is the evaluation of categories for 2017 relating to business revenues in the amount of HRK 485,7 million that include the reconstruction of the hotel Sipar to a 4* level, with planned completion for the season 2017. In order to obtain the value, taking into consideration the principles of uniformity and consistency, it was necessary to correct certain cost categories (maintenance costs and small inventory procurement costs) by using the accounting policies of the ruling company Plava laguna j.s.c. Thus, the level of EBITDA for 2017 is determined in the amount of HRK 170,0 million which besides the aforementioned corrections includes also the effect of the new investment.

The level of investment necessary for maintaining the existing level of results is determined by the application of Plava laguna j.s.c. parameters per accommodation unit for hotels and apartments, and per m2 for campsites which is then increased by 20%, given the current state of assets of Istraturist Umag j.s.c. The obtained value of necessary investments is HRK 39,5 million, which together with maintenance costs reaches a level of HRK 55,3 million per year. In order to equalize the Capex with depreciation, flows are projected up to year 2036 when mentioned categories are equalized, with changes in the projection only relating to mentioned categories.

On the basis of the above stated, based on the DCF method, the value of long-term material assets in operation is HRK 2.426,9 million, which includes changes in working capital.

Below is the projection of the Istraturist Umag equity and the fair value per ordinary share:

	in 000 HRK	**ISTRATURIST UMAG j.s.c.**
	Evaluation of long-term material assets in operation	**1.646.606**
Plus	Other investjments in shares	1.783
Plus	Material assets not in operation	36.867
Plus	Deposist and cash funds	57.894
Plus	Cash	14.447
Minus	Debt	**284.614**
	Fair value of ordinary equity	**1.472.983**
	Total number of ordinary shares	4.674.995
	Fair value of ordinary share (in HRK)	***315,0769***

The value of material assets not in operation is determined in the same way as with Plava laguna by using eNekretnine database and applying the comparable transactions method for individual property, based on location, type and state. Total value amounts to HRK 36,9 million and relates to the following: hotel Punta (non-operational part), hotel Beograd, land belonging to the former restaurant Paviljon, annexe Zagreb, business building in Umag, old stone house Sol Umag, lands belonging to former bungalows Sol Umag.

After the inclusion of surplus assets in the form of cash, time deposits, cash funds and financial assets in terms of shares, and deduction for debt, the fair value of 100% ordinary capital is determined in the amount of HRK 1.473 million.

Following the above explained parameters, the fair value of ordinary share of Istraturist Umag j.s.c. is HRK 315,0769.

Establishing the Share Replacement Exchange Ratio

Below are the fair values per ordinary share of the companies participating in the statutory change:

DESCRIPTION	Plava laguna j.s.c.	Istraturist Umag j.s.c.
Number of ordinary shares	546.318	4.674.995
Treasury shares	9.142	-
Treasury shares after division of shares in ratio 1:4	36.568	-
Number of ordinary shares in circulation	537.176	4.674.995
Number of ordinary shares in circulation after division of shares in ratio 1:4	*2.148.704*	4.674.995
Fair value of ordinary share (HRK)	6.318,3259	315,0769
Fair value of ordinary share after division in ratio 1:4 (HRK)	1.579,5815	315,0769

Replacement ratio for one share of Istraturist Umag j.s.c.	1	0,0498671
Replacement ratio for one share of Istraturist Umag j.s.c. after division of shares	1	0,1994686

Necessary number of shares of Istraturist Umag j.s.c. for replacement of 1 share of Plava laguna	20,0532819
Necessary number of shares of Istraturist Umag j.s.c. for replacement of 1 share of Plava laguna after division of shares in ratio 1:4	5,0133206

As a compensation for the transferred value of the associated company Istraturist Umag j.s.c., Plava laguna j.s.c. assumes the obligation to transfer to the shareholders in the associated company the shares of Plava laguna j.s.c. in the share replacement ratio, as follows:

- 1 : 0,1994686 which for 1 share of the associated company Istraturist Umag j.s.c. assures 0,1994686 share in the acquiring company. Mentioned ratios are determined upon the implementation of the corporate action of stock splits of Plava laguna in ratio 1:4.

For the purpose of carrying out the merger in question, Plava laguna j.s.c. will increase the share capital by the amount of 7.618.681,88, by issuing 12.500 ordinary shares, and the additional shares will be secured from Company's own shares. The number of newly issued shares assumes the previously mentioned distribution in proportion 1:4.

Given the share exchange ratio is such that it does not allow the shareholders in the associated company to get the whole number of shares in the acquiring company as a replacement for one or more of their shares, the acquiring company will, to shareholders of the associated company who are missing the sufficient number of shares, pay the balance in cash per fair value of HRK 315,08 per share of the associated company.

NEVEN STAVER
Management board member
PLAVA LAGUNA j.s.c.

RONALD KOROTAJ
director
ISTRATURIST UMAG j.s.c.