

INTEGRATED COMPANY ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY 2015

VALAMAR RIVIERA



INTEGRATED
COMPANY ANNUAL REPORT
AND CORPORATE SOCIAL
RESPONSIBILITY

2015

VALAMAR RIVIERA

Message from the Chairman



**GUSTAV
WURMBÖCK,**
Chairman

It is with great pleasure that I present herein the first Valamar Riviera **Integrated Company Annual Report and Corporate Social Responsibility 2015**. Driven by Valamar Riviera's firm commitment to transparency and open communication, the main aim of this report is to present a comprehensive, strategic and long-term view of the Company to all relevant stakeholders, including our shareholders, employees, partners, guests, and the community at large.

The year 2015 was a very successful year of change and growth for Valamar Riviera. It was the first year as an integrated company with a new organizational structure, after all related group companies were brought into one entity in 2014. The integration process greatly improved our efficiency and cost structure. At the same time our growth in sales and RevPAR was strong and driven by a HRK 1 bn investment cycle in the portfolio since 2012. Overall this led to a strong increase in EBITDA and record net profit.

2015 was also the first year Valamar Riviera was listed on the official quotation of the Zagreb Stock Exchange, during which our market capitalization increased by 21%. I am especially pleased that as a

result we were able to pay out and commit to a sustainable dividend for our shareholders.

Last year has also been a year of change in management. We have appointed a new CEO who is the right choice for successfully leading and growing our company. The management Board has introduced a new corporate structure, which will further improve our efficiency and put greater authority on the management levels below the management Board. I would like to take this opportunity to thank our long-term management Board leaders Edi Černjul and Niko Koncul for building the foundation that enabled Valamar to get to the level of success we are seeing today.

Looking ahead, we recognize that Valamar is ready to set its sight on new horizons of growth in the European hospitality sector, which motivated the formulation of our Corporate Strategy by 2020 as presented in this Integrated report for the first time.

Our corporate strategy is based on our first and overall priority: the guest. We are acutely aware that the quality of guest experience is a key driver of future growth. We therefore plan to invest further in upgrading our asset portfolio of hotels, resorts

and campsites, but also, and equally important, in the training and development of our management and employees. We are convinced that only satisfied employees can provide the quality of service that makes for a great hospitality experience. Ultimately, in our industry, the quality of service is the best guarantee that our investments will have strong returns and contribute to the bottom line.

The presently favorable market conditions and low financing costs together with our strong balance sheet and moderate debt level present a very solid springboard for Valamar's growth strategy and allow us not only to accelerate investments in our owned portfolio, but also to make new acquisitions, both in Croatia and abroad, with the ultimate aim to continue to grow market capitalization.

Valamar's development strategy also elaborates our commitment to sustainability as a key principle of good governance. In this integrated report the company reports widely on our numerous efforts to preserve natural resources, reduce our impact on the environment and develop the destinations where we work and live, making Valamar a leader in sustainability and corporate social responsibility in Croatia.

The successful implementation of our strategy is of course subject to many factors beyond our control: only a stable and investor friendly environment will allow us to invest as planned, and thus support employment and growth not only for Valamar Riviera, but for the tourism sector and the economy in general. As representative of the largest shareholder and Chairman of the Supervisory Board I can only pledge my commitment and support to the strategy of Valamar Riviera as the right path to creating superb guest experiences, high employee satisfaction and great shareholder returns.

I look forward to successfully meeting our strategic goals as well as our commitments to all our stakeholders.

Sincerely,
Gustav Wurmböck,
Chairman

Message from the CEO



**ŽELJKO
KUKURIN,
CEO**

Last year we completed the ownership and business restructuring of all the companies in Valamar group. As a combined company, Valamar Riviera nowadays has an exceptional future perspective. We have strengthened the organisation and the key positions with new people and new responsibilities. Today, we are the leading Croatian tourism company operating in attractive tourist destinations, including Poreč, Rabac, island of Krk and Dubrovnik, employing over 4,100 people, accommodating more than 800,000 guests annually and managing around 10% of the categorised Croatian accommodation capacity in 25 hotels and resorts and 13 campsites. Over the years, Valamar Riviera has invested HRK 2.6 billion in its portfolio, which makes it one of the larger investors in the Croatian tourism. Moreover, our investments have considerably raised the quality of our products and services towards 4*/5* level, which is also the company's future ambition – to target premium guests by improving the quality of our offer.

All that has not been accomplished in the space of a single year; it is the result of the work carried out by all those who used to be a part of Babin kuk, Zlatni otok, Hoteli Baška, Rabac d.d., Riviera Poreč, Valamar management company, Valamar Group and all other companies that are today consolidated into Valamar Riviera. In some way, this year we turned a new page and started a new chapter, which is why I would like to use this opportunity to thank all of you who have built, developed and integrated these companies over the past more than 60 years of successful tourism history. Furthermore, a special thank you goes out to the shareholders who knew how to recognise opportunities and wisely guide the company in the past.

For Valamar Riviera, 2015 was truly a dynamic year. At the start of the tourist season, we presented our largest investment in tourism, Valamar Isabella Island Resort 4*/5* on the island of Sveti Nikola – worth nearly HRK 300 million. Only a few days later, we completed our first acquisition on the Adriatic coast, worth HRK 372 million. Apart from influencing the growth of financial results, the two business events have confirmed our strategy and determination to maintain a leading position in the Croatian tourism sector. Furthermore, with the acquisition of Hoteli Baška, we became Croatia's biggest tourism company with more than 48,000 beds. Continuing investments in upscaling the portfolio and possible acquisitions in the coming period are key strategic initiatives for future growth. Thus, the level of success in our business activities in 2015 demonstrates the capability of the management and the organisation to manage the process of development and acquisitions.

Last year was a record-breaking year. Our total revenues amounted to HRK 1.29 billion, up by 19% y-o-y, while operating profit increased by 49% to HRK 423 million as compared to 2014. As a result of consolidation and restructuring, as well as positive returns on investments from the previous period, we increased our operating efficiency and our EBITDA margin grew by 6.8 percentage points to 32.7% (25.9% in 2014). That kind of business growth coupled with a stable net debt and a favourable average cost of financing of 2.5% clearly demonstrates the potential for further investments as well as growth in the value of the company.

Thanks to our excellent sales team and positive trends during the tourist season, we increased our sales revenues by 18% y-o-y, at the same

time increasing the number of overnights by 10.9% and the average daily rate by 6.9%. In addition, the company's commitment to continued improvement of service quality and excellent work by the operating management led to an increase in customer satisfaction rate to 84%, as well as an extremely high percentage of recommendation by our guests of 97% and a high likelihood of return to Valamar of 83%. The indicators of growth of sales and customer satisfaction point to the fact that we were right to focus on guests and service excellence.

As Croatia's leading tourism company, we carry a huge responsibility – towards our shareholders, employees, management, partners and investors, and in particular to the local communities where we operate. The cooperation between a tourism company such as Valamar Riviera and its stakeholders is vital for success in tourism. Based on our conviction that growth and development, as well as long-term business sustainability and social responsibility, are the key preconditions for continued creation of added value, we have drawn up a strategy of Valamar Riviera's development until the year 2020. Last year's results, organizational restructuring achieving a high level of operating efficiency, favourable situation on the capital market, and the currently positive trend of tourist demand have resulted in our need to redefine the company's goals and strategy for the coming period. Our business strategy is based on our work and success so far but also proposes a new company vision and mission. In an effort to improve our communication with investors and all other stakeholders, we have outlined our new strategy in this integrated report.

Valamar Riviera is the biggest employer in the Croatian tourism sector and for a number of years now it has been recognised as Employer Partner. We continually work on increasing the

employment rate, improving salaries and working conditions and educating our employees. We intend to continue with those efforts because we are convinced that managing human resources will be our biggest challenge in the coming period. This is why one of our key strategic initiatives is focused on our employees, along with our guests. The 2015 average gross salary at Valamar Riviera amounted to HRK 7,887, which is 13% higher than the industry average. We will continue to adequately compensate our employees' work and harmonise the growth of the salaries with the growth of the company. Furthermore, it is important to underline that 75% of our employees live in tourist destinations where they also work, which we believe is a differentiating value that makes our hospitality authentic. That is why we have launched a number of initiatives to maintain a high percentage of local employees and increase employee loyalty to the company. The repositioning of our portfolio towards upscale and premium service requires staff with greater hospitality knowledge; therefore, in the coming period we intend to educate our employees even more intensely to achieve the goal of increasing service quality further.

I am confident that with the support from our investors and all other stakeholders, we will continue to drive a paradigm shift in regional tourism development. Valamar Riviera's business model, based on the idea of symbiotically managing assets, hospitality services and destinations with the aim of developing the local economy through tourism, is sustainable in the long-term. Such a business model increases the added value for both guests and employees, results and profitability, and, consequently, value for shareholders.

Yours sincerely,
Željko Kukurin,
President of the Management Board
of Valamar Riviera



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1. INTRODUCTION

About this integrated report

This integrated report for Valamar Riviera d.d., refers to the reporting period from 1st January 2015 to 31st December 2015, and is based on the consolidated Company Annual Report 2015 published on 15th March 2016.¹

In this report, Valamar has integrated sustainability reporting with business reporting and has for the first time applied G4 Global Reporting Initiative (GRI) guidelines². The objective of this report is to comprehensively present the development strategy of Valamar Riviera, business results, company culture and our approach to corporate social responsibility to our key stakeholder groups.

The first part of the report summarises company information, as well as our renewed vision, mission and core values. Within the presentation of our corporate strategy, our strategic initiatives and our performance in 2015 are elaborated concurrently with economic, human, environmental and social impact and risk management. We reported comprehensively the areas of employment, environmental protection and community involvement, of which we are particularly proud. In addition, we presented the large

number of awards and acknowledgements Valamar has received as a company, as well as individual properties, our employees and teams.

Throughout this report Valamar Riviera also sets out strategic business objectives and sustainable development goals for the forthcoming reporting period. Our specific objectives include long-term profitability, employee empowerment and skills enhancement, destination development, local communities and tourism programmes and a wide array of objectives in the areas of environmental protection, efficient energy use and renewable resources.

The report is available at the Valamar Riviera website www.valamar-riviera.com.

We invite all stakeholders to submit their comments and suggestions at the following email address: integratedreport@valamar.com.

¹ Group Valamar Riviera (also in the text: company, group, Valamar, Valamar Riviera), includes the following entities: Valamar Riviera d.d., Valamar hoteli i ljetovališta d.o.o., Valamar Hotels and Resorts GmbH, Puntizela d.o.o., Bastion upravljanje d.o.o., Citatis d.o.o., Elafiti babin kuk d.o.o., Magične stijene d.o.o., Palme turizam d.o.o., Bugenvilla d.o.o., Pogača Babin kuk d.o.o., while the business data and financial results for newly acquired companies in Baška destination are included from July 1 2015.

² Valamar plans to prepare its 2016 Integrated Report in full compliance with the core G4 version of GRI guidelines, as prescribed by the EU Directive for non-financial reporting for all companies with over 500 employees.



2. ABOUT VALAMAR

Valamar at a Glance

Valamar Riviera is the leading tourism company in Croatia and one of the most active investors in Croatian tourism with investments totaling 2,6 billion HRK over the past 12 year period.

MICROFACTS

Valamar properties host over 800,000 guests each year

Valamar can accommodate more than 48,000 guests on a given day in our 25 hotels and resorts, and 13 campsite resorts which are situated in prime tourist destinations on the Croatian Adriatic - from Istria and Kvarner to Dubrovnik. Valamar operates about 10 percent of Croatia's categorized accommodation capacity, making it Croatia's largest tourism group.

Valamar's facilities set the benchmarks of quality in Poreč, Rabac, Island of Krk, and Dubrovnik. Valamar owns Valamar Hotels & Resorts, and Camping Adriatic by Valamar brands. Knowledge, professionalism and hard work of our 4.100 employees are the foundation of service excellence, sustainability, and future development.

The Company's strategy is guided by a principle that investment in improving the quality of our hospitality portfolio, talent development, innovative services and destination development are the key drivers of growth and future success.

OUR BRANDS



VALAMAR
HOTELS & RESORTS



camping adriatic
by Valamar

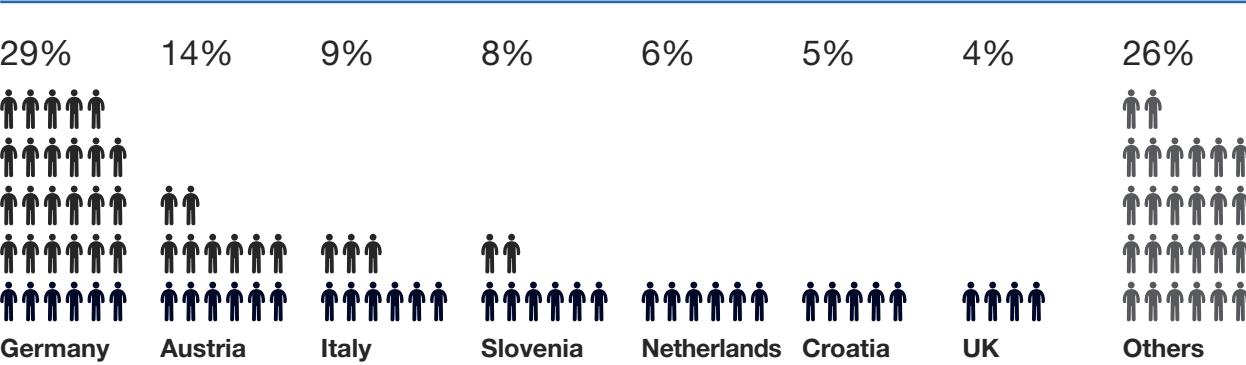
25 Hotels and Resorts

13 Camping resorts

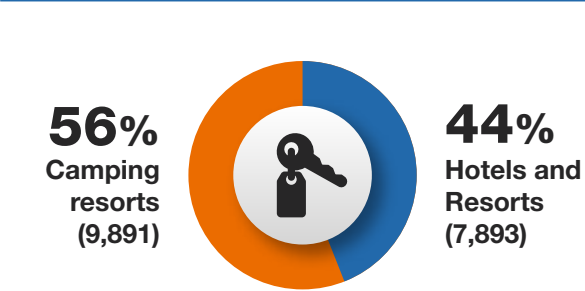
KEY FACTS 2015

Total revenues [m HRK]	1,333
EBITDA [m HRK]	423
Net debt/EBITDA	2.6
Employees [high season, #]	4,112
Investments [m HRK]	310
Guests [#]	810,000
Beds [#]	48,019
Overnights [#]	4,750,823
Long-term asset book value [bn HRK]	3.2
Market capitalization ² [bn HRK]	3.1
Shareholders [#]	21,243

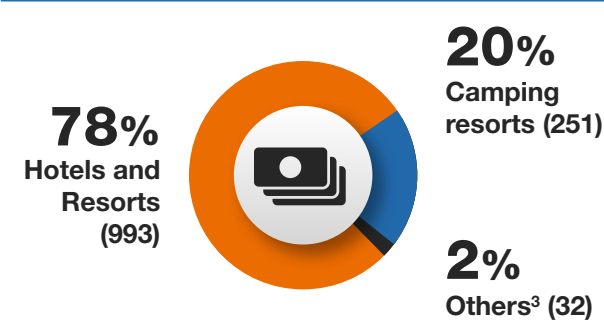
VALAMAR SOURCE MARKETS¹



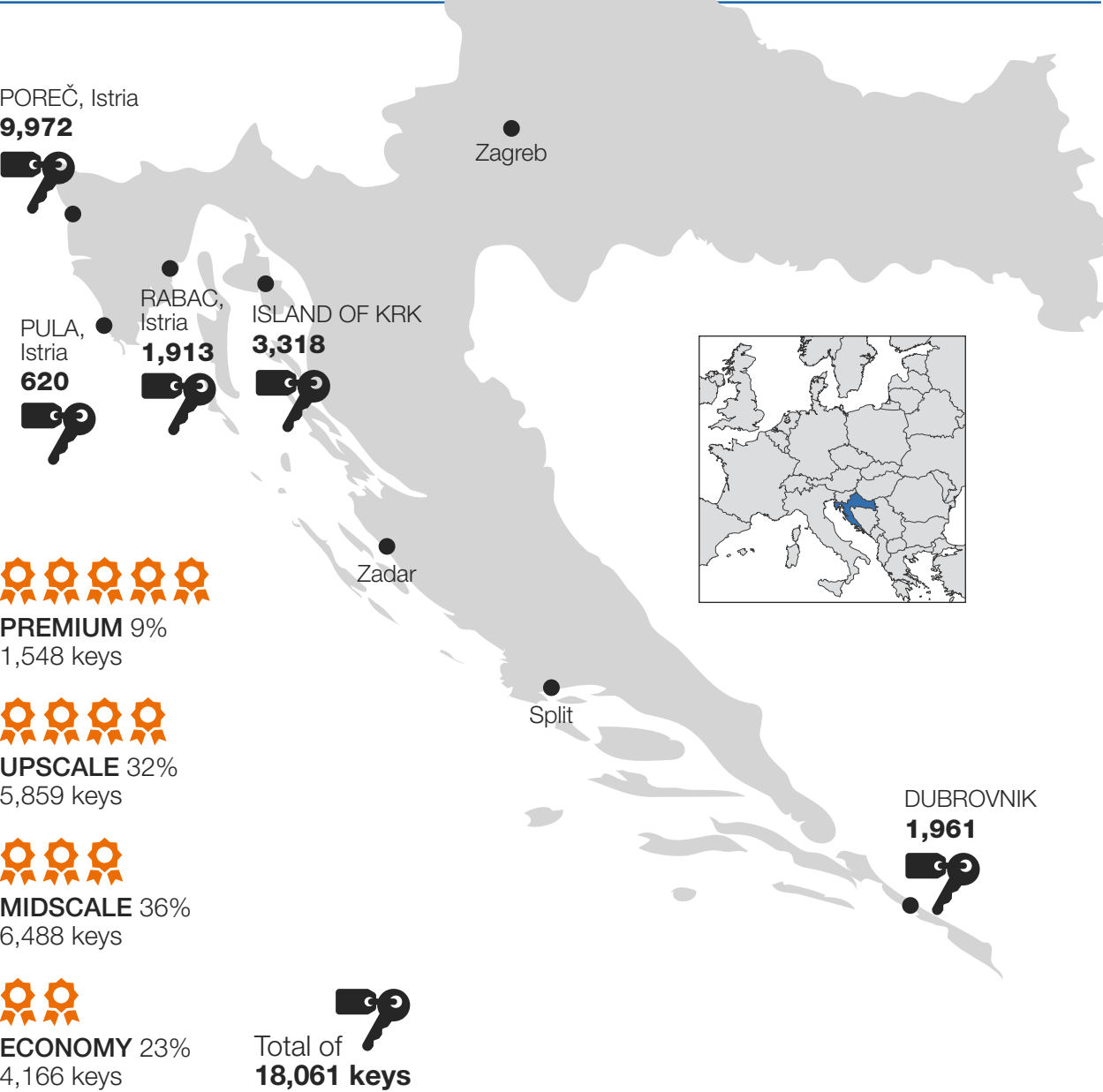
ACCOMODATION KEYS [#]



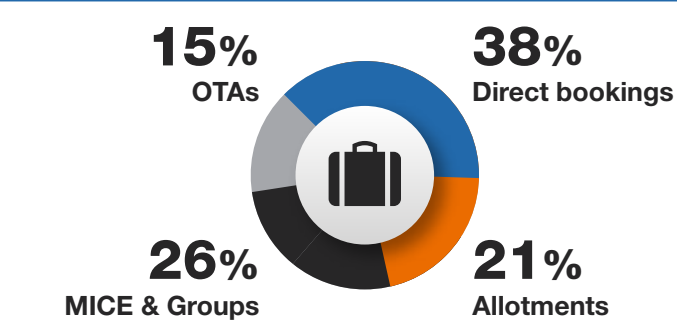
NET OPERATING REVENUES [M HRK]



PORTFOLIO OVERVIEW 2016⁴



DISTRIBUTION CHANNELS⁵



¹ By overnights 2015
² As of April 2016
³ Incl. rental, sport, laundry and other operating revenues
⁴ By keys/pitches
⁵ By revenue

History of Valamar

The company Valamar Riviera as it stands today has been developing and growing on the Croatian market for over 60 years. Its development has comprised of several phases, against the backdrop of social and political changes, tourism development and continuous evolution of its business strategy to address global trends in the hotel industry.

BEGINNINGS OF TOURISM IN POREČ

- 1895**
First public bathing area on Sv. Nikola island, Bagno Parentino
- 1910**
Hotel Riviera in Poreč opens after which the company is named
- 1913 i 1923**
Hotels Venezia and Parentino opened, owned by the company to this day

BIRTH OF THE COMPANY

- 1953**
Founding of Riviera Poreč, a predecessor of Valamar Riviera d.d.
- Management of hotels, bungalows and restaurants in Poreč and on the Sv. Nikola island

INTENSIVE CONSTRUCTION

- 1967**
Hotels and apartments Luna
- 1968**
Hotel Neptun and the tourist village Lanterna
- 1971**
Hotels Crystal and Rubin
- 1976**
Hotels Diamant and Zagreb, and the pavilion Solaris
- 1979**
Hotel Pical, first hotel of the highest category in Poreč
- 1986**
Hotel Fortuna, on the Sv. Nikola island

2011 - 2015 CONSOLIDATION AND LISTING ON ZAGREB STOCK EXCHANGE

Zlatni otok d.d., Rabac d.d. and Dubrovnik – Babin kuk d.d. were merged to Riviera Adria d.d., which was later on merged with Valamar grupa d.d. and Valamar Adria holding d.d.

The consolidated company started operating under the name Valamar Riviera d.d. and was listed on the Official Market of the ZSE

2012-2015 UPSCALING OF THE ASSET PORTFOLIO

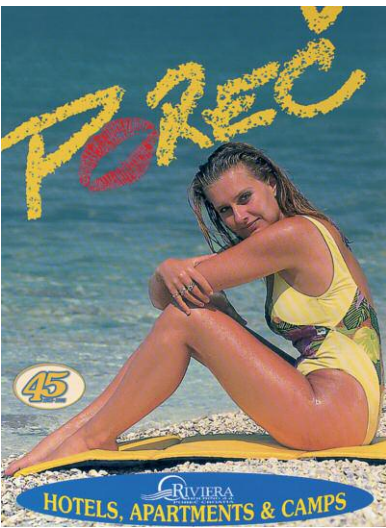
First 5-star hotel - Valamar Dubrovnik President

Completion of Valamar's largest investment project – Valamar Isabella Island Resort 4/5*

2015 RECORD BUSINESS RESULT AND GROWTH

Reorganization of the company and growth of financial results

1895-1950	1950-1965	1965-1990	1990-2000	2000-2010	2010-2015
CROATIAN TOURISM HISTORY: 120 years of tourism	RIVIERA POREČ: Start of organized tourism in Croatia	CROATIAN TOURISM DEVELOPMENT: Dynamic growth of tourism activity and building of a great majority of assets	PRIVATIZATION AND OWNERSHIP TRANSFORMATION: Post-war economic transformation and privatization processes	BUSINESS AND PORTFOLIO DEVELOPMENT: Investments to raise the quality of facilities and services	NEW STAGE OF GROWTH AND LEADERSHIP: Consolidation of management strength



MERGERS & ACQUISITIONS

- 2011**
Zlatni otok d.d. (Est. 1956), Rabac d.d. (Est. 1961)
- 2013**
Dubrovnik-Babin kuk d.d. (Est. 1971)
- 2014**
Valamar Adria holding d.d. (Est. 2003) and Valamar grupa d.d. (Est. 2005)
- 2015**
Valamar hoteli i ljetovalista (Est. 2000)
- 2015**
Acquisition of the majority stake in Hoteli Baška d.d. (Est. 1949)

Valamar Riviera's Business Model: Asset, Hospitality and Destination Management Company

Valamar Riviera's business model includes development and maintenance of our touristic assets, operating management of hotels, resorts and campsites, and providing other hospitality services in our destinations. This approach enables Valamar to manage the complete guest experience, and to serve as an important stakeholder in our destinations. Our experience in property development and technical maintenance optimizes investments and returns. Our portfolio asset management approach ultimately raises the quality of service provided and revenue achieved per guest.



MICROFACTS

Valamar Riviera has more than doubled its EBITDA since 2010

ASSET MANAGEMENT AND OWNERSHIP OF 3.2. BN HRK OF BOOK VALUE

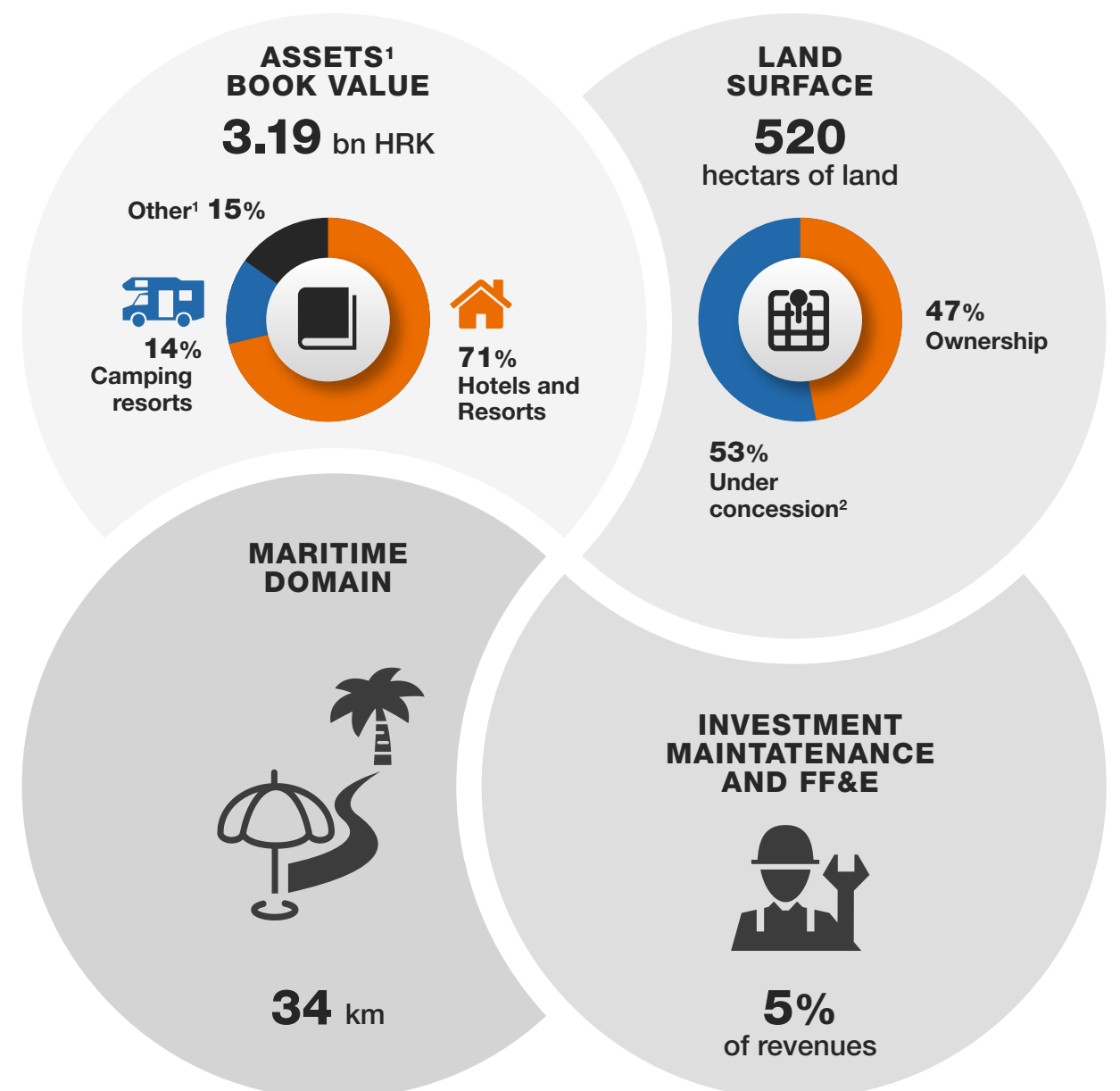
Owing to more than 60 years of company history we have a truly enviable tradition in hospitality and a unique asset portfolio structure. Our asset portfolio, accounting for a book value of HRK 3.2 bn, represents a key aspect of our success.

We manage assets on more than 520 ha of land on prime locations along the Adriatic coast and operate more than 34 km long

seaside. Our asset position is a major strength and an excellent opportunity for future development. Furthermore, over years, we have developed the organization and knowledge to develop tourism products and efficiently maintain the value of our assets. Our policy is to annually invest minimum 5% of total revenues in capital expenditures aimed at maintenance and FF&E in order to enhance the value of the products.

MICROFACTS

Our policy is to annually invest minimum 5% in investment maintenance and FF&E



¹ Incl. HQ building and non-core assets

² Applications for priority concessions on touristic land were made in 2011 according to the Law on touristic land, to be granted











OPERATING MANAGEMENT OF 25 HOTELS AND RESORTS, AND 13 CAMPING RESORTS

Valamar Riviera consolidated its asset portfolio in recent years with an aim to more clearly differentiate, develop and reposition hospitality properties in our portfolio.

Valamar Riviera today manages 25 hotels and resorts, and 13 camping resorts - 41% of which are premium and upscale, 36% midscale and 23% in the economy

segment. In the coming period we plan to increase the number of premium and upscale properties targeting guests with higher purchasing power. A precise definition of market segments, innovative service concept development, brand management, profitability growth and optimization of investment return represent some key drivers of performance guiding our asset portfolio management strategy.

VALAMAR RIVIERA PORTFOLIO 2016

	HOTELS AND RESORTS			CAMPING RESORTS		
						
	Assets	Keys	Beds	Assets	Keys ¹	Beds
 PREMIUM 9%	3	1,037	2,163	1	511	1,533
 UPSCALE 32%	5	1,422	3,243	4	4,437	13,562
 MIDSCALE 36%	11	3,113	6,496	5	3,375	9,537
 ECONOMY 23%	6	2,356	6,359	3	1,810	5,586
TOTAL	25	7,928	18,261	13	10,133	30,218

¹ Camping pitches
² April 2016

HOTELS AND RESORTS²

			Keys	
Valamar Dubrovnik President Hotel	★★★★★	Dubrovnik	292	Premium
Valamar Isabella Island Resort	★★★★★ (4&5)	Poreč	344	Premium
Valamar Lacroma Dubrovnik Hotel	★★★★+	Dubrovnik	401	Premium
Valamar Club Tamaris	★★★★	Poreč	507	Upscale
Valamar Riviera Hotel & Residence	★★★★	Poreč	135	Upscale
Valamar Zagreb Hotel	★★★★	Poreč	230	Upscale
Hotel & Casa Valamar Sanifor	★★★★	Rabac	242	Upscale
Valamar Argosy Hotel	★★★★	Dubrovnik	308	Upscale
Valamar Diamant Hotel & Residence	★★★★	Poreč	372	Midscale
Valamar Crystal Hotel	★★★★	Poreč	223	Midscale
Valamar Pinia Hotel & Residence	★★★	Poreč	266	Midscale
Valamar Rubin Hotel	★★★	Poreč	258	Midscale
Valamar Bellevue Hotel & Residence Albona	★★★★	Rabac	350	Midscale
Allegro Hotel	★★★	Rabac	245	Midscale
Miramar Hotel	★★★	Rabac	178	Midscale
Hotel Corinthia	★★★	Island Krk	480	Midscale
Zvonimir Hotel, Atrium & Villa Adria	★★★★★ (4&5)	Island Krk	177	Midscale
Valamar Koralj Romantic Hotel	★★★	Island Krk	226	Midscale
Valamar Club Dubrovnik	★★★	Dubrovnik	338	Midscale
Naturist Resort Solaris	★★★	Poreč	284	Economy
Pical Hotel	★★★	Poreč	359	Economy
Tirena Hotel	★★★	Dubrovnik	208	Economy
Girandella Tourist Village	★★	Rabac	377	Economy
Lanterna Apartments	★★	Poreč	910	Economy
Marina Hotel & Mediteran Residence	★★	Rabac	218	Economy

CAMPING RESORTS²

			Keys	
Camping Krk	★★★★★	Krk	511	Premium
Camping Jezevac	★★★★	Krk	738	Upscale
Camping Lanterna	★★★★	Poreč	2,993	Upscale
Camping Marina	★★★★	Rabac	306	Upscale
Naturist Camping Bunculuka	★★★★	Island Krk	400	Upscale
Camping Orsera	★★★	Poreč	594	Midscale
Naturist Resort Solaris	★★★	Poreč	1,485	Midscale
Camping Zblaće	★★★	Island Krk	534	Midscale
Camping Škrila	★★★	Island Krk	348	Midscale
Camping Solitudo	★★★	Dubrovnik	414	Midscale
Naturist Camping Istra	★★	Poreč	1,006	Economy
Camping Brioni	★★	Pula - Puntigela	654	Economy
Camping Tunarica	★★	Rabac	150	Economy

DESTINATION SERVICES MANAGEMENT

Other than operating and managing our own portfolio of hospitality properties, facilities and services, Valamar Riviera manages over 300 restaurants and retail outlets in operation or in partnership, as well as a whole range of other tourist services such as beaches, transportation,

excursions, sport facilities, catering etc. In that regard, Valamar Riviera serves as a professional destination management company possessing extensive local knowledge, expertise and resources, specializing in design and management of events, activities, transportation and program logistics to its clients. Valamar Riviera provides an excellent localized service based on deep knowledge of the destinations where we operate.

3.

THE HOSPITALITY INDUSTRY

Trends in the Hospitality Industry

The hospitality industry is experiencing significant growth which is expected to continue over the next years. This growth is accompanied by four key trends that are of high relevance for Valamar's business model.

MICROFACTS

The hospitality industry is strongly influenced by recent political events that have made security a key decision criterion when choosing a holiday destination

On an international level the hospitality industry is experiencing a shift in market trends. A strong demand for authentic guest experiences requires custom-tailored product formats that address and meet specific needs of each targeted guest segment. The hospitality industry is also strongly influenced by recent political events in Europe and Northern Africa that have made destinations' security a key decision criterion when choosing a holiday destination. Being perceived as a highly secure destination, Croatia is benefiting from these developments.



UNIQUE AND AUTHENTIC GUEST EXPERIENCE

Guests are more than ever looking for a unique and authentic experience they can share with their friends and retell all year long. In addition to that, guests are becoming more demanding and expect customized and individualized product offering that corresponds to their demographic characteristics and interest areas. For example, Millennials (generation born between 1980 and 2000) and Silver-Haired (above 60 years of age) are becoming the two largest travel segments with very particular interest areas and needs. In order to create unique experiences across different segments it is essential to, first of all, understand unique needs of different guest segments and, ultimately, tailor services and offering to those groups accordingly.

DEDICATED PRODUCT FORMATS

New emerging traveler segments and the increasing guest demand require dedicated product formats. Whereas families in the high season look for excellent properties and animation program for their children, in addition to relaxation facilities and activities for adults, Silver-Haired, Millennial or MICE travelers in the low season require completely different formats. In order to participate in the growing segments, high innovation efforts are needed to tailor product formats to the attractive guest segments' needs.

INDUSTRY DIGITIZATION

The hospitality industry is already highly digitized. Share of online bookings and, especially, share of mobile bookings have been growing rapidly over the past years and are expected to grow even stronger in the upcoming years. Guest demand for additional convenience and transparency throughout the entire guest journey is and will remain a key driver of digitization in the hospitality industry. Apart from its huge potential to improve the customer journey, digitization offers significant levers in operational efficiency: smart data for better understanding of the guest, self-check-in and check-out to accelerate the process and many more. As an enabler of these processes, widespread and reliable wifi broadband has already become a given and basic need that customers take for granted.

SECURITY

In light of recent war and terrorism threats, security has become increasingly important over the past years only to become a crucial decision factor for guests and tour operators when choosing their travel destination. Croatia is perceived as a highly stable and secure country, which is confirmed by the "Global Terrorism Index 2015", that classified Croatia among countries with the lowest impact of terrorism.

Croatian Market Development

Over the past years the Croatia as a tourist destination has been growing strongly. Croatia has a geographically favorable position as it is within driving distance from key Central European source markets, such as Austria, Northern Italy, Slovenia, Germany and the Czech Republic.

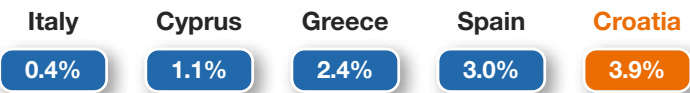
While overnights in competitor Mediterranean destinations such as Italy, Cyprus, Greece and Spain, grew by 1.7% on average between 2009 and 2014, Croatia's overnights soared by 3.9% in the same period. This growth was over-proportionally driven by strategies for shoulder season prolongation. A future outlook for Croatia's tourism looks bright. The Croatian Tourism Board predicts an annual average growth in overnights of 4.4% until 2020, whereas spending is expected to grow by 8.1%.

Croatian hospitality industry is still highly dominated by private accommodation, accounting for roughly 50% of all beds. The other half is primarily split in Hotels and Camping Resorts. In the hotel market 3* and 4* hotels account for roughly 80% of the beds. However, there is an evident trend of asset uplifting towards 4* and 5* over the past years, with Valamar among the leaders. Being a market leader in the hotel and camping market in Croatia, Valamar has actively been taking part in market development. By 2020 tourism in Croatia is predicted to invest around HRK 52.5 bn in new and

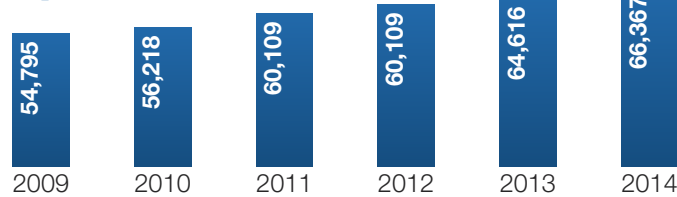
uplifted product and service offers. The Croatian government forecasts an average annual increase in tourism spending of 8.1% until 2020. In the same period the number of overnights is expected to increase on average by 4.4% annually. Increased spending is therefore primarily driven by an increase in average spending owing to higher quality offering and the prolonged season. Traditionally, Croatia has been a summer leisure destination which is reflected in a rather short high season during June, July and August and relatively low utilization rates in the shoulder season. Hospitality industry along with destination management has been successfully developing events and infrastructure for tailored offers in the shoulder season: Wine & Food initiatives, Cycling tourism, Business tourism or Cultural tourism have been strongly promoted over the last years and are already showing significant effects. Overnights in the shoulder season have been growing at almost double the pace compared to high season.

MICROFACTS
Croatian hospitality industry is still highly dominated by private accommodation

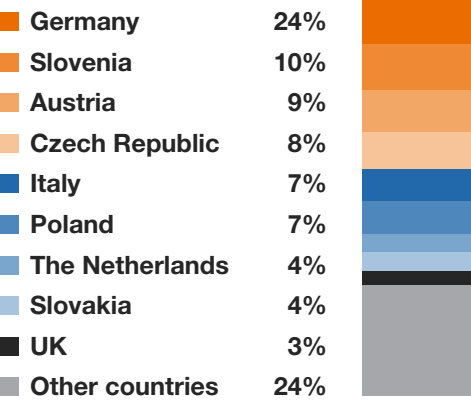
CAGR OVERNIGHTS SELECTED LEISURE DESTINATIONS, 2009-2014¹



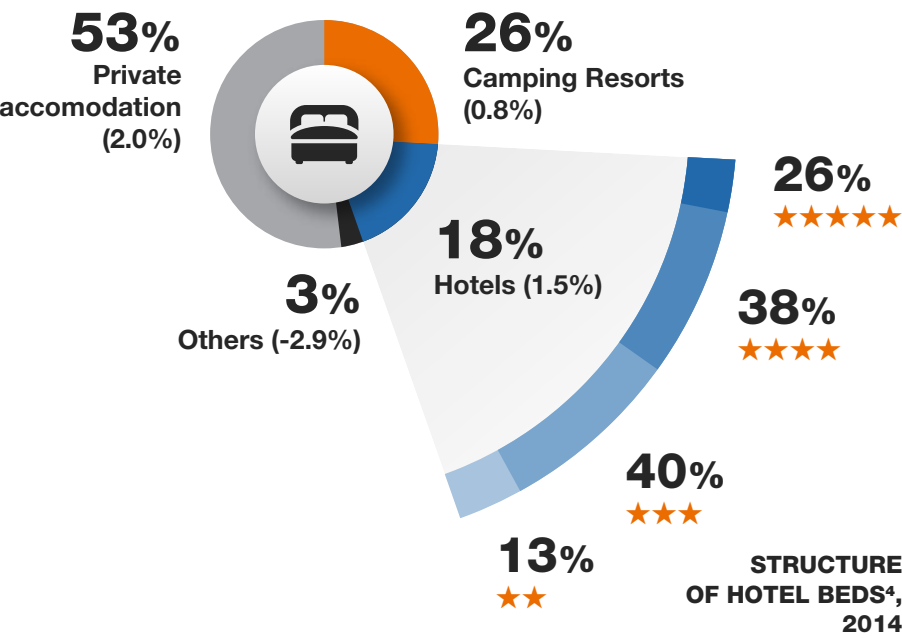
OVERNIGHTS CROATIA, 2009-2014 ['000]



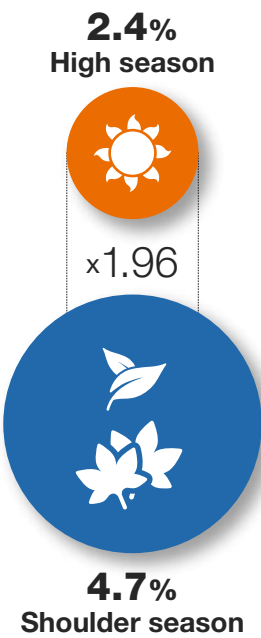
TOP SOURCE MARKETS IN OVERNIGHT-SHARE²



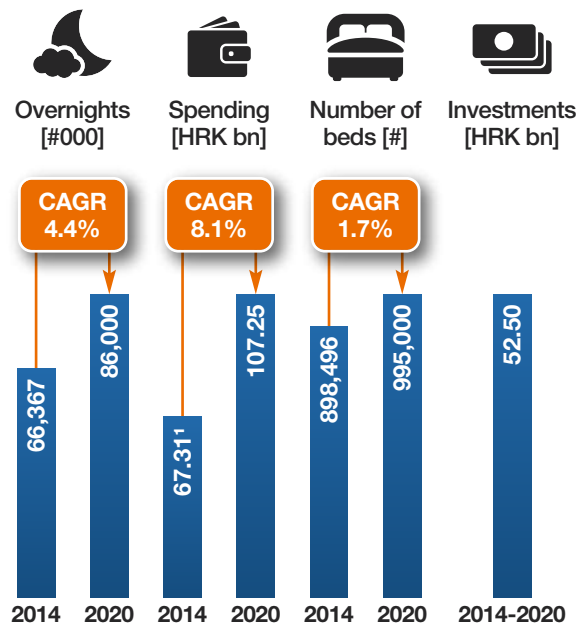
STRUCTURE OF BEDS IN CROATIA, 2014² (CAGR '09-'14)



CAGR PER SEASON (2011³-2014)

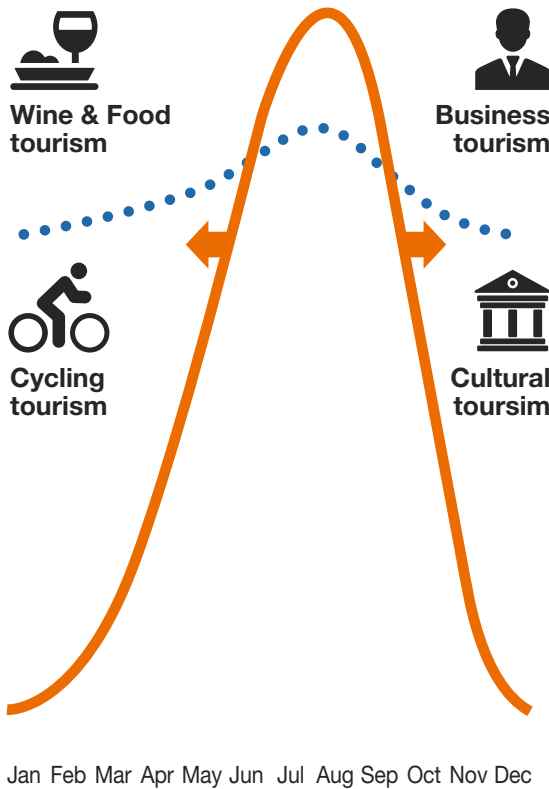


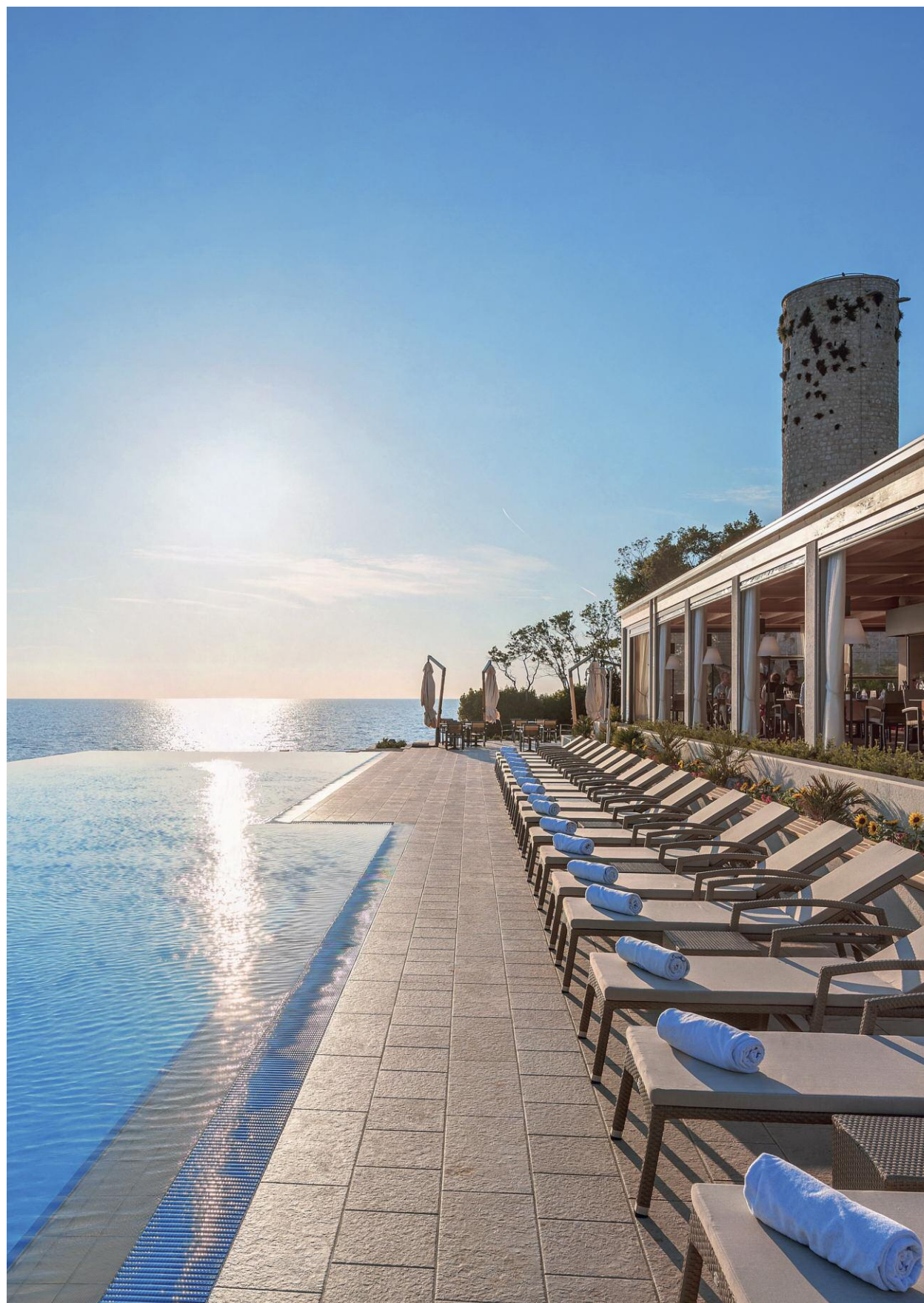
KEY CROATIAN MARKET INDICATORS, 2014-2020⁵



¹ Eurostat
² National Bureau of Statistics
³ 2009 not available
⁴ Refers to hotel only. Excl. tourist apartment and apartment hotels
⁵ Strategy of Tourism Development in Republic of Croatia by 2020

SEASON PROLONGATION INITIATIVES BY DESTINATIONS





4.

VALAMAR'S CORPORATE STRATEGY

What We Stand For

Valamar Riviera manages hospitality properties that represent about ten percent of categorized tourist accommodation in Croatia, thus exercising significant influence over the total experience of tourists in Croatia at the national level as well as in individual destinations.

Valamar aims to provide inspiring hospitality to our guests by offering life-enriching experiences and emotions which form an unforgettable travel experience. Yet, we also aim to inspire our employees, partners and destinations and the entire tourism sector to join this vision. Valamar's mission is to create authentic hospitality experiences that enrich life while delivering exceptional and sustainable value to our stakeholders.

Our core values reflect the strength of our corporate culture which has evolved together with the company over the last decades and form the foundation of Valamar's past and future leadership, development and sustainability achievements. Valamar as a company is aware of the responsibility of leadership, the opportunity of future growth and the obligation to fulfill our ambitions. Our hospitality culture is to love our guests, to innovate continuously and to create a tangible and engaging service value. Valamar's corporate strategy rests on five key pillars or strategic initiatives that prioritize and define our key areas of focus and our approach to reaching both our strategic goals and our vision and mission as an organization. In our strategic initiatives we have also made a firm commitment to corporate social responsibility in all areas of business activity including investment in the portfolio, renewable energy and preservation of natural resources, guest involvement, employee development, as well as active support in the economic, cultural and social development of our destinations and society as a whole.

Vision, Mission, Core Values

We own, develop and manage resorts and destination services

OUR VISION

To drive a paradigm shift in regional tourism development.

To harness a symbiotic relationship between hospitality and destination management that develops local economies, builds sustainable futures and creates a more enriching guest experience.

OUR MISSION

- To proudly express Valamar's culture through inspiring hospitality and destination experiences.
- To form a seamless integration of local discovery and authentic hospitality that enriches lives.
- To grow and deliver exceptional and sustainable value.

OUR CORE VALUES

1. GUEST-LOVING

We make our guests feel very welcome and highly appreciated

2. AMBITIOUS

We set ourselves challenging targets and strive for excellence in everything we do

3. RESPONSIBLE

We are responsible in our business partnerships, caring for our employees, supportive towards society and committed to the environment

4. INNOVATIVE

We engage in collaborative innovation to improve our performance, stay alert and always remain open to change

5. PROUD

We take pride in our destinations and in being part of the Valamar family

What We Aim For (Strategic Goals)*

By 2020, we want to...



GROW SIGNIFICANTLY

By retaining market leadership in the Croatian market with two digit EBITDA-CAGR over the next 5 years and through acquisitions or strategic partnership in selected destinations in the leisure hospitality sector in Europe



BE RECOGNIZED AS THE MOST DESIRABLE EMPLOYER IN TOURISM

by paying above-average wages for Croatia, achieving 70% seasonal worker return rate and developing more than 80% of our management internally



INVEST 1.5 - 2.0 BN HRK IN THE PORTFOLIO OVER THE COMING PERIOD

while maintaining a solid balance sheet and generate premium returns by steadily growing EBITDA margin to 35-38% with a sustainable net debt/EBITDA ratio



STEER SUSTAINABLE AND SOCIALLY RESPONSIBLE DEVELOPMENT OF DESTINATIONS by investing at least 2.5% of revenues in corporate social responsibility, education, tourism and destination projects



STRENGTHEN DIRECT RELATIONSHIPS WITH GUESTS

by achieving 50% of revenue from direct bookings and 30% of returning guests



CREATE SUBSTANTIAL VALUE FOR SHAREHOLDERS

by significantly increasing our market capitalization



BROADEN AND OPTIMIZE BUSINESS THROUGH STRATEGIC PARTNERSHIPS

with internationally recognized players in order to prolong the season and diversify the customer base



OFFER ATTRACTIVE AND SUSTAINABLE DIVIDENDS to our shareholders

*Strategic goals are subject to a disclaimer on the last page of this report.

Our Strategic Initiatives

In order to realize our strategic goals Valamar has defined five key Strategic Initiatives:

1

FOCUS ON THE GUEST

Provide superb quality to create positive moments and lasting memories for every guest each day and address him individually throughout the entire year

2

EMPOWER EMPLOYEES & ORGANIZATION

Develop, empower and reward employees to become the heart of a guest-centric service organization and create long-term and trusting relationships with employees

3

GROWTH STRATEGY

Focus on strong growth in both revenues and profits by utilizing internal capabilities, enhancing guest focus and development through strategic partnerships and M&A

4

STRIVE FOR EXCELLENCE IN INNOVATION AND DIGITIZATION Be a leading innovator in leisure hospitality industry in Europe and leverage opportunities provided by digitization to fully meet our guests' needs

5

PLAY A LEADING ROLE

in the development of Croatian tourism, our destinations and corporate social responsibility



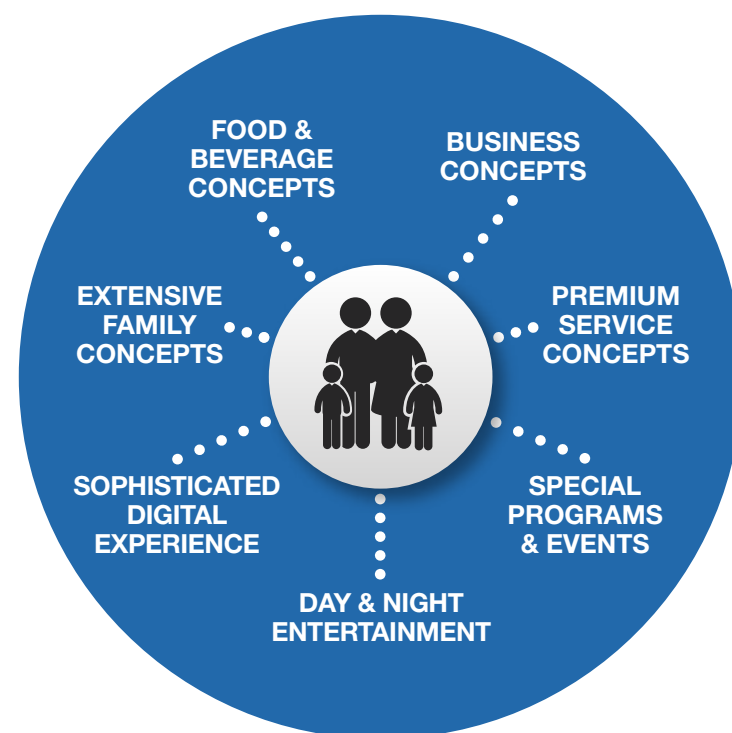
4.1 FOCUS ON THE GUEST

Guest focus is reflected in our commitment to create authentic experiences and positive memories for every guest each day and address him individually throughout the entire year. We are convinced that a key to success is being guest-centric at the core of our business model and our organization. To further strengthen our focus on the guest we have defined five key elements of our strategy.

Tailored products and services to fully meet and exceed target guest groups' needs and expectations

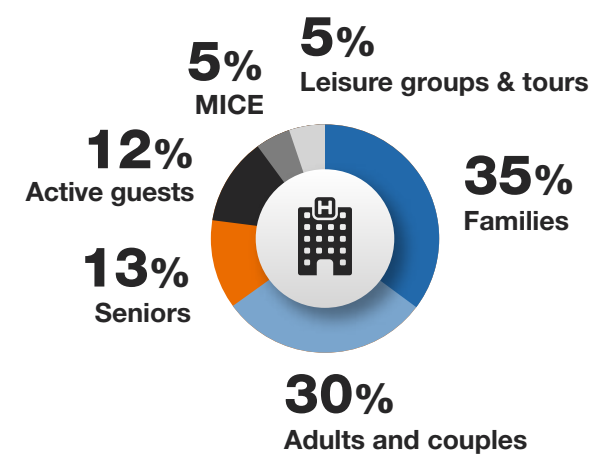
Guests, especially in the premium segments, are becoming more demanding. We are responding to this prevailing trend by constantly evolving and developing tailored products and service models. Better meeting the needs of target groups such as: families, adults, seniors, active lifestyle guests, MICE, leisure groups & tours, luxury camping and camping short stay not only increases guest satisfaction, but also ensures new revenue sources.

We are continuously innovating and developing our service concepts ranging from our highly acclaimed food & beverages offer to our recognized children club Maro. As a next step we are elaborating premium services, day & night entertainment, destination concierge and other new concepts which will help us to even further differentiate Valamar from its competition.

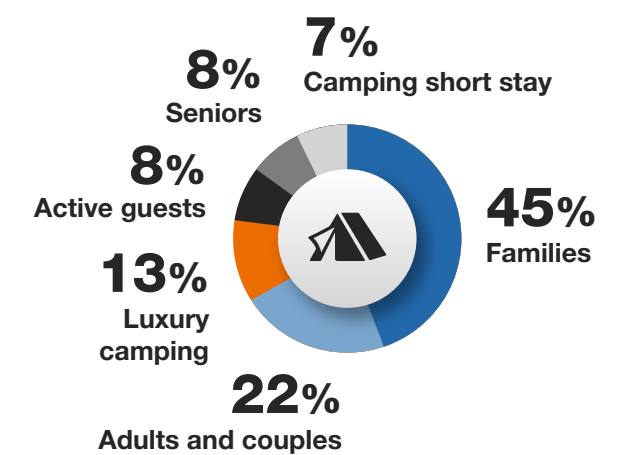


VALAMAR MARKET SEGMENTS 2015 BY NUMBER OF GUESTS

HOTELS & RESORTS



CAMPING RESORTS



Service uplifting approach that makes the guest feel “unbelievable”

Service uplifting is an approach at Valamar that was implemented in 2013 in order to consistently deliver excellent services and, in turn, achieve guest satisfaction and loyalty.

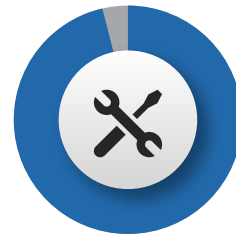
We understand that great service is not simply about delivering expected service, but rather about striving to provide unexpected value by recognizing guest's specific situation, needs and wishes. The key enabling factor of this approach is the creation of a service-focused culture

across the entire organization which empowers employees to customize their service delivery to a particular situation. Service uplifting is also carried out by aligning employee selection, training and compensation systems to the desired hospitality vision and service excellence goals. As a result our guests rate Valamar services and guest orientation very highly, and are especially complimentary of our hospitality. 97% of our guests would recommend us, and 83% are likely to return to Valamar.



97%

of our guests would recommend us to their friends



96%

of malfunctions resolved to satisfaction

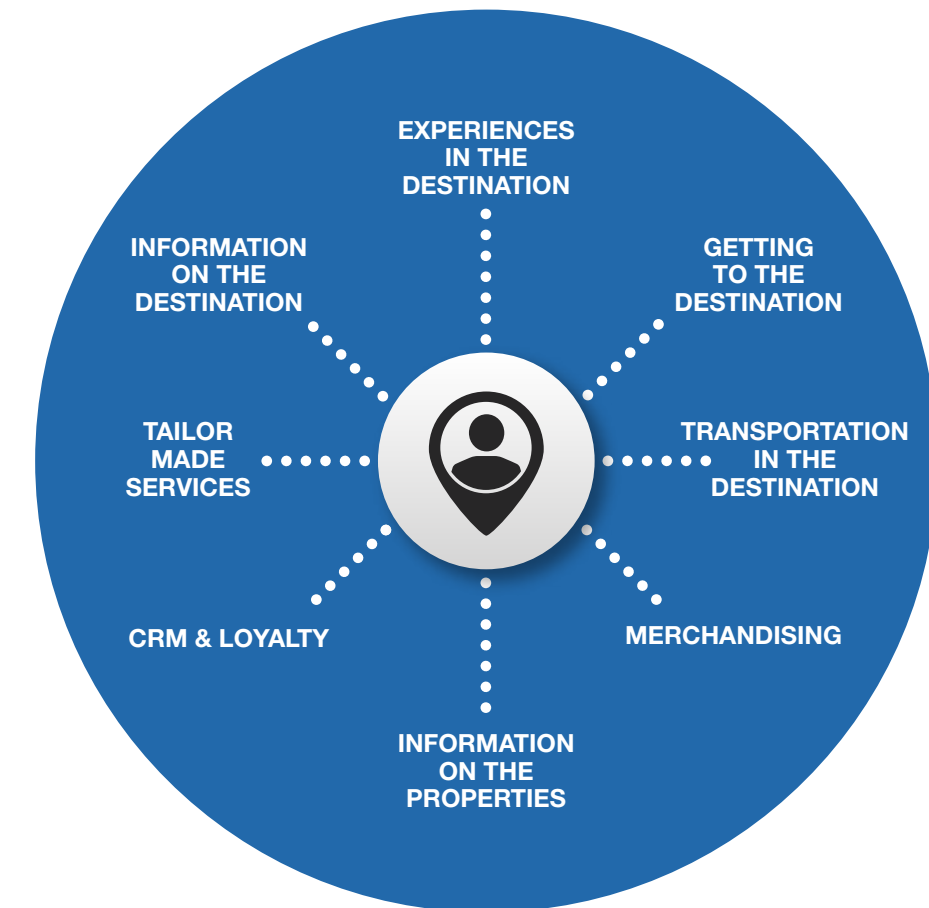


**VALAMAR
MARO BRAND**

Strive to manage the entire guest experience in the destination

To round the guest experience and offer a truly comprehensive offering, Valamar launched a Perfect Experience Creator program that serves as information, service and sales platform.

The program offers information and advice on various services and amenities in the destination (such as destination attractions, gourmet offer, events, outdoor activities, transportation, and other) and even enables guests to easily make bookings and purchases.



PERFECT EXPERIENCE
Creator
makes your day!

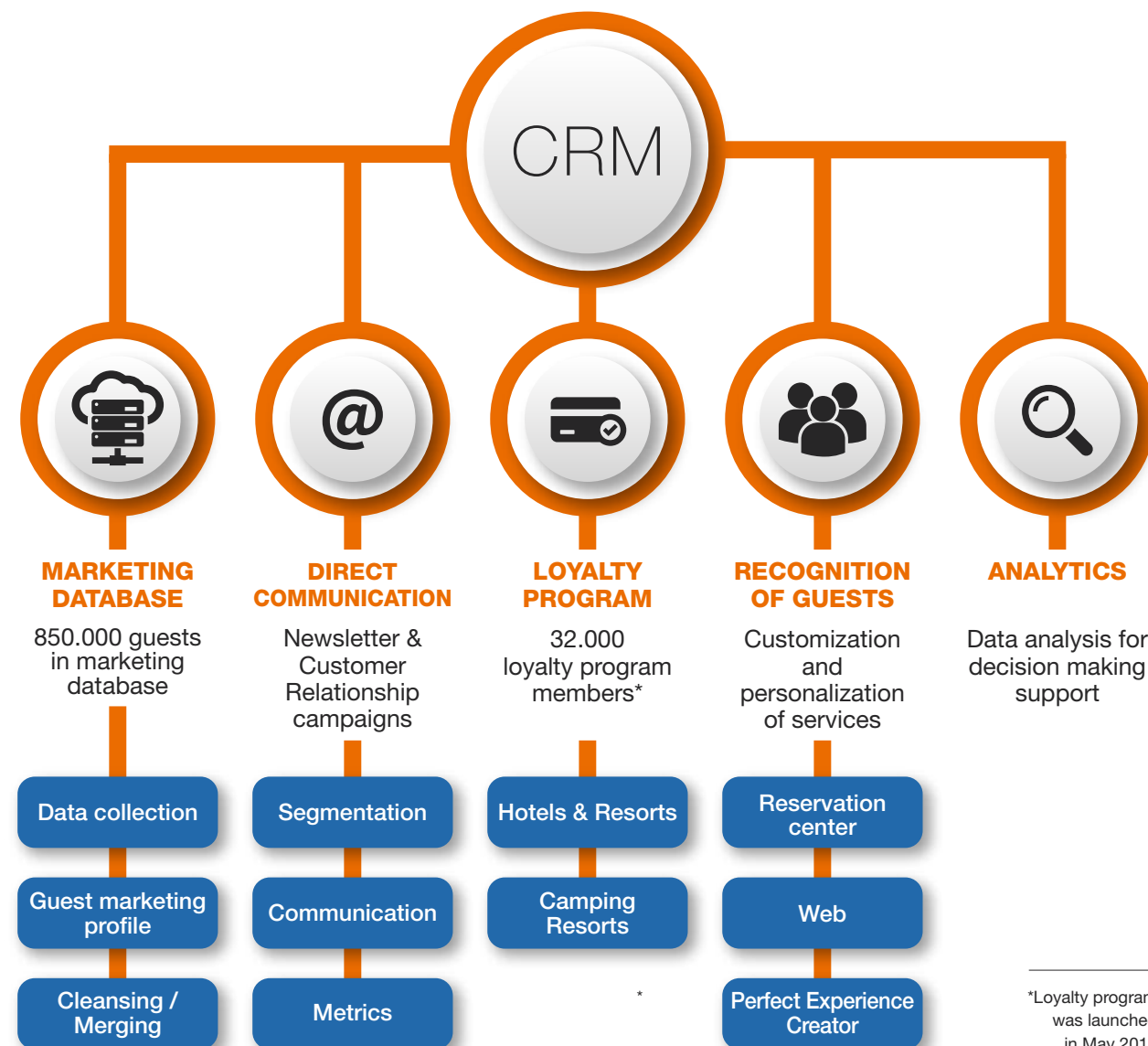
MICROFACTS
The Perfect Experience Creator program enables guests to easily make bookings and purchases

Gain exceptional guest knowledge and establish individual contact points throughout the year to increase guest loyalty and satisfaction

Knowing our guests is a prerequisite to offer best-in-class tailored services. We believe we can further strengthen our guest centricity by systematically collecting and analysing our guests' preferences through our CRM approach.

Our know-how enables us to target individual guests before, during and after their stay throughout the entire year. The CRM approach is supported by our loyalty

programs, Valamar Plus Club for hotels and resorts and Camping Adriatic Plus Club for our camping resorts. The programs are designed to be an attractive platform from the very first day of membership. Owing to our efforts we increased our guest return rate to 25% in 2015. We believe that with further upgrades of our loyalty programs we will be able to improve guest knowledge and reach the aimed 30% guest return rate.



We continuously measure guest satisfaction and on-line reputation in order to improve our service

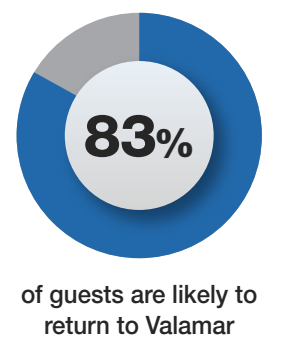
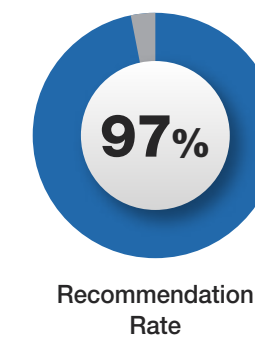
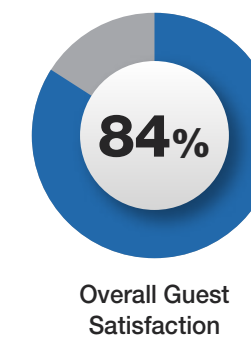
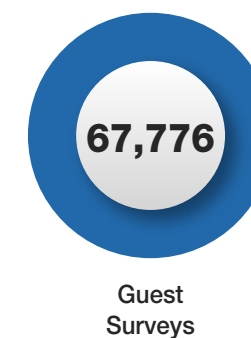
By using different tools to evaluate guest experiences and their perceptions of the quality of our services, Valamar gets to understand its guests better and thus can provide excellent customer care.

Valamar is measuring guest satisfaction during guest stay via paper and tablet questionnaire, and through post stay on-line questionnaire.

Furthermore, Valamar is using TrustYou on-line reputation management tool in order to efficiently incorporate key data and information and improve management of its online reputation. Valamar is highly present on the Internet, on social networks and opinion sites which is an excellent channel for maintaining a two-way relationship with guests.

In our two-way, personalised customer relations management model, managing feedback is a key point. With this in mind, Valamar Quality department manages complaints, comments and suggestions that its customers make while in property in direct communication with staff, over tablets, through in-room feedback forms, via post-stay questionnaires or social networks. This model allows Valamar to manage service quality across operational areas with agility, providing responses within a maximum period of 48 hours from receipt thus further building strong customer relationships and elevating trust in the company.

2015



83%
Online Reputation Index

4.1
TripAdvisor Average Rating

8.5
Booking.com Average Rating

PREMIUM & UPSCALE HOTELS & RESORTS

88%
Guest Satisfaction

9.0
Booking.com Average Rating

4.2 EMPLOYEES AND ORGANIZATION

Our goal is to develop, empower and reward employees who are the heart of a guest-centric service organization. Service excellence as defined by Valamar can be consistently achieved only by highly motivated, experienced, skilled and loyal employees. The key to the Valamar Riviera human resource strategy is to create competitive working conditions, gain the loyalty of employees, increase local employment and develop professional talents. A smile from the heart of our employees is what we ultimately aim to achieve in our human resource management.

Valamar Riviera is one of the largest and most desirable employers in Croatia. In 2015, the average number of employees increased 9 percent over 2014 and totaled 2,581 full time equivalents (+18% '15/'12).

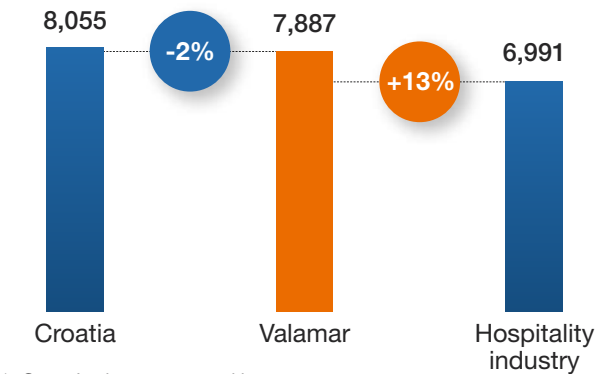
During the high season on August 31, 2015, total employment in all Valamar Riviera destinations was 4,112 persons, including full time, temporary, seasonal and contract employees. Consistent with the nature of tourism business the number of employees shows significant oscillations during the

course of the year. Each year Valamar Riviera engages a large number of seasonal employees totaling more than 60 percent of Valamar's workforce without students and pupils. Almost 65 percent of seasonal workers return to Valamar annually. The key objectives of Valamar's human resource strategy are being recognized as the most desirable employer in tourism by offering compensation above the Croatian average, having at least 70% of the seasonal workforce return each year and developing 80% of the management internally.

GROWTH OF SALARIES AND NUMBER OF EMPLOYEES 2015 vs 2012

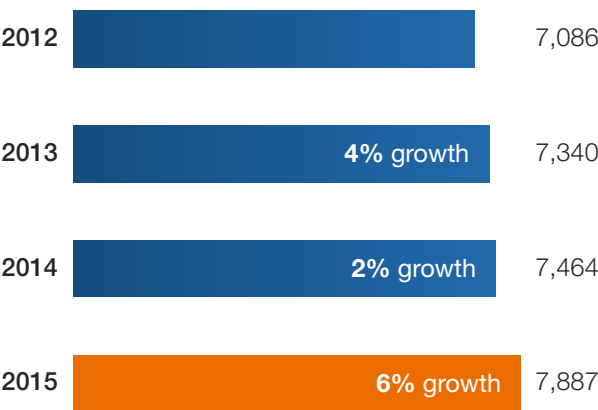


AVERAGE SALARY 2015 [HRK]*



* Gross I salary as reported by National Bureau of Statistics in 2016

GROWTH IN AVERAGE SALARY [HRK]



TOTAL NO. OF EMPLOYEES AND STUDENTS ON AUGUST 31



NO. OF EMPLOYEES BY TYPE OF EMPLOYMENT 2015

Type of employment	
Full time permanent	1,078
Seasonal and temporary	2,160
Permanent seasonal	359
Students & pupils	515
Total	4,112

Develop employees across the entire organization through a systematic and institutionalized educational framework

Our award-winning Valamar academy education program has successfully developed a large share of our management team. A prime example is the development of our property General Managers. Currently over 60% of our property General Managers and General Manager assistants have been developed internally by our Academy.

In house talent development has been primarily focused on general managers, sales & marketing managers and heads of departments in operations. As a next step we are planning to extend the academy programs to include talent, skills and knowledge development in other corporate functions. Our numerous

training programs for operational staff will be strategically managed and aligned with our human resource strategy under the umbrella of the Valamar academy.

This will enable us to further uplift and standardize training programs and consequently uplift the performance of our employees who are an instrumental and indispensable backbone of a service organization. As a leading company in tourism we are also planning to further develop strong partnerships with educational institutions, such as high schools and universities, in order to offer new academic programs and be an initiator of educational change in Croatia.

TOTAL NUMBER OF EDUCATION AND TRAINING HOURS IN 2015 (est.)



MICROFACTS

As a leading company in tourism we are planning to further develop strong partnerships with educational institutions to be an initiator of educational change in Croatia

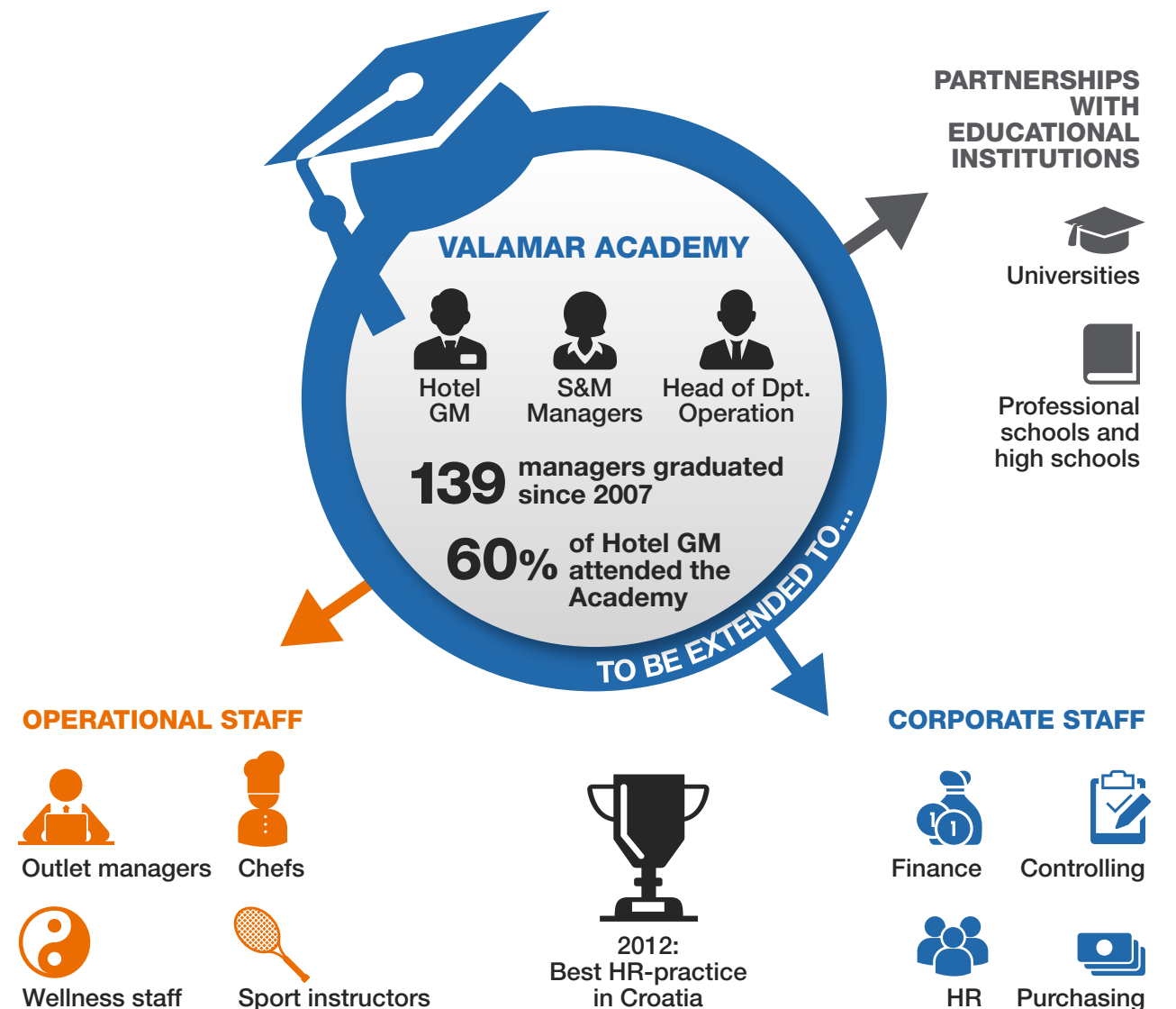
Over the last ten years 139 employees who are currently in junior, middle or top management roles at Valamar have successfully completed our Valamar Academy program.

Valamar Academy not only successfully develops our employees but it also results in increased satisfaction with corporate climate and culture and significantly affects their loyalty to the company. It has also had a very positive influence on the image of Valamar as an employer which has resulted in growing number of open job and internship applications.

MICROFACTS

Valamar Academy not only results in higher satisfaction with corporate climate and culture but it also significantly increases employee loyalty to the company

VALAMAR ACADEMY



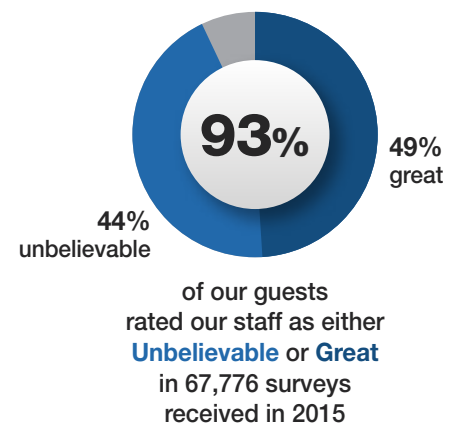
Motivate and develop the organization to ideally support the strategic initiatives in terms of the right level of empowerment, skills and corporate culture

Valamar has been growing significantly over the past years. We understand that, with the increasing size and complexity, new management models, a strong corporate culture and high involvement of the entire organization in change initiatives and processes are a priority.

We are especially focused on strengthening our organization to support our future investment, development. Key elements are the empowerment of on-site managers and employees, training and development of staff. Our guest-centric Uplifting Service program is designed to develop a corporate culture which motivates employees to understand customers, go beyond expectations and deliver unbelievable service. The program is fully aligned with our compensation and rewards programs and activities.

In 2013 Valamar began implementing "Uplifting Service" as a service management approach with the goal of transforming our hospitality culture and becoming the most best and the most recognized hospitality service provider on the Adriatic. Uplifting Service is a systematic approach to service excellence which aligns communication, motivation, education and every day tools for employees in order to create an environment and culture which is fully oriented towards the guest.

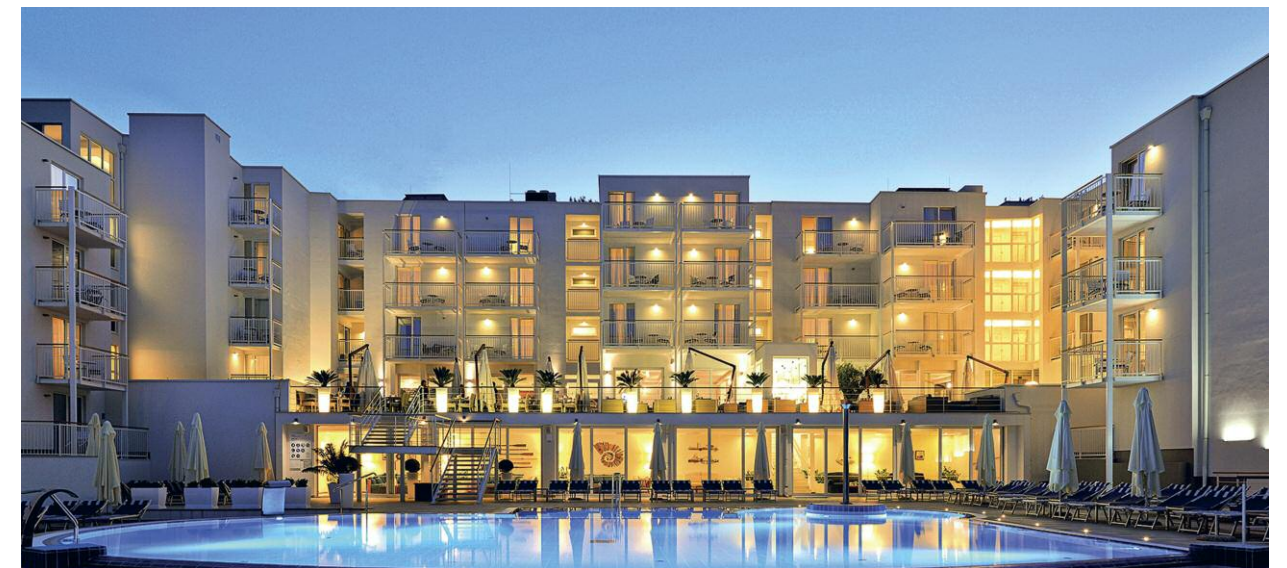
In 2015 we have designed a new complaint management system and our entire management team in properties has gone through a variety of custom-designed Uplifting service training programs. Uplifting as an approach to service excellence, quality management and employee engagement has been awarded as the best HR Practice in Croatia.



AWARDS AND RECOGNITION PROGRAMS



*without management who are motivated through annual bonus programs



Offer highly competitive working conditions to ensure high motivation and satisfaction of our employees and become the most desirable employer in Croatia's tourism

We are fully aware that Valamar's success depends on its employees. To realize our strategic goals, and achieve service excellence we rely on exceptionally educated, highly motivated and satisfied employees.

Therefore, our aim is to become the most desirable employer in Croatia. For this purpose we are developing tailored packages for our seasonal and full-year employees, including a comprehensive compensation policy, improved working conditions, special education programs and individualized career planning programs.

In 2015, the Company was awarded an Employer - Partner Certificate for the tenth consecutive year. Valamar is also the only tourism company among the Top 5 Employer Partners in Croatia. Top 5 Employer Partners include companies who have successfully integrated a strategic approach to human resource management, including transparent employee placement process, setting clear goals, measuring employee's output, awarding results, supporting career advancement, investing in employee career development, and encouraging two way communication

through variety of channels. Valamar Riviera confirms our commitment to employees through a collective agreement which guarantees our employees base compensation levels and other benefits such as compensation for sick-leave or other disability, retirement package, Christmas bonus, financial support for children and various others.

Valamar measures the satisfaction of employees on various dimensions through an annual Corporate Culture and Climate survey which collects employee feedback in the following seven areas: organization of tasks and processes, leadership, education, attitude towards the employer, career opportunities, compensation and life-work balance. The level of satisfaction has been stable and high at 3,9 out of 5 for several years. All key areas of Corporate Culture and Climate achieve employee satisfaction over 3,3, and the following areas rate very highly (over 4): organization of tasks and processes, leadership, education and attitude towards the employer. In 2015 3,099 employees submitted the Corporate Culture and Climate Survey

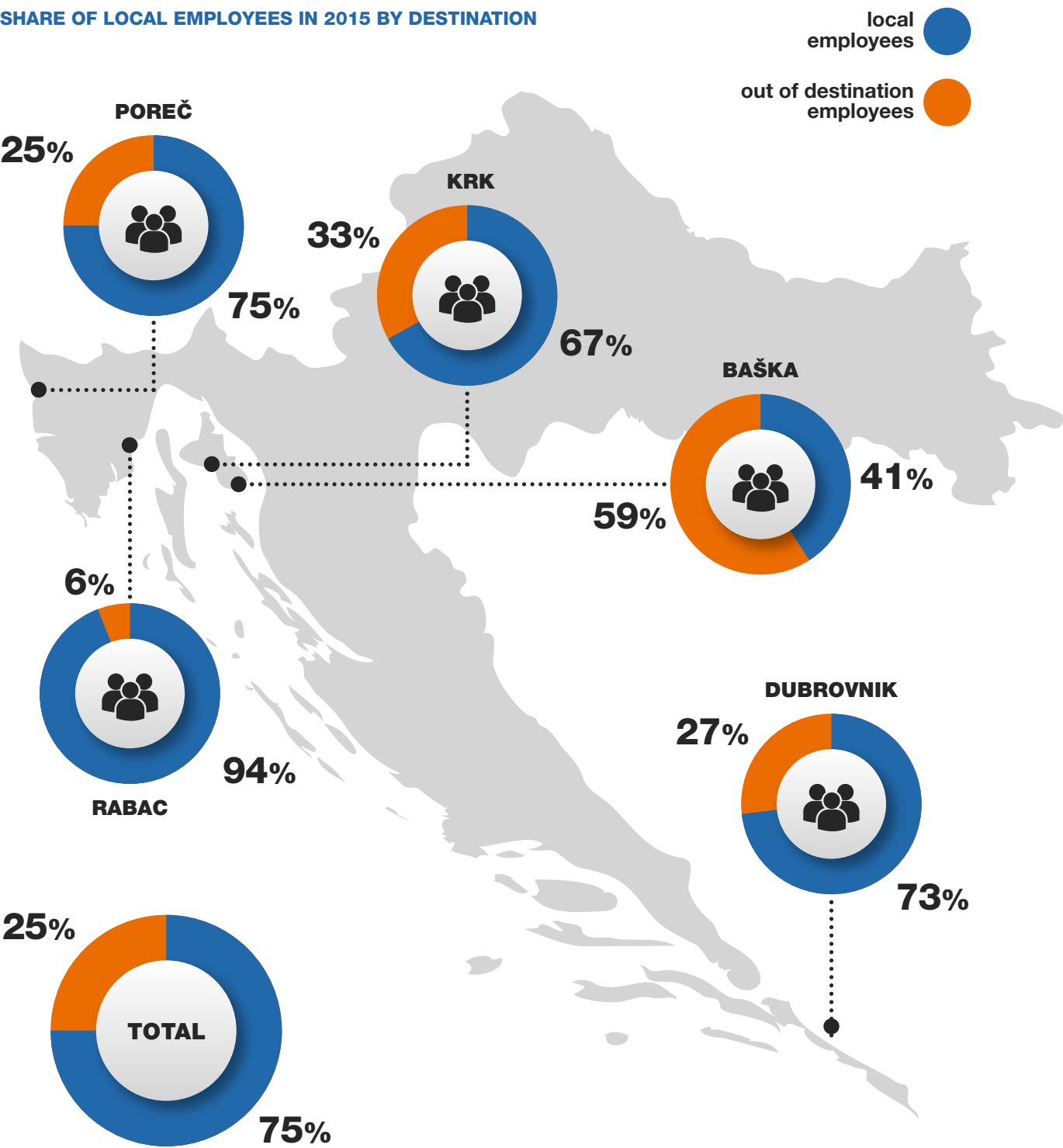
MICROFACTS

The level of employee satisfaction has been stable and high at 3,9 out of 5 for several years

Increase employment with a special focus on local employment

In order to improve the authenticity of our service and to support the local economies Valamar especially promotes employment in destinations, with average share of local workers in a destination of 75%.

SHARE OF LOCAL EMPLOYEES IN 2015 BY DESTINATION



4.3 GROWTH STRATEGY

Valamar has an excellent track record of growth in both revenues and profit which we aim to carry on in the future.

We currently recognize a huge potential in the market on one side and affordable financing cost on the other side. Therefore, we are convinced of our strong internal capability to continue down our strong growth path in the years to come. We identified eight key elements that will support our growth initiative in both revenues and profits.

Invest CAPEX to upgrade the portfolio with optimal ROI

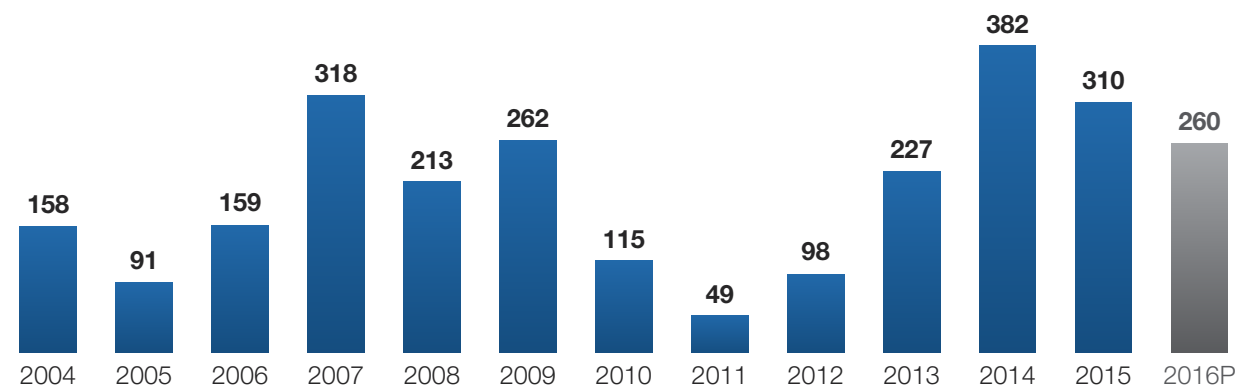
Since 2012 we have invested yearly average of 255 mn HRK in order to upgrade the portfolio whereby we increased our share of premium and upscale keys from 29% to 42%.

Most of the upgraded projects exceeded expectations and are providing an excellent return on investment. Besides high efficiency in

investment and construction processes, the right level of CAPEX is crucial for optimal returns. We believe our successful track record best proves our ability to further upgrade the portfolio in order to bring the portfolio to an optimal state. Therefore, we plan to intensify our investment activity in the next period by investing 1.5-2.0 bn of HRK in upgrading and repositioning of the portfolio

INVESTMENT CYCLE (CAPITALIZED INVESTMENTS, m HRK)

Total of HRK 2,6bn



Address target groups in a better way through clear portfolio repositioning, differentiation and branding/service concepts

We have extensive experience in uplifting our assets with a clear guest focus. A key component of our guest-centric initiative is a clear portfolio positioning that efficiently addresses our target groups.

Translating it into our organization means having not only the optimal portfolio differentiation, but also clear branding and service concepts designed to fulfil specific market segment needs and desires. By enhancing our positioning, we expect to increase occupancy and average daily rates, which will in turn, boost our revenues and EBITDA.



Increase direct bookings and the share of loyal return guests

Creating loyal and returning guests not only boosts our revenues, but also provides us with an opportunity to increase the share of direct bookings. In 2015 Valamar Riviera generated 46,5% of roomnights or 372.5 mn HRK through Valamar direct distribution system: call center, direct reservation through web or mobile platform and loyalty program.

We will continue to develop our loyalty strategy to further create added value to our customers. In addition, we will continue to develop our websites, e-marketing and technology in order to boost traffic to our websites and increase: website unique visitors (2015: 3.6 mn), phone&email requests (2015: 242.000) and number of reservations (2015: 50.600). By 2020 we aim to reach 50% of total reservations through direct bookings and 30% of loyal returning guests.

REPEATING GUESTS

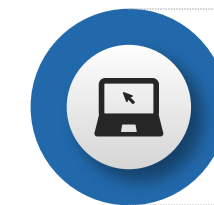


2015 **25%**



AIM 2020 **30%**

DIRECT BOOKING (BY REVENUES)



2015 **38%**



AIM 2020 **50%**

Leverage our market leadership for strategic partnerships with other markets and knowledge leaders along the entire value-chain

We see strategic partnerships as an important initiative to improve profitability, optimize revenue streams and generate know-how. Thus, we are particularly proud of our strategic partnerships with tour operators and travel agencies, which we aim to strengthen even further by exploring new cooperation areas.

We managed to intensify our strategic partnership with TUI by extending our offer to TUI's Family Life Hotel concept in 2016. We are developing our new F&B and outlets strategy, which will further involve our operating partners in joint improvement of services in the next years.

We establish and maintain good long-term relations with our partners. Valamar co-operates with a vast array of reputable companies. Valamar Riviera builds long-

term business relations with a large number of partners and suppliers, primarily focusing on excellence of products and services in compliance with international standards and sustainability principles. Supply and delivery of goods and services is primarily contracted with local suppliers (over 95%), which directly strengthens the local market economy. The involvement of local suppliers encourages healthy competition, strengthens supply and demand, contributes to cost efficiency, encourages long-term partner relations and raises guest satisfaction through the experience of local and authentic products and services. Adhering to high standards of quality of products and services, maintenance of ethical and correct business relationships, meeting deadlines and maintenance of long-term business co-operation are imperative for joint business success and growth of Valamar Riviera and our partners.



Prolong the season by introducing new programs and defining tailored actions in a joint effort with destinations and partners

Over the past years we have built trustworthy relationships with our strategic partners and the destinations we operate in.

For years now, we have been working with important tour operators such as TUI and Rewe group, tennis specialists Zicshka and Wagner, as well with Croatian specialist ID Riva and camping specialist Gebetsroither. All of the mentioned are successful examples of cooperation with tour operators and

travel agencies and we aim to establish similar cooperations in the future with partners that can help to increase occupancy by bringing new fly markets and specialized groups. We also aim to further intensify our event management activities to create additional business in shoulder season. To round up our efforts we aim to continue developing special programs for specific target markets in order to create products that can increase the business out of the sun&sea season such are: tennis, bike, gourmet, short-break and similar.

OUR STRATEGIC PARTNERSHIPS

HOTELS & RESORTS



CAMPING RESORTS



MICROFACTS

We aim to continue developing special programs for specific target markets in order to create products that can increase the business out of the sun&sea season



Acquire strategic targets to grow in the resort hospitality market in the Alpe-Adria region

We believe in the potential of growth of Croatian tourism and we are actively looking for further enlargement of our portfolio to reinforce our leadership in the Croatian leisure market.

Our corporate structure and business model of being at once an asset, hospitality and destination management company provides a competitive advantage for expansion due to the destination-based structure of the tourism sector in Croatia. There are still many

companies and property portfolios in Croatia that have not been seriously invested in over the last years and/or they have a need for destination development or professional operational management, which are the competitive advantages of the Valamar Riviera model. Due to similar source markets and potential operational synergies we are also considering expansion to other markets in the Alpe-Adria region with the goal of acquiring a cluster of keys in known leisure destinations.

KEY FACTS ON OUR ACQUISITION OF BAŠKA HOTELS IN 2015 [m HRK]*



*Consolidated in Valamar Riviera's P&L as of July 1st, 2015

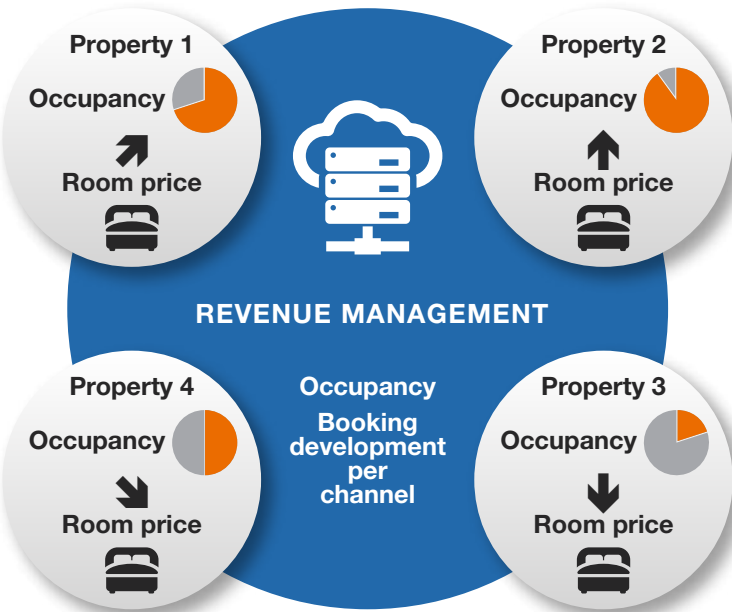
Increase revenues by optimizing pricing, occupancy and distribution channels

Valamar Riviera has for years had a clear focus on revenues. We implemented revenue management in the organization years ago and trained specialists in revenue management.

We define excellence in revenue management as selling the right room to the right client at the right moment at the right price in the right distribution channel with the best commission efficiency.

The achieved continuous growth in revenues per available unit over the last five years as well as the increase in RevPar of 5,1% in 2015 was achieved largely through an increase of average price per unit (ADR), which amounted to +6,9% ('15/'14).

INCREASE REVENUES BY OPTIMIZING PRICING AND OCCUPANCY

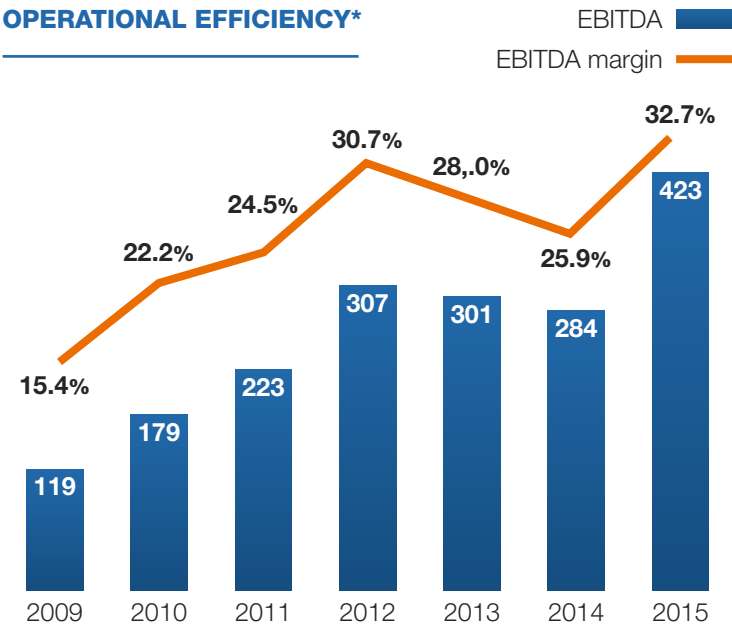


Further improve operational efficiency

Over the past years we have invested significant efforts in optimizing our cost structure and streamlining our processes. Since 2009 we improved our EBITDA margin from 15.4% to 32.7%.

Our business model of operating a cluster of properties in one destination helps to centralize operational services such as laundry, horticulture, maintenance or energy management and to increase efficiency. In addition, due to our size on the Croatian market we are able to utilize economies of scale in operations and realize purchasing advantages. A high standard of professionalism helps us to efficiently implement best practices across the organization. We aim to continue to use these strengths in order to reach our profitability targets.

OPERATIONAL EFFICIENCY*



* Note: Financial information until 2014 refers to Valamar Grupa d.d. consolidated statements; thereafter refers to Valamar Riviera d.d. consolidated statements

4.4 INNOVATION AND DIGITALIZATION

By using the opportunities provided by digitization to fully meet our guests' needs and to become a leader in innovation of products and services in the European leisure hospitality market.

Foster continuous generation of innovation throughout the company

Creating innovative products and services is a prerequisite for meeting future guest demand. Therefore, at Valamar we continuously innovate and improve our products, services, processes and capabilities to achieving superior customer experiences and operational efficiency.

Innovation has always been a part of Valamar's identity, and one of the key ways Valamar is recognized by our guests and partners. Innovation at Valamar can be found in all areas of business activity, from daily operations to large investment projects. Examples of innovation include our family service concepts, food & beverages offer, entertainment programs, property design and services in camping resorts. By focusing on innovative ideas and initiatives we seek to fulfill the needs and exceed the expectations of our guests and, ultimately, become a leader in innovation in the European leisure hospitality market.



Simplify processes and rely on digital to increase operational efficiency

Smart usage of digital and information technology not only boosts the company's efficiency but also allows our employees to focus on more value-adding activities.

Valamar has invested heavily in developing best-in-class IT systems and infrastructure that can drive our business performance and enable us to grow and scale our revenues and services. All our properties are operating on Micros Fidelio Opera PMS (property management system). Our revenue management, loyalty and CRM databases are enabled for smart data management and fully integrated with our PMS, reservations and booking systems.

We have also invested considerably and successfully in our websites as a key driver of direct sales. With the implementation of our highly automatized revenue management system we are able to manage and optimize exceptional circumstances and add value. In addition, information technology tools allow our corporate functions to fully manage human resources, accounting, finance and controlling functions in all our destinations centrally.

Create unique guest experience through digital innovation

Various parts of the guest journey became digital during the last years. We believe we need to continue digitalizing our services to ensure high guest satisfaction. A perfect planning and booking experience on our website via desktop and mobile is essential, but it is only the beginning of the guest journey.

As we continue to upgrade our portfolio and our services, we also plan to upgrade the guests' digital experience in a highly tailored way in key service areas to enable a better guest experience and ensure the right balance between personal touch and digital excellence. Standard guest services such as check-in, check-out, housekeeping, technical maintenance, F&B and other in-property services can reap benefits from

MICROFACTS

We see a very high potential in digitizing destination services to better manage the complete customer experience

digitalization both for the guest experience and from a process and cost perspective having positive impact on effectiveness and efficiency. For example, with our pilot of the housekeeping app we immediately know when the room is ready for check-in and can ensure that needed maintenance and mini-bar replenishment is performed.

We see a very high potential in digitizing destination services to better manage the complete customer experience. Managing the customer destination experience will be the focus of further digitalization and innovation initiatives going forward. Digitalization should enable an individual, guest tailored approach with the aim of adding value to both the guest as a consumer and Valamar as a provider of services.



4.5 RESPONSIBLE DEVELOPMENT OF TOURISM AND DESTINATIONS

Play a leading role in advancing Croatian tourism, developing our destinations and preserving the environment as key principles of sustainability and social responsibility at Valamar.

We will continue to be a leader and a catalyst in developing destinations, promoting local culture and protecting the environment

Corporate social responsibility (CSR) at Valamar Riviera has been a part of the company's six decade long tradition in tourism activities and is rooted in the belief that sustainability of business performance is a strategic goal and a key driver of growth and development of tourism as such.

Corporate and social responsibility at Valamar Riviera underscores and guides all strategic initiatives at the company including the development and education of employees, destination development, investment in the local community and care for those in need, a systematic approach to preserving the environment and the quality of the Adriatic sea as well as the transparency of the Company to its stakeholders with emphasis on transparent and open communication to investors and shareholders.

We have structured all our current corporate social responsibility

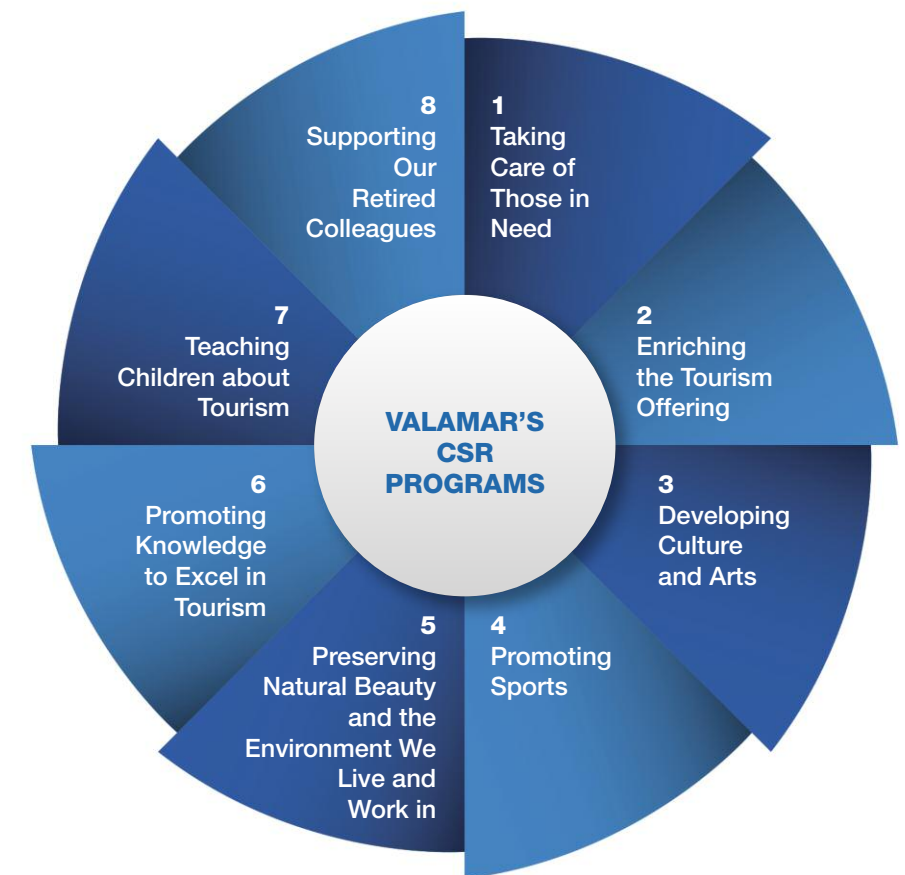


efforts across organizational units and functions into eight important umbrella programs and have committed 2.5% of our annual revenues to projects and activities in these CSR programs.

For results achieved in responsible corporate practices in 2015 Valamar Riviera has won the CSR Index Award for the area of responsible policies and practices in managing its environmental impact. The award is bestowed by the Croatian Business Council for Sustainable Development and the Croatian Chamber of Commerce.

VALAMAR'S EIGHT OVERARCHING CORPORATE SOCIAL RESPONSIBILITY PROGRAMS

Through our CSR programs we support socially responsible projects with more than HRK 37 m in 2016



Protect, promote and develop our destinations' touristic offer, heritage, culture, traditions, learning and innovation

We are aware that success of our hotels and resorts largely depends on further development of destinations we operate in.

Therefore, we take an active role in developing destinations through various strategic projects and long-term cooperation with our municipalities and public authorities, tourist boards, events and service providers, associations, sports clubs and non-profit organizations. Our destinations are extremely rich in heritage and culture. We believe that by promoting and

fostering the destinations' tradition, learning and innovation we can not only actively contribute to social development but also offer heightened and more authentic experiences to our guests.



“ENRICHING THE TOURISM PRODUCT” CSR PROGRAM

supports cultural, culinary, educational and entertainment events, projects and initiatives which enhance the attractiveness and competitiveness of a given destination. At the annual level, the company allocates over HRK 10 million on average for various events that enrich the overall tourism product and contribute to an extension of the tourist season while also nurturing the local community's cultural identity and values. Thus, in 2015 we supported a series of destination projects such as Giostra, the Labin Republic, the carnival in Labin and so forth, and we also elevate the quality of the tourism product through infrastructure projects such as construction and landscaping of beaches, promenades and cycling trails, in which we plan to invest approximately HRK 12 million in 2016. For three years in a row we have organized Oktoberfest in Poreč which has already become a tradition.

“DEVELOPING CULTURE AND THE ARTS” CSR PROGRAM

provides continuous support to the creativity of Croatian and international artists and many cultural initiatives and projects that have generated numerous artistic works. At the annual level, Valamar directs

approximately HRK 200,000 to underwrite projects in culture and the arts. The driver of Valamar's cultural program is the “Artist on Vacation” project in cooperation with art collector Marinko Sudac and the Institute for Research into the Avant-garde. The project has created an artistic platform with global significance. In 2015, in a relaxed summertime atmosphere, Poreč hosted the most prolific version of this cultural event, featuring a series of respected international names in the neo-avant-garde, such as the renowned artist Ewa Partum. In the past four years, the project has hosted over 50 of the best known artists in the world, and exhibitions of their works have been organized in the Museum of Contemporary Art in Zagreb. A part of the project included an exclusive exhibition of the best-known Croatian neo-avant-garde group, Gorgona, which after Poreč was presented in the renowned MOMA in New York. For 33 years, Valamar has organized the Painters' Colony, which has produced over 200 artworks by numerous artists with the aim of promoting culture and linguistic diversity. The Street Art Festival was held in Poreč in August 2015 with the support and participation of Valamar Riviera. The Festival gathered some notable personalities from the world of free cultural expression and truly invigorated the old urban core of Poreč.



“PROMOTING SPORTS” CSR PROGRAM

Valamar Riviera directly organizes or sponsors numerous sporting events with a value of almost HRK 2 million annually. Sporting events are organized at virtually all of Valamar's destinations with the objective of developing these destinations and promoting sports and the active lifestyle. In 2015, Valamar Riviera supported the organization of the Swatch Beach Volleyball Major international tournament. It organized the Valamar Terra Magica bicycle race, the Valamar Trail race and the SUPer Surfers Challenge Poreč, and sponsored the Dubrovnik Half-marathon – the first international sporting event of this type which, besides the healthy lifestyle, also promotes Dubrovnik as an ideal destination. We were also sponsors of the Offshore World Challenge – a tuna fishing competition – which promoted Poreč as a big game destination of international significance and also contributed to the popularity of this attractive and – in Croatia – still insufficiently known sport, and to education on the protection of the sea and marine resources.

“KNOWLEDGE TO EXCEL IN TOURISM” CSR PROGRAM

focuses on continual cooperation with vocational schools and colleges and serves

as a major contribution to the development of knowledge, expertise and education and the promotion of vocations in tourism. In 2015, cooperation with educational institutions continued with the organization of Open Doors Day, in which the company brings its operations closer to the local community, especially to pupils in vocational schools and potential employees. We support the development of various educational programs for pre-school and elementary school institutions and associations in order to familiarize even the youngest generations with the fundamentals of tourism. Thus, beginning this year, as part of Valamar's **“Teaching Children About Tourism”** CSR program, visits were planned so that groups of children from kindergartens at the destinations where Valamar operates can learn about occupations in tourism and the hotel industry through games and entertainment.

“SUPPORTING OUR RETIRED COLLEAGUES” CSR PROGRAM

secured support for our former employees in 2015 by assisting the work and activities of the local branch of the Rivieraš retired employee association at the Poreč destination, and support for their activities will continue in 2016.



Be a role model for environmental protection in Croatia

As a leading hospitality company in Croatia we assume great responsibility for environmental protection. Thus, we will pursue a systematic approach to protect the environment and the Adriatic coast by implementing the highest standards of environmental protection and sustainability in our operations and investment practices.

„PRESERVE THE NATURAL BEAUTY AND THE ENVIRONMENT WHERE WE WORK AND LIVE” CSR PROGRAM was born from our conviction that a preserved and attractive environment is the basic resource for tourism. So Valamar continuously works to improve environmental protection and sustainable development. The company recognizes all aspects of environmental impact management, and dedicates particular attention to compliance with legal and other standards, prevention of pollution as a fundamental approach to environmental management, rational use of resources, reduction and proper management of waste and staff training to handle any potential hazards.

VALAMAR CONTINUOUSLY IMPROVES ENERGY EFFICIENCY AND RENEWABLE ENERGY USE

Over the past three years, the company has invested over HRK 12 million in energy efficiency projects. In 2015, we reduced greenhouse gas emissions by almost 500 tons, which is a reduction of over 9 percent

per overnight. In subsequent years, we expect even greater progress, because since the beginning of this year, we have been purchasing electricity generated exclusively using renewable sources through the Green Energy Project conducted by Croatia's national electric utility, HEP. We will thereby reduce greenhouse emissions by as much as 60% at the annual level. We had already begun investing in green technologies back in the 1980s by installing the first solar collectors in the camps at Lanterna, which today extend over 2,800 m² with a constant growth tendency. All of our investments are geared toward sustainable operations: we install high energy efficiency machinery and appliances, light fixtures are being replaced with environmentally-acceptable lighting elements (energy-saving fluorescent and LED lights), etc. Solar energy is being used to heat water in residence and camping resorts. Valamar Riviera has a total of 43 electrical vehicles at its destinations worth over HRK 2.5 million, and we have also invested in two electric vehicle charging stations in Poreč

OUR CONTRIBUTION TO THE ENVIRONMENT

100%
of electricity coming from renewable energy sources - Aim 2016

2%
reduction of our carbon footprint per overnight in 2015 compared to 2014

49 new electric cars –
Enlargement of our vehicle park over the last five years (incl. 2016)

65,000 m³
Use of grey water instead of clean for watering – Est. 2016



VALAMAR INSPIRES GUESTS, EMPLOYEES AND DESTINATIONS TO PRESERVE THE ENVIRONMENT

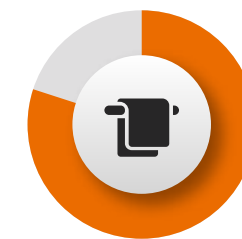
Valamar Riviera continually encourages its guests and employees to behave in a manner that contributes to environmental protection.

An example of our approach to environmental protection is the agreement with the municipality of Poreč to become the biggest buyer of recycled grey water in the area. This supported the municipality in planning the county's new water purification plant. For us it was not only a significant contribution to the environment, but also a means to reduce the watering costs of our green areas.

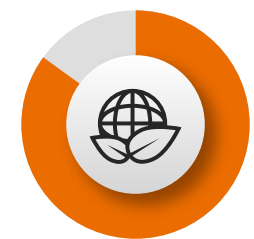
Valamar Riviera has been supporting the work of the Blue World Institute for Marine Research and Protection. Since the beginning, the dolphin protection project has become a global best practice example successful integration of scientific research and practical preservation of an endangered species. →

OUR GUESTS CARE FOR THE ENVIRONMENT

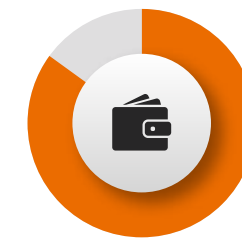
In 2015 a survey of 1.700 guests was conducted at 17 Valamar properties



80%
do not expect the frequent changing of towels, nor bedding



83%
of guests noticed and supported the environmentally-friendly approach in our hotels



62%
are prepared to pay more for eco-products



SUSTAINABILITY & QUALITY CERTIFICATIONS & AWARDS

The efforts which Valamar dedicates to environmental protection and sustainable operations have been acknowledged by respected professional organizations, and they have conferred important honours to us, so that our hotels proudly bear seals and certificates such as Sustainable Hotel, Travelife Gold Award and TUI Environmental Champions, and as many as 11 of our beaches hold the Blue Flag

certification. This is a global symbol of quality for a preserved environment, clean water and beaches, well-managed beaches and high-quality services.

High environmental protection standards are also confirmed by numerous certifications.

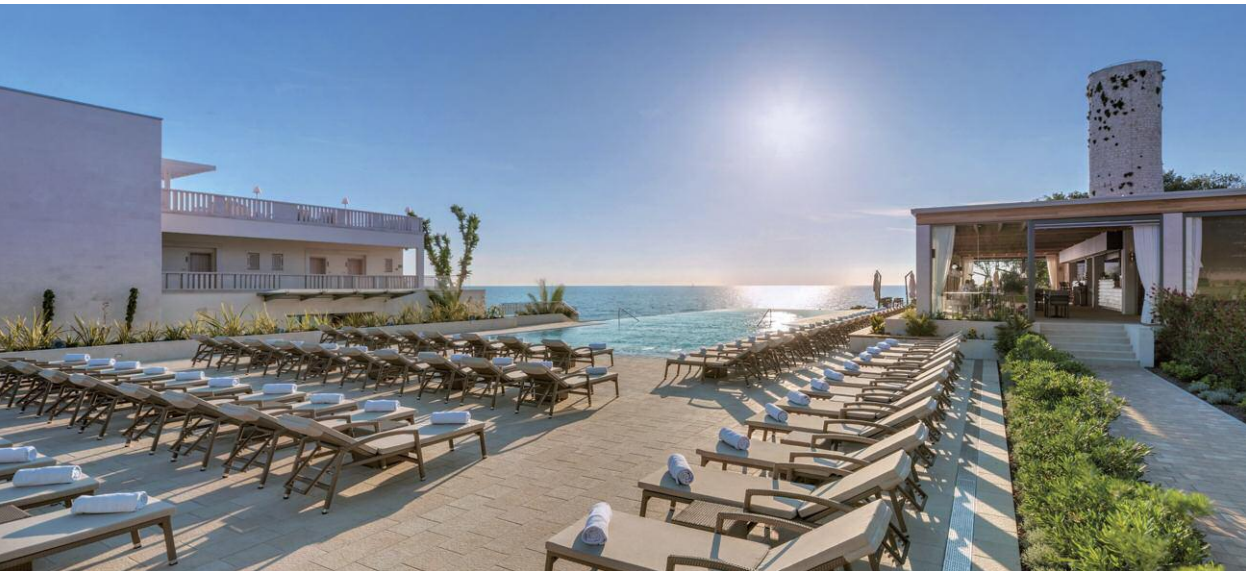
As measured by keys, **80% of our campsite resorts** and **63% of our hotel & resort keys** are **ISO 14001** certified, and **58% of hotel and resort keys** also boast a **Travelife certificate** confirming our commitment to managing quality and processes to the highest international standards, as well as managing our environmental impact and preserving natural resources



SUSTAINABLE HOTEL CERTIFICATES

Thanks to their application of global trends and best management practices for sustainable operations, in May 2015 the hotels Valamar Dubrovnik President 5*, Valamar Zagreb 4* and Valamar Bellevue 4* were granted the Sustainable Hotel certificate. The Valamar Dubrovnik President received the superior certificate, while Valamar Zagreb and Valamar Bellevue received basic certificates.

All hotels must meet the rigorous criteria for “green, sustainable hotels,” which include preservation of the environment and care for employees and the surrounding community. The second generation of hotels was awarded in 2015, while in 2014 the first certificates for green operations were conferred to the Hotel & Casa Valamar Sanfior 4* and Valamar Koralj 3*



TRAVELIFE GOLD AWARD

In 2015, 16 of our hotels received or extended the Travelife Gold Award certificate. Travelife is an international certification system which promotes sustainability in the tourism sector. The Sustainable Hotel and Travelife Gold Award certificates were preceded by systematic field work that encompassed the compilation of detailed reports on energy and water consumption and waste management, with specific

measures aimed at saving resources and reducing the quantity of waste and caring for the employees and local communities.

The strategic objective of the certification project is to introduce green business practices and to strike a balance between economic progress, care for the environment in the broadest sense and social inclusion in the wider community. →

HOTELS WITH TRAVELIFE GOLD AWARD CERTIFICATE

Allegro Hotel	★★★	Rabac
Hotel & Casa Valamar Sanifor	★★★★	Rabac
Miramar Hotel	★★★	Rabac
Valamar Argosy Hotel	★★★★	Dubrovnik
Valamar Bellevue Hotel & Residence Albona	★★★★	Rabac
Valamar Club Tamaris	★★★★	Poreč
Valamar Crystal Hotel	★★★★	Poreč
Valamar Diamant Hotel & Residence	★★★★	Poreč
Valamar Dubrovnik President Hotel	★★★★★	Dubrovnik
Valamar Isabella Island Resort	★★★★★	Poreč
Valamar Koralj Romantic Hotel	★★★	Island Krk
Valamar Lacroma Dubrovnik Hotel	★★★★+	Dubrovnik
Valamar Pinia Hotel & Residence	★★★	Poreč
Valamar Riviera Hotel & Residence	★★★★	Poreč
Valamar Rubin Hotel	★★★	Poreč
Valamar Zagreb Hotel	★★★★	Poreč



GREENOVATION

The Valamar Lanterna camp in Poreč won the first Croatian award for development of the green economy, called Greenovation, which was conferred in 2013 in the Overall Efficient Resource Use in Tourism Facilities category. This award is a confirmation of Camp Lanterna's many years of efforts to develop a

thrifty, green and competitive economy which the company has been implementing on the entire peninsula over the past 30 years.



Involvement and Support in the Community

The spirit of caring for those in need and supporting them with a big heart has always been part of Valamar's identity and role in the communities of our employees, guests and partners.

“BIG HEART” CSR PROGRAM

continually supports associations and initiatives in the local community which care for the most threatened and needy people in the community. Guests at all of Valamar's destinations actively participate in these projects, and their donations contribute to the cultivation of a culture of mutuality, while many of Valamar's employees support humanitarian initiatives on a voluntary basis. One of these projects, which has been ongoing for three years now, is called “A Thousand Days on the Adriatic Sea,” which supports the work of institutions, associations and schools that work with children who lack adequate parental care, children from low-income families or children with specific health problems who would benefit from stays on the sea and special needs children. As part of this project in 2015, over 1,400 free overnight stays in our hotels were granted free of charge, and last year alone about 380 children from 17

associations throughout Croatia experienced their first summer vacation on the sea. As part of the “Valamar's Big Heart” Program, we also support numerous associations, organizations, institutions and projects at all of our destinations which engage in a very broad range of activities but are characterized by recognized programs to help needy groups or unquestionably valuable and necessary work in society and the wider community.



5.

INVESTOR RELATIONS

Valamar Riviera is committed to continuously improve the transparency and quality of business and financial communication with investors. In this manner we aim to provide active support to liquidity, share value growth and especially investor involvement as one of the contributors to increasing the value of Valamar Riviera shares to all stakeholders. The purpose of all our efforts is to ensure that Valamar Riviera share is recognised as the leading tourism share in Croatia.

Furthermore, we strive to contribute directly to increasing the transparency of Valamar Riviera as a company as well as the quality of communication with analysts and investors through regular corporate presentations both in Croatia and abroad, group and individual meetings, conference calls and by providing comprehensive content and in all publicly available financial and business reports.

The objectives of Investor relations:

- Increasing investor demand;
- Facilitating investment decisions
- Expanding opportunities for growth and profitability;
- Increasing share value;
- Reducing the cost of capital;
- Boosting the potential for growth and/or acquisition financing.

After integrating management, tourism portfolio and the shareholder structure of Valamar Riviera in 2014 we created a leading and unique share on the Croatian capital markets which offers a significant exposure to the growing sector of tourism industry. In November 2014, Valamar Riviera General Assembly reached a decision to list the Valamar Riviera shares on the Official Market of the Zagreb Stock Exchange, with the first day of trading on 17th December 2014. The quotation on the demanding Official listing of the Zagreb Stock Exchange and an increased level of transparency were aimed at attracting institutional →

→ investors who, until then, had limited access to the growing Croatian tourism sector. Growing investor interest, especially by foreign investors, has confirmed the justifiability and the success of this approach.

During the period 1st January 2015 to 31st December 2015 the highest share price achieved on the regulated market was HRK 24.94, and the lowest HRK 18.55. During the respective period, Valamar Riviera share price increased by 21.1% thereby exceeding the CROBEX and CROBEX 10 indices performance, which recorded a drop of 2.9% and 1.1%

respectively. Due to the average daily trading volume of over HRK 813 thousand and the largest free-float of over 50%, Valamar Riviera shares rank amongst the three most liquid Croatian shares listed on the Zagreb Stock Exchange. Valamar Riviera shares also rank amongst the top ten shares by market capitalisation. Market capitalisation in excess of HRK 3 billion accounts for 2.5% of the total market capitalisation of shares traded on the Zagreb Stock Exchange. In addition to the Zagreb Stock Exchange indices, shares are also listed on the Vienna Stock Exchange (CROX and SETX indices).



INVESTMENT PROPOSITION

VALAMAR RIVIERA

The largest Croatian tourism company and the first Croatian hotel brand

10% of Croatian categorised accommodation capacity

Major tourist destinations (Istria, Krk and Dubrovnik)

Increasing profitability and further growth potential

High share liquidity, large free-float and excellent IR standards

Sustainable dividend potential

CROATIAN TOURISM

Attractive geographic position in the Mediterranean

Continuous increase in overnights and arrivals in Croatia

Low share of high quality accommodation capacities (4* and 5*)

Stable increase in hospitality sector revenues



VALAMAR RIVIERA SHARE

Name of the Stock Exchange	Zagreb Stock Exchange (ZSE) = RIVP-R-A Bloomberg = RIVPRA CZ Reuters = RIVP.PAp
ISIN code:	HRRIVPRA0000
Number of issued shares:	126,027,542
Number of votes per share:	1
Date of listing (Zagreb Stock Exchange):	15 December 2014 (126,027,542 shares)
Zagreb Stock Exchange indices in which Valamar Riviera share is included:	CROBEX CROBEXtr CROBEX10 CROBEXplus CROBEXtourist
Vienna Stock Exchange indices in which Valamar Riviera share is included:	SETX CROX

Valamar Riviera is the most followed Croatian share by financial analysts. Financial analysts establish its target value based on their assessment of future performance of the company using various financial models (discounted cash flow, peer group and comparables approach, market valuation...). The crucial prerequisite for a high quality assessment of future business performance is the high level of transparency and open business communication provided by the management.

Analyst coverage of Valamar Riviera is provided by:

- 1) Alta invest d.d., Ljubljana;
- 2) ERSTE bank d.d., Zagreb;
- 3) Hypo Alpe-Adria-Bank d.d., Zagreb;
- 4) Interkapital vrijednosni papiri d.o.o., Zagreb;
- 5) Raiffeisenbank Austria d.d., Zagreb;
- 6) UniCredit Group - Zagrebačka banka d.d., Zagreb

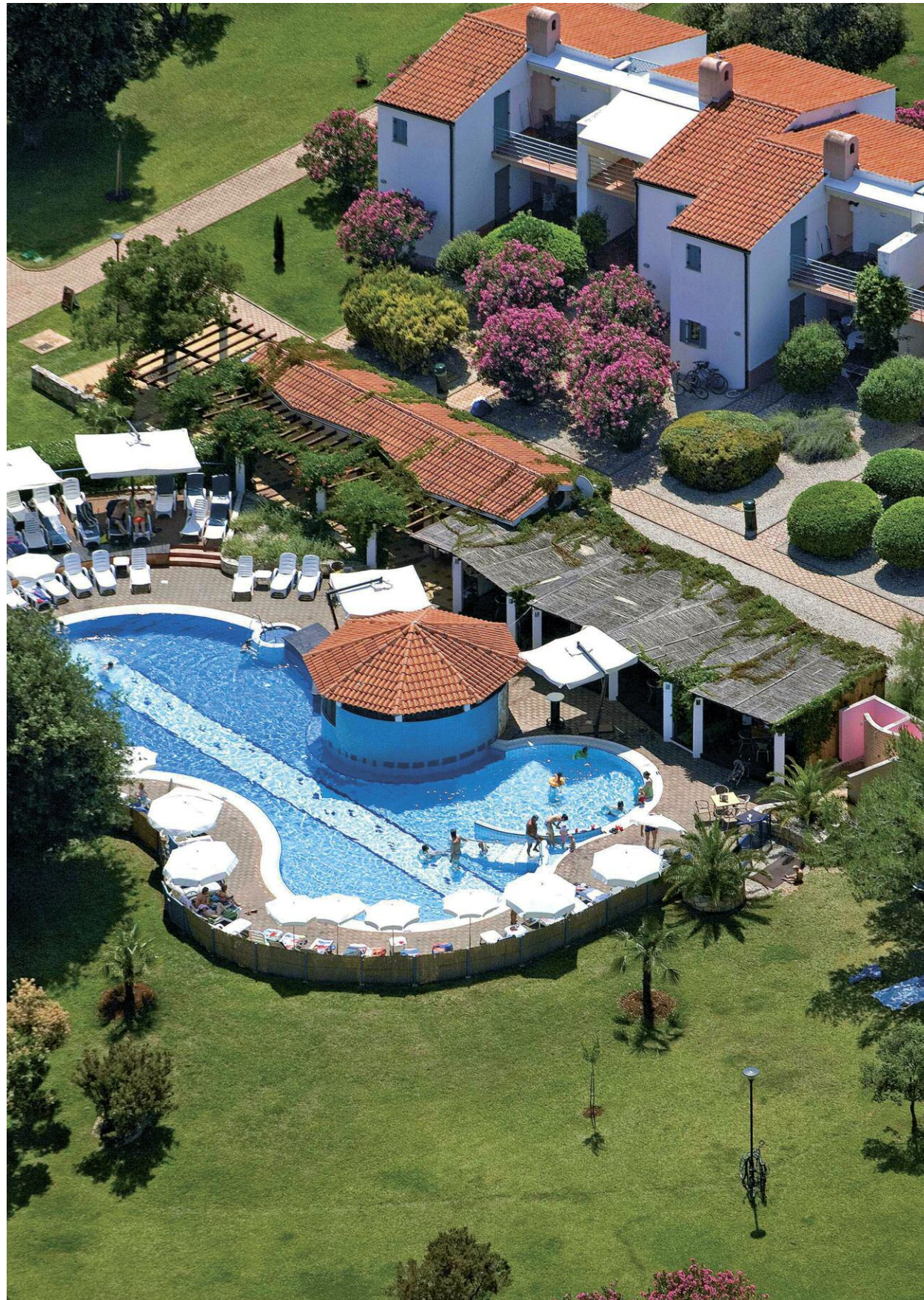
AWARDS RECEIVED IN 2015



- Valamar Riviera was presented with the award for Best Investor Relations by Poslovni dnevnik in co-operation with the Zagreb Stock Exchange;
- Valamar Riviera was declared the Best Managed Hospitality Company in the CEE region by Euromoney, the leading specialist financial magazine;
- Valamar Riviera Share was declared the Share of the Year in 2015 by the investing public for the fourth consecutive year;
- Valamar Riviera share won the Share with the Highest Increase in Trading in 2015 by the Zagreb Stock Exchange;
- Marko Čižmek, best CFO in 2015 as selected by banka.hr portal and Deloitte company.

MICROFACTS

Valamar Riviera is the most followed Croatian share by financial analysts



6.

AWARDS & RECOGNITIONS

Valamar Riviera continually invests in enhancing the quality of its products, services and , and these efforts are recognized every day by the broader community, hospitality professionals, institutions, and our partners.

In 2015, Valamar Riviera received over 100 awards and certificates that were conferred to the company, its employees, and individual hotels, resorts and camping resorts in the destinations where we operate.

Valamar Riviera's hotels, resorts and campsites operate at the highest quality standards for services and accommodation, which is regularly recognized by both hospitality professionals and our guests. The awards, honours and ratings that rank our properties among the best at respected global travel portals and organizations place Valamar at the very top echelon of Croatian tourism.

INTERNATIONAL AWARDS AND ACKNOWLEDGEMENTS

LuxuryTravelGuide Global Awards 2016		Casa Valamar Sanfior
World Travel Awards	Leading Summer Resort in Croatia	Valamar Club Tamaris
	Leading Boutique Hotel	Hotel Valamar Riviera
	Leading Hotel	Valamar Lacroma Dubrovnik
	Leading Business Hotel	Valamar Lacroma Dubrovnik
Hotels.com	Guest Review Score	Hotel Valamar Riviera
		Hotel & Casa Valamar Sanfior
HolidayCheck	2015 Award	Hotel & Casa Valamar Sanfior
Travelife	Travelife Gold Award	Valamar Diamant Hotel & Residence
		Valamar Crystal
		Valamar Rubin
		Valamar Isabella Island Resort
		Valamar Zagreb
		Valamar Club Tamaris & Valamar Tamaris Residence
		Valamar Riviera Hotel & Valamar Villa Parentino
		Hotel & Casa Valamar Sanfior
		Valamar Bellevue Hotel & Residence
		Allegro
		Miramar
		Valamar Koralj Romantic
		Valamar Dubrovnik President
		Valamar Lacroma Dubrovnik
		Valamar Argosy
		Valamar Pinia Hotel&Pinia Residence
TripAdvisor	2015 Travellers' Choice Award	Valamar Bellevue Hotel & Residence
	2015 Certificate of Excellence	Miramar Hotel
TUI Deutschland	TUI Environmental Champion 2015	Valamar Club Tamaris &
		Valamar Tamaris Residence
		Valamar Dubrovnik President
		Valamar Lacroma Dubrovnik

Thomas Cook	Proven Quality 2015	Albona
		Crystal
		Diamant
		Koralj
		Miramar
		Pical
		Rubin
		Riviera
		Sanfior
		Valamar Club Tamaris
		Zagreb
FIT Reisen	Premium Quality Hotel - Wellbeing	Valamar Diamant
Zoover	Kids HolidayTip! Quality Mark 2015	Valamar Club Tamaris
		Valamar Zagreb
	Zoover Award Gold 2015	Krk Camping
	Zoover Award Bronze 2015	Ježevac Camping
		Lanterna apartments
Camping2be.com	Camping2be 2015 Award	Marina Camping
ADAC/ANWB	Best Camping 2015	Lanterna Camping
		Krk Camping
The European Business Awards 2014/2015		Valamar Riviera d.d.
Leading Campings of Europe for 2015		Lanterna Camping
		Krk Camping



7. CORPORATE GOVERNANCE

As a joint-stock company owned by more than 21,000 shareholders Valamar Riviera d.d. is committed to the highest principles of good corporate governance and regulatory compliance.

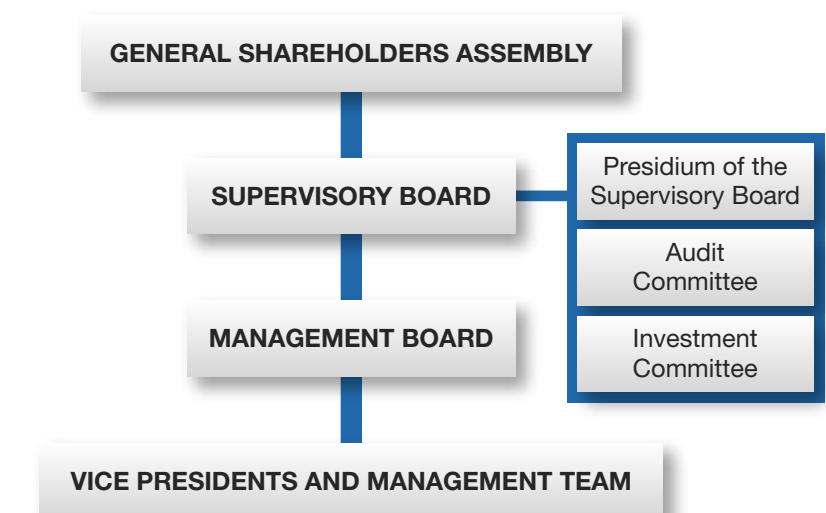
Corporate structure

A well-defined and clear corporate structure is the foundation for effective strategic and operational management of the Company.

Valamar Riviera d.d. key governing bodies are the General Shareholder Assembly, the Supervisory Board with its corresponding delegate committees and the Management

Board led by the President of the Management Board or CEO of Valamar Riviera.

The specific governance authorities and responsibilities of these governing bodies are regulated by the applicable Croatian legislation, Company Statute and other corporate governance codes, regulations or prescribed procedures.



The Supervisory Board

Supervisory Board consists of 7 members, of whom 2 are independent and one is an employee representative.

The Supervisory Board meets at least four times per year. The Supervisory Board is actively engaged in key management

decisions through corresponding delegate committees which meet more often to manage key strategic initiatives and support Supervisory Board decision-making process.

- Presidium of the Supervisory Board
- Audit Committee
- Investment Committee

		Mandate until		Supervisory Board	Presidium of the Supervisory Board	Audit Committee	Investment Committee
Gustav Wurmboeck	Chairman	07/2017	Proprietary	■	■	■	■
Franz Lanschuetzer	Deputy Chairman	07/2017	Proprietary	■	■	■	■
Mladen Markoč	Deputy Chairman	07/2017	Independent	■	■	■	
Georg Eltz Vukovarski	Member	07/2017	Proprietary	■		■	■
Vicko Ferić	Member	07/2017	Proprietary	■		■	■
Hans Turnovsky	Member	07/2017	Independent	■			■
Mariza Jugovac	Member	07/2017	Employee Representative	■			
Annual meeting frequency				4x	10x	4x	4x

The Management Board

The management Board consists of two members,

- President of the Management Board Željko Kukurin
- Member of the Management Board Marko Čižmek.

The President of the Management Board is primarily responsible for formulating and managing the company's strategic, operational and financial activities. In addition, the President is individually

leading the following areas: hotel operations, marketing & sales, human resources, destination management, purchasing, investment and asset development, external affairs and public relations, quality management, controlling, legal and general affairs.

Member of the Board Marko Čižmek is primarily and individually responsible for finance, accounting, treasury, IT and institutional investor relations

Senior Management Team

Strategic corporate business functions are organized in 4 divisions which are led by four Vice Presidents:

- Sales & Marketing, VP Davor Brenko
- Operations, VP David Poropat
- Asset development, Maintenance & Technical Services, VP Alen Benković
- Business Development and Corporate Affairs, VP Ivana Budin Arhanić

The senior management team or division vice presidents are responsible for managing specific functional business areas and activities. In addition, the senior management team is tasked with cross-functional steering and leadership, implementing the corporate strategy and providing management support to the CEO. Hence, the senior management team is working closely with the Management Board and relevant corporate functions

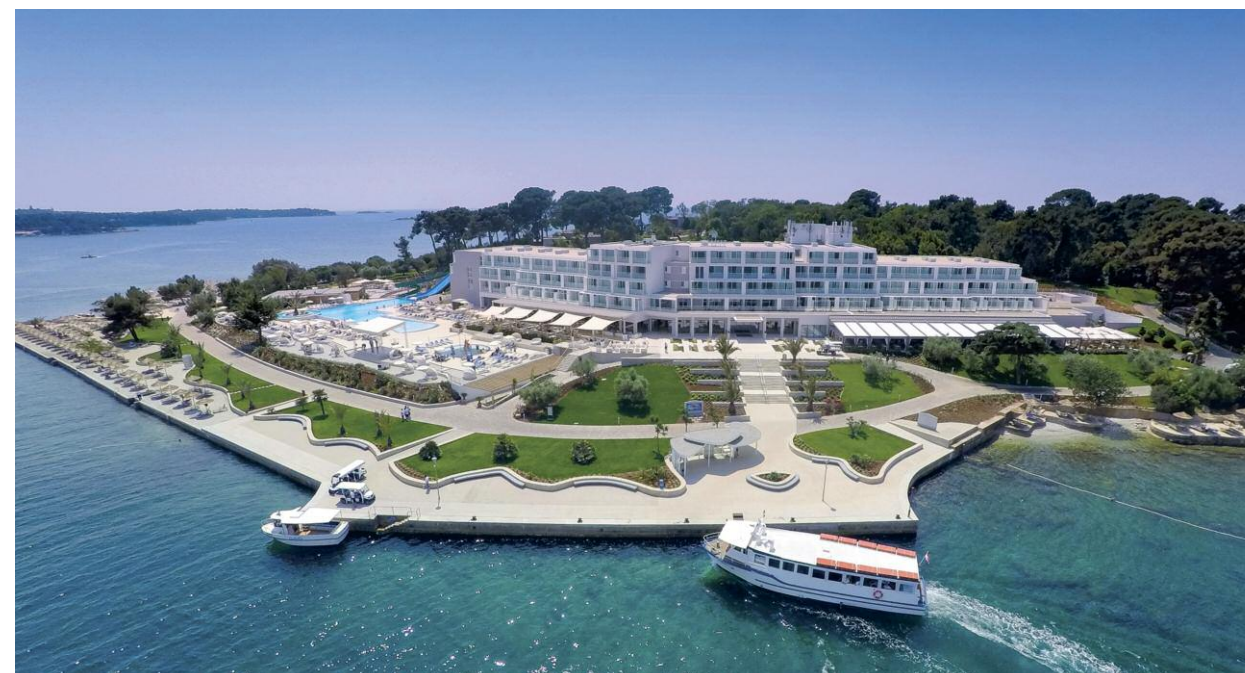
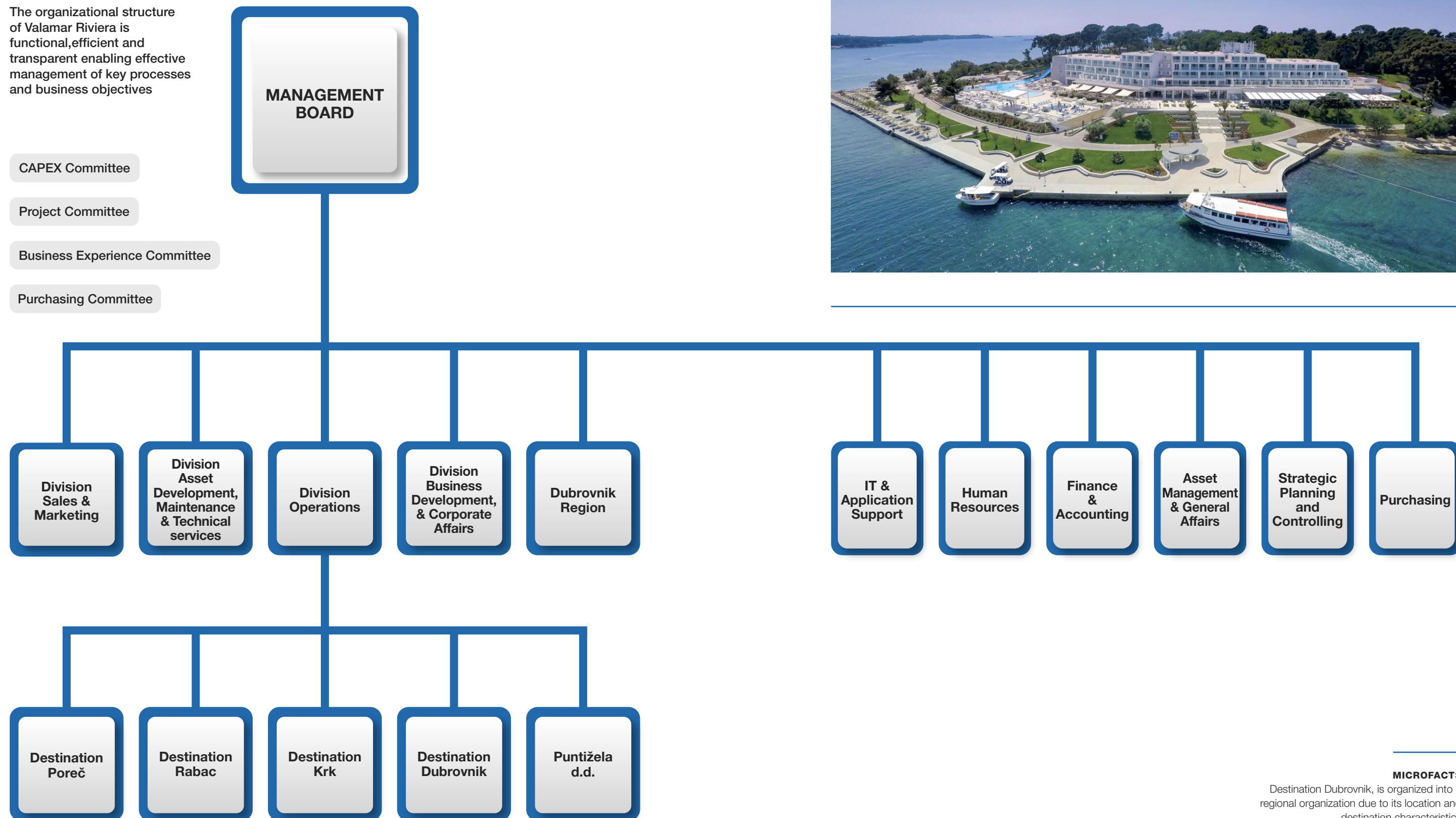
through Business Committees that are focused on those strategic activities in the Company that require a high degree of cross-functional involvement:

- CAPEX Committee (capital investment projects)
- Project Committee (steering the Project Management Organization)
- Business Experience Committee (Loyalty and CRM, Quality management & service excellence, corporate social responsibility)
- Purchasing Committee (strategic partnerships and purchasing agreements)

	Position	CAPEX Committee	Project Committee	Business Experience Committee	Purchasing Committee
Željko Kukurin	CEO	■	■	■	■
Marko Čižmek	Board Member		■		
Alen Benković	Vice President	■	■	■	■
David Poropat	Vice President	■	■	■	■
Davor Brenko	Vice President	■	■	■	
Ivana Budin Arhanić	Vice President	■	■	■	
Sebastian Palma	Director of Strategic Planning and Controlling Sector	■			
Andrea Štifanić	Director of Asset Management and General Affairs	■			
Marko Vusić	Director of Internal Audit and PM		■		
Dragan Vlahović	Director of Purchasing Sector				■

Valamar Riviera Organizational Structure

The organizational structure of Valamar Riviera is functional, efficient and transparent enabling effective management of key processes and business objectives



MICROFACTS

Destination Dubrovnik, is organized into a regional organization due to its location and destination characteristics

Supervisory Board

GUSTAV WURMBÖCK, chairman

Gustav Wurmböck graduated from the Universities of Vienna and Innsbruck and is an acknowledged expert in the field of corporate finance. Mr. Wurmböck has held various positions in prestigious companies such as IFC (International Finance Corporation), DEG (Deutsche Investitions und Entwicklungsgesellschaft), and the Austrian bank Länderbank, currently known as Bank Austria. He has been a long-time member of Supervisory Boards of companies from Austria, Hungary, and Croatia. He has gained extensive experience and know-how in the areas of energetics, telecommunications, privatisation, banking, and construction and has participated in privatisation procedures in Eastern Europe.

He is one of the co-owners and members of the Management Board of the company EPIC, Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H. with headquarters in Vienna, which is involved in making different types of investments throughout Europe. Mr. Wurmböck was also a Member of the Management Board of Valamar poslovni razvoj d.o.o. (2005 – 2011) and the President of the Management Board of Valamar Group d.d. (2005 – 2010). He has held several positions in supervisory boards of Valamar Adria holding d.d., Valamar Group d.d., Puntžela d.o.o., and Valamar turistički projekti d.o.o., while he continues to act as President of the Supervisory Board of Valamar Riviera d.d.



FRANZ LANSCHÜTZER, deputy chairman

Franz Lanschützer earned his MBA from the Vienna University of Economics and his DBA from the University of Budapest. He has gained extensive experience in the areas of corporate finance and asset management in Central and Eastern Europe. He is a partner in the company EPIC Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H. with headquarters in Vienna. He has been working in mergers, acquisitions and corporate finance and has provided consulting services in Poland, the Czech Republic, Croatia, and countries of the former Yugoslavia and has also set up and run investment privatisation funds in the Czech Republic and Croatia.

He held executive positions at large financial consulting and auditing companies such as Ernst&Young and Price Waterhouse before becoming an employee of EPIC. He has also held executive positions at Valamar Group since 1999, including President of the Management Board and CFO of Valamar Group d.d. and has also been a Member of the Supervisory Board of Valamar Adria holding d.d. and Riviera Adria d.d. (currently Valamar Riviera d.d.) respectively. He was President of the Management Board of Valamar Riviera d.d in 2014. For the past five years, Mr. Lanschützer has also been a Member of the Management Board of Valamar poslovni razvoj d.o.o. (2005 - 2011) and Vela Kluda d.o.o. (1997 - 2013) respectively.



MLADEN MARKOČ, deputy chairman

Mladen Markoč graduated from the Faculty of Law of the University of Zagreb. He specialises in company law, securities law, and commercial law. Mr. Markoč has been a consultant in numerous important transactions in the Croatian and foreign capital markets and has been a regular speaker at conferences organised by the Zagreb Stock Exchange Academy and the Judicial Academy. He started his career in law in 1998 as a legal apprentice with attorney Zvonimir Raić. He was the Corporate Secretary of pharmaceutical company PLIVA d.d. from 1990 to 1997, a partner at the law firm Bogdanović, Dolički & Partners from 1997 to 2007, and was a Board Member of ICF Group d.o.o. in 2008.

He was an attorney at the law office of Mladen Markoč from 2010 to 2013 and has been working as an attorney at law for the joint law office of Mladen Markoč and Ivan-Krešimir Tomić since 2013. He is the vice president of the Association of Business Lawyers of Zagreb. He was also a member of the Supervisory Board of Valamar Adria holding d.d. (2011 – 2014), and is currently a member of the Supervisory Board of Valamar Riviera d.d., Proficio d.d., and Hotel Laguna d.d respectively.



GEORG ELTZ VUKOVARSKI, member

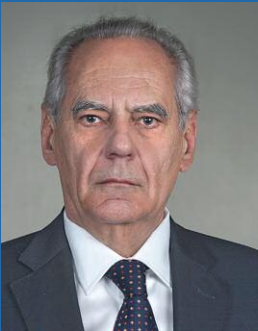
Georg Eltz Vukovski was educated in Switzerland and Germany where he majored in economics, history, and philosophy. He graduated from the University of St. Gallen with a degree in business administration. Before moving to Croatia in 1994, he was senior VP marketing and member of the management board of a major Swiss corporation, and CEO of its Canadian subsidiary. He co-founded Valamar Adria holding d.d. (as PIF Dom fond d.d.) in 1998 and served as president of its management board before the merger into its subsidiary Valamar Riviera d.d. in 2014.

In the years between, he served as president and member of management boards and supervisory boards of a large number of affiliated companies. He is member of the management boards of both the German-Croatian Chamber of Industry & Commerce and the Croatian-Austrian Chamber of Commerce. Currently, he is managing director of SATIS d.o.o. and its parent company Eladco Invest GmbH, and a member of the supervisory board of Valamar Riviera d.d.



VICKO FERIĆ,
member

Vicko Ferić graduated from the Faculty of Economics and Business of the University of Zagreb in 1974. He started his professional career working for the Organic Petrochemical Company (currently Dioki d.d.), followed by becoming an employee of INA d.d. where he held executive positions in the finance department and held the position as Assistant of Financial Director until 1998. Since the end of 1998 he has joined company Epic. From 2003 until 2005 he was appointed as the President of the Management Board of company SN holding d.d. From 2005 until 2011 he held the position as the President of the Management Board of Valamar Adria holding d.d. (former Dom holding d.d.), as well as the Director of company Epic Zagreb d.o.o.



From 2011 until 2014 he holds the position as the Member of the Management Board of Valamar group d.d. He has also been involved in the realisation of important investment projects in the oil and tourism industries, the gasification process in Croatia, privatisations of Croatian Telecom d.d., Croatia osiguranje d.d., Dresdner Bank Croatia d.d., and the restructuring and sale of several companies from the Dom Fond d.d portfolio. He has been involved with numerous companies, such as Petrokemija d.d., Poljoopskrba d.d., Svetice građenje d.d., Instrumentaria d.d., Rabac d.d., Vrboska d.d., Koestlin d.d., Belvedere d.d., Brodospas d.d., etc., either as a Member or the President of the Supervisory Board and is also a member of the Croatian Association of Certified Members of Supervisory and Management Boards. He is currently a Member of the Supervisory Boards of Končar - Elektroindustrija d.d. and Valamar Riviera d.d respectively

HANS DOMINIK TURNOVSZKY,
member

Hans Dominik Turnovszky was educated in Austria and Germany and has a degree from the renowned Cornell School of Hotel Administration. He has built a long and successful career as a manager in the hotel industry with more than forty years of experience in the operational, development, and administrative sectors. He has gained basic professional knowledge and experience in his home country as well as Great Britain, Ireland, Africa, Asia, and the United States. He has held executive positions in various companies, such as Kempinski, Regent, Rafael Hotels, Mandarin Oriental, Austria Hotels International, ANA Grand Hotel in Vienna, the Lodge at Vail in Colorado and The Phoenician Resort in Scottsdale Arizona.

Mr. Turnovszky was a member of the Management Board and several committees of the Austrian Hotel Association. He currently serves as Chairman of the Hotel Classification Commission in Vienna and is a member of the five-star Certification Committee of the Austrian Federal Chamber of Commerce. He was a Member of the Supervisory Boards of the Valamar Group d.d. and Valamar Adria holding d.d. and is currently a Member of the Supervisory Board of Valamar Riviera d.d.



MARIZA JUGOVAC,
member

Mariza Jugovac finished secondary vocational school in Pula in 1975. She has been an employee of Valamar Riviera d.d since April 20th, 1979. She became an employee of the hotel and tourist enterprise “Riviera” in Poreč, where she spent her first two years working in the IT department. She became a payroll accountant in 1981 and has been the company's Senior Payroll Accountant since 2002. As an active union member, she was elected as the employee representative to the Supervisory Board of Valamar Riviera d.d.



Management Board

ŽELJKO KUKURIN, EMBA
President and CEO

Željko Kukurin graduated from theUniversity of Zagreb's School of Economics and Business, where he also received his Master of Science degree in Marketing. In 2010 he obtained his EMBA degree from Milan's Bocconi University.



He began his career as an intern at Riviera Poreč, a Valamar group company, working as assistant manager on island Sv. Nikola and later in Sales & Marketing. In 2004, he joined Valamar Hotels & Resorts where he developed and managed direct Sales and Marketing.

From 2010 to 2014 he was Management Board President of Istraturist d.d., one of the biggest Croatian tourism companies, which was then owned by Zaba-Unicredit group and was in close partnership with Meliá. Mr. Kukurin worked closely with Meliá Hotels International, Spain's leading hotel company and one of the largest hospitality companies in the world. He restructured and increased the value of Istraturist, and ultimately, in cooperation with Unicredit group, successfully sold the company in the biggest tourism transaction in Croatia.

In 2015 he joined the executive team of the leading Croatian tourism group Valamar Riviera and was appointed to the position of President of the Management Board in June of the same year. He holds a number of important positions in Croatian tourism and national trade associations, such as Croatian National Tourist Board Council member and County of Istria Tourist Board Council member.

MARKO ČIŽMEK,
Member of the Board

Marko Čižmek graduated from the Faculty of Economics and Business in Zagreb. He passed the exams for broker and investment advisor. He began his career in 1996 at Croatian National Bank. He spent few years working in corporate finance at Investmentbank Austria and ICF. From the years 2001 to 2004 he was the member of the Management Board in EURO Invest, the company for investment fund management.



Within Valamar group Mr. Čižmek has held numerous managing functions in companies that have been merged to present Valamar Riviera: he was Management Board member of Rabac d.d. (2004-2011), Management Board member of Dubrovnik Babin kuk d.d. (2009-2013) and Management Board member of Valamar Adria holding d.d. (2008-2014). He is the member of Management Board of Croatian Association of Financial Analysts and Croatian Association of Corporate Treasurers.

Division Vice Presidents in Valamar Riviera

DAVOR BRENKO, Vice President of Sales and Marketing



Davor Brenko graduated from the Faculty of Economics in Rijeka, and he began his professional career in 2000 in Valamar Hotels and Resorts in the sales and marketing sector. In 2002 he became Project Manager for guest satisfaction research and guest relations management program, while in 2004 he assumed responsibility for direct sales, which quickly became the strongest sales channel in Valamar. In 2009, Davor Brenko was promoted to the position of Valamar's Director of Direct Sales and Marketing, and while at this position he participated in the creation of numerous developmental projects which resulted in improved sales, marketing and operational growth. At the beginning of 2010, he joined Istraturist Umag d.d., where he implemented a series of successful projects aimed at raising the quality and competitiveness of the company and its destination. As Director of Business Development, he worked on projects pertaining to strategic marketing and destination management and the development of successful tourism products such as the Umag Tennis Academy and Istria Experience.

As from 2015 Davor Brenko holds the position of Vice President of Sales and Marketing in Valamar Riviera d.d., where he is working intensively on development and growth of the company within the mentioned business segment and number of projects aiming at strengthening the tourism offer, destination management and creating recognisable and attractive company's destinations.

DAVID POROPAT, Vice President of Operations



David Poropat, Ph.D., graduated from the University of Rijeka Hotel Management Faculty in Opatija in 1993. In 2007 he completed his graduate study at the Faculty of Tourism and Hotel Management in Opatija, where he successfully completed a doctoral course in 2013. His career began in 1993 as an intern in the sales and marketing sector of the former Jadran turist d.d. in Rovinj, where he continued his career first leading the western market department in Sales, and then as planner and analyst in the controlling department. From 1996 to 2002 he was director of the Hotel Sol Park in the same hotel company, then under the management of the Spanish company Sol Melia. In March 2002, he joined former company Riviera Holding d.d., Poreč, to the position of director of operations and thereafter, until 2006 he obtained the job of director of operations for all Valamar facilities. From 2007 to 2011, he held a position as a Board Member of the company Valamar hoteli i ljetovališta d.o.o. and from 2012 to 2014 as a member of the Management Board of the company Valamar poslovni razvoj d.o.o.

At the end of 2014, he was appointed as the Vice President of Operations of the leading Croatian tourism company, Valamar Riviera d.d. Except his professional career, he also held a number of positions in the professional associations. During his career, he actively participated in dozens of business projects which exceptionally enriched his business experience. Also, he is the author of several professional and scientific works.

ALEN BENKOVIĆ, Vice President of Development, Facilities Maintenance and Technical Services



After graduating from the Faculty of Economics in Pula, Alen Benković began his career in 1999 as an intern in today's Riviera, where he worked at several important positions as assistant director of the camping Funtana, assistant director of the camping Lanterna and director of the Hotel Neptun – today's Hotel Valamar Riviera 4* in Poreč.

He continued his career as the director of the Lanterna cluster, and then in the municipal company Parentium, which handles investments for the Town of Poreč. In 2011 he joined Istraturist in Umag, as Director for Development, Facilities Maintenance and Technical Services. In 2015 he came to Valamar Riviera d.d. as Vice President for Development, Facilities Management and Technical Services, where he oversees major investment projects and the planning of the company's further growth.

IVANA BUDIN ARHANIĆ, Vice President of Business Development and Corporate Affairs



Ivana Budin Arhanić graduated Economics from Middlebury College in the USA in 1999. After finishing her studies, she spent three years as a strategy management consultant in Boston and in New York. In 2003, she joined the company Lura d.d., where she was in charge of acquisition and restructuring of company Somboled d.d. into Lura group, where in 2004 she became Vice President of the Supervisory Board.

In 2007 she graduated from two-year MBA program at Harvard Business School and joined Valamar, where in January 2009 she was appointed to the position of Member of the Management Board in Valamar group d.d. and Valamar Adria holding d.d., and from 2014 to 2015 a Member of the Management Board of Valamar Riviera d.d., respectively.

Since June 2015 she has assumed the position of Vice President of Business Development and Corporate Affairs and is in charge of business development through acquisitions, partnerships, strategic projects and corporate responsibility programs, quality management and corporate communication.



8.

RISKS AND RISK MANAGEMENT

Valamar Riviera actively formulates and manages the Risk Management Policy in all aspects of operations, seeing risk as any potential event which may have a negative impact on the achievement of objectives and the strategy defined by Valamar Riviera.

THE RISK MANAGEMENT PROCESS CONSISTS OF THE FOLLOWING STEPS:



THE DIFFERENT TYPES OF RISKS ENCOUNTERED BY VALAMAR RIVIERA IN ITS OPERATIONS MAY BE CLASSIFIED INTO THE FOLLOWING GROUPS OF RISK:



linked to financial variables, which lead to difficulties in the service of financial commitments of Valamar Riviera, liquidity, debt management, and exchange rate risk



characteristic of the company's operations, such as supply and demand, competition, constant adaptation to needs dictated by the market, investment, growth of Valamar Riviera, etc.



which may arise due to failure to observe internal procedures; the human factor – employees, IT system



those caused by natural hazards and disasters, pandemics, food shortages, civic unrest, wars, etc., thus events over which Valamar Riviera has no control nor influence



risks which may arise as a result of failure to comply with effective regulation enacted by the state and local governments; or risks related to the change in tax or other regulation



risks linked to events which may ensue as a result of insufficient and inadequate exchange of information inside Valamar Riviera

Macro-economic development risk

Bearing in mind the fact that almost 95% of Valamar Riviera's guests are foreign guests who carefully choose their vacation destination in the competitive Mediterranean environment, the stability of a country's macro-economic indicators is very important, with special emphasis being given to the exchange rate and prices of goods and services with a direct impact on guests' purchasing power.

Although smaller in share, the number of arrivals of domestic guests to Valamar Riviera's facilities is important as well, and

also impacted by a number of other national macro-economic indicators, such as employment/unemployment, domestic gross product increase/decrease, industrial product increase/decrease, as well as other indicators having a direct impact on the purchasing power of the Croatian citizens and, consequently, on their decision at which of the Adriatic destinations to spend their summer vacation.

Risk related to the change of tax and other regulations

The risk related to the change of tax and other regulations is another significant risk for Valamar Riviera and one of the more demanding segments of risk management with only limited possibilities for Valamar Riviera.

During previous years, frequent changes of tax regulations had a negative impact on the profitability of Valamar Riviera, the most significant being:

- Increase of the general value added tax (hereinafter: VAT) rate from 23% to 25% (March 2012) decrease of the intermediate value added tax rate from 25% to 10% (January 2013) followed, within a period of one year, by the increase of the intermediate value added tax rate in the hospitality and tourism industry from 10% to 13% (January 2014);
- Decrease of the health contribution rate from 15% to 13% (May 2012), followed after two years by the increase from 13% to 15% (April 2014);
- Frequent increases of various charges for water etc.

Such frequent changes of regulations related to tax levies imposed on the economy, which often take place after Valamar Riviera has already adopted its

business policy and the budget for the following year and agreed on commercial terms and conditions with their business partners, materially distort the financial position of the Valamar Riviera and jeopardise further investment plans, and thus the trust of investors.

Valamar Riviera is also exposed to the risks of potential change of regulations concerning concessions and concession approvals, i.e. concession fees for the use of maritime domain, but also concession fees for the use of touristic land, the area which has not been regulated until the present day. Namely, in view of the core business of the Valamar Riviera, the right of use of maritime domain and touristic land is one of the significant conditions of further business operations, particularly in campsites.

Financial risks

In their day-to-day operations and activities undertaken, Valamar Riviera is exposed to a number of financial risks, in particular to the following ones:

- 1) Foreign exchange risk;
- 2) Interest rate risk;
- 3) Price risk;
- 4) Credit risk; and
- 5) Liquidity risk.

Valamar Riviera hedges interest rate and foreign exchange risks by applying instruments available in the market in order to mitigate these risks. Internal risk management objectives and policies refer to the protection of foreign exchange inflows during seasonal activity and to the partial interest hedge of loan principal.

1) FOREIGN EXCHANGE RISK

Valamar Riviera operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro and Swiss franc. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities. The majority of international sale revenues are denominated in euro, with long-term debt being denominated in euro and Swiss franc. Accordingly, movements in exchange rates between the euro, Swiss franc and Croatian kuna may have an impact on the results of future operations and future cash flow. Valamar Riviera makes use of derivative instruments in accordance with operating estimates and expected market developments. Given that the inflow is to a large extent denominated in euro, as well as the majority of credit liabilities, Valamar Riviera is to the largest extent naturally hedged.

As for the part of credit liabilities committed in Swiss franc, Valamar Riviera contracts available instruments to hedge against cash flow interest rate and foreign exchange risks. In view of exceptional volatility and unpredictability of Swiss franc exchange rate developments, Valamar Riviera is actively continuing activities related to further debt conversion from Swiss franc to euro (in significant part already converted), where it is naturally hedged.

2) INTEREST RATE RISK

Bank debentures committed at variable rates exposes Valamar Riviera to cash flow interest rate risk. Valamar Riviera periodically uses derivative instruments to actively hedge cash flow and fair value interest rate risk exposure by applying interest rate swap from a variable rate to a fixed one. The economic effect of such interest rate swap is the conversion of credits at a variable rate into credits at a fixed rate for pre-committed part of the loan principal protected in this way.

Valamar Riviera has interest-bearing assets (cash assets and deposits), resulting in the income and operating cash flows being influenced by changes in market interest rates. This becomes particularly evident during the season when Valamar Riviera has significant excess funds at its disposal.

3) CREDIT RISK

Credit risk arises from cash, time deposits and trade receivables, where Valamar Riviera has no significant concentration of credit risk. Following the sales policies, Valamar Riviera commits to collaboration with customers with an appropriate credit history, i.e. its commitment is made conditional upon advance payments, payment of bank securities or by major credit cards (individual customers). With a view to reducing its credit risk, Valamar Riviera continuously monitors its exposure to parties it operates with and

its credit standing, obtains security instruments (bills of exchange, promissory notes) and thus lowering bad debt risk with regard to services provided.

4) PRICE RISK

Valamar Riviera is a holder of equity and debt securities and are exposed to price risk of listed equity securities. Valamar Riviera does not actively participate in the capital market in terms of investments in equity and debt securities, so that the price risk of equity securities in their possession is not significant.

5) LIQUIDITY RISK

Prudent liquidity risk management exercised by Valamar Riviera implies maintaining at all times sufficient cash to settle all its liabilities by developing cash flow projections at a monthly, annual and long-term basis. On top of currently available cash, Valamar Riviera aims to maintain flexibility in funding by keeping committed credit lines available.

Excess funds above the amount required for working capital management are invested in interest-bearing deposits, time deposits, money market deposits and marketable securities, thereby choosing instruments with appropriate maturities or sufficient liquidity in accordance with the projected needs for liquid funds.

6) SHARE-RELATED RISK

As an asset class with the highest risk, the market value of shares can be exceptionally volatile, as it is affected by the volatility of the whole capital market, macro-economic movements on the markets in which Valamar Riviera operates, discrepancies with regard to financial analysts' expectations in relation to the performance, changes in dividend policy, activities concerning mergers, acquisitions and entering into strategic partnerships, instability of the Valamar Riviera's business model, as well as fluctuations in the financial results of the Valamar Riviera's business operations. If the given factors have a negative connotation, there is a significant risk of share market value drop. Furthermore, there is a significant risk of investors not being able to sell their shares at any time at a fair market value.

Business risk

On a daily basis, Valamar Riviera faces business risks potentially leading the weakening of competitive strength, and thus jeopardising its further stability.

In the previous period, Valamar Riviera made business decisions contributing to the increase of its competitive strength on

the demanding Mediterranean market and thus improved the performance and the efficiency of its business operations, which gave rise to the expectation of continued positive trends in the future as well, subject to prudent long-term strategic management.

Technological risk

Cognizant of the risks pertaining to the reliability of IT operating solutions and the cyber-security of operations, Valamar Riviera continually works toward further development and implementation of new technologies in everyday operations.

Particular emphasis has been placed on securing sufficient funding for the development and implementation of new information technologies, new technologies in the field of energy efficiency projects and data security projects, and the development and implementation of cutting-edge operating systems.

Human capital risk

The development of Valamar Riviera would not be possible without effective human resource management, and the opening of the labour market increases the risk of human capital flight.

Valamar Riviera is one of the largest employers in the tourism branch in Croatia, and also one of the most

desirable employers. Valamar Riviera actively manages potential human capital risks by means of offering competitive working conditions, clear career development opportunities, compensation and awards systems, and active focus on employee development and investment in education and ongoing vocational training.

Risk related to the tourism branch of the economy

In the Republic of Croatia, tourism has been one of few growing branches of the economy during the last several years marked by the global financial crisis and economic downturn, which have had a significant impact on the Croatian economy as well.

Upon joining the European Union, the Republic of Croatia's market has become a part of the large European market, while the membership of the Republic of Croatia in NATO has reduced safety risks. The Tourism Development Strategy of the Republic of Croatia until 2020 (Official Gazette No. 55/13) provides answers to the question what kind of tourism the Republic of Croatia wants and needs to develop by using its comparative advantages as well as knowledge and skills with a view to strengthening the competitive capacity of the Croatian tourism. It is important that the achieved growth rates of the Croatian tourism are maintained over the following years, an objective to be accomplished only through further strategic considerations in developing tourism products and by investing in the creation of additional values, which will differentiate Croatian tourism from its competitive environment by pointing out its uniqueness, attractiveness and quality.

Despite the improved security and political circumstance, which gave rise to the launching of investment cycles in tourism, the Croatian tourism, as one of the strategic branches of the Croatian economy, is still faced with a number of challenges and risks, such as:

- Failing competitiveness in relation the environment as a result of frequent fiscal and parafiscal regulations over which Valamar Riviera exercises no influence;
- Global financial crises affecting adversely the purchase power of the population prone to travelling;
- Security and political risks related to increasing terrorism threats in the world and in the country;
- Security and political instability in the immediate environment of the neighbouring countries;
- Strong seasonality of tourism as a branch of the economy causing an insufficient utilisation of available capacities and resources of Valamar Riviera.

Environmental risks

The performance of Valamar Riviera's business operations can also be affected by environmental risks, primarily with regard to customer satisfaction with the whole experience of staying in Valamar's facilities, reflecting as a result in a reduced number of arrivals.

Such risks include, for example, sea water pollution (e.g. as a result of tanker breakage or discharge of chemicals into the sea), but also less intense deterioration of sea quality and shoreline pollution arising from insufficient quality

of waste water management and sewage along the Croatian coast of the Adriatic Sea.

Likewise, climate changes, such as long drought periods or, on the other hand, long rain periods, can also have a direct impact on how long guests stay in hotels and campsites of Valamar Riviera, or can also lead to increased operating costs. This also includes various other natural disasters and adverse climatic events (such as earthquakes, fires, floods), air pollution caused by toxic gas emissions from e.g. industrial plants, etc.



9.

BUSINESS RESULTS AND KEY INDICATORS 2015

Presented here is a structured summary of key indicators and initiatives that we have elaborated throughout the report as related to our key stakeholders, areas of focus and strategic initiatives, as well as a summary of our consolidated Valamar Riviera group-level financial results in 2015, as reported in our consolidated audited Annual Report for 2015 published in March of this year.

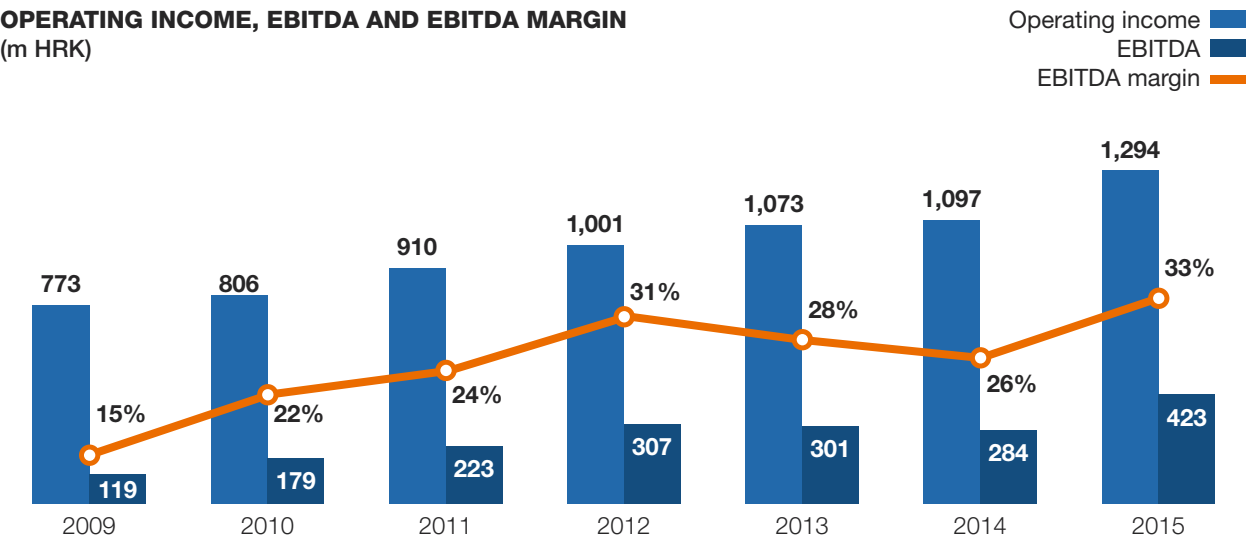
Key performance indicators are also reported here on the basis of the new portfolio segmentation presented for the first time in this report, structuring our asset portfolio in premium, upscale, midscale and economy segment.

We are emphasizing that the consolidated income statement of Valamar Riviera group for the period from 1 January 2015 to 31 December 2015 comprises the data for the following companies: Valamar hoteli i ljetovališta d.o.o., Valamar Hotels and Resorts GmbH, Puntžela d.o.o., Bastion upravljanje d.o.o., Citatis d.o.o., Elafiti babin kuk d.o.o., Magične stijene d.o.o., Palme turizam d.o.o., Bugenvilia d.o.o., and Pogača Babin kuk d.o.o., while the data for the newly acquired companies in destination Baška are included as of 1 July 2015. Furthermore, the data for 2015 are not fully comparable to the data for the previous period, as the latter do not comprise the data for the newly acquired companies in destination Baška.

Key indicators

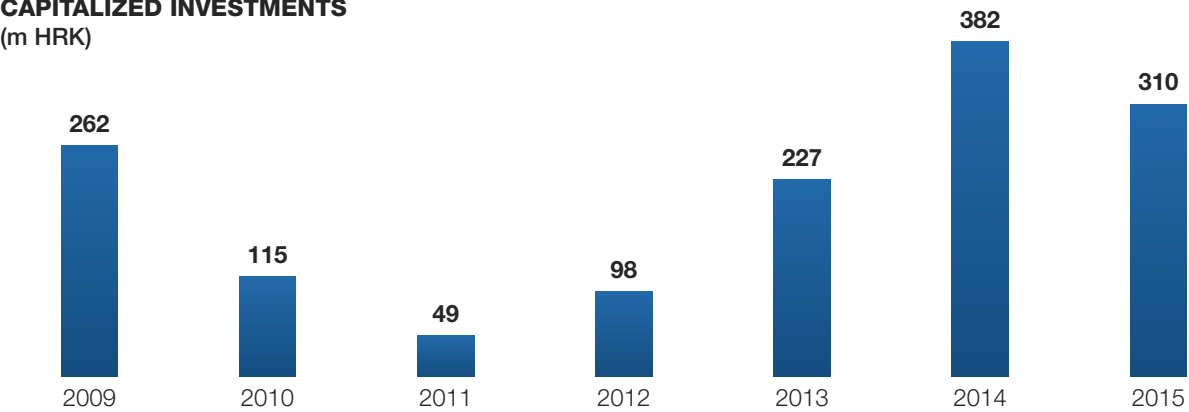
FINANCIAL INDICATORS

OPERATING INCOME, EBITDA AND EBITDA MARGIN
(m HRK)



Note: Financial information until 2014 relates to the consolidated financial reports of Valamar grupa d.d., and as of 2014 to the consolidated financial reports of Valamar Riviera d.d.

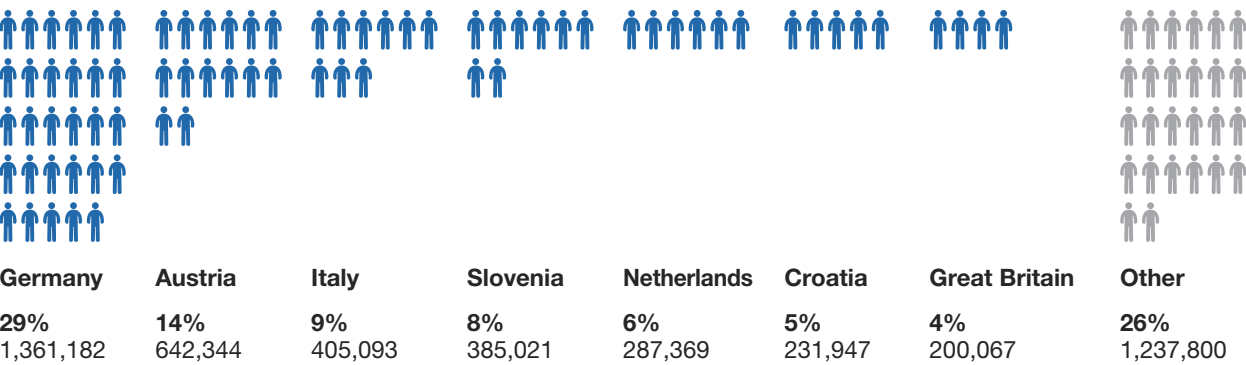
CAPITALIZED INVESTMENTS
(m HRK)



PORTFOLIO, SALES & MARKETING

VALAMAR SOURCE MARKETS

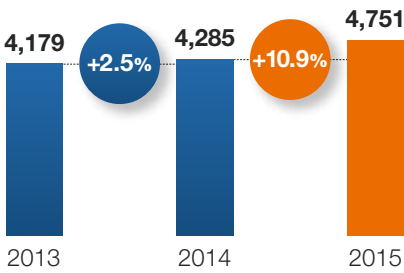
TOTAL: 4,750,823



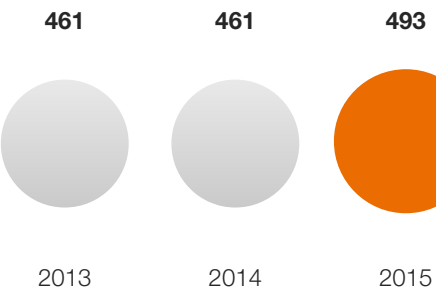
SHARE OF PREMIUM AND UPSCALE ACCOMMODATION UNITS

	2012	2013	2014	2015
Number of accommodation units	14,763	15,342	16,056	17,783
Number of Premium and Upscale accommodation units	4,324	4,997	6,317	7,383
Share of Premium and Upscale accommodation units	29%	33%	39%	41%

NUMBER OF OVERNIGHTS ('000)

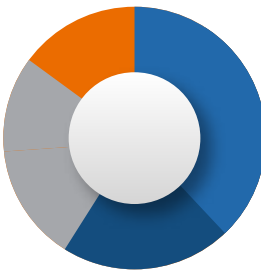


AVERAGE DAILY RATE (ADR IN HRK)



DISTRIBUTION CHANNEL*

Direct bookings	38%
OTAs	15%
Alotments	21%
Groups & MICE	26%



DIRECT SALES & MARKETING

	2013	2014	2015
Number of loyalty program members*	/	/	32,637
Number of guests in marketing database	705,000	770,000	850,000
Number of website unique sessions	4,648,000	5,635,000	6,230,268
Number of website unique users	2,560,000	3,400,000	3,495,241
Number of phone & email requests	220,000	240,000	246,564
Number of reservations**	/	48,903	58,100
Guests return rate; Valamar overall***	22.3%	23.5%	24.9%

* loyalty program was launched in May 2015
** not available for 2013
*** definition: guest with stay in 2015 and at least one stay within last 5 years (2010 – 2014)

GUEST SATISFACTION

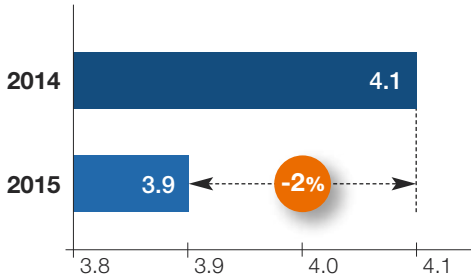
GUEST SATISFACTION PERFORMANCE 2015

	Hotels and Resorts		Campings		Overall Valamar
	Premium & Upscale	Midscale & Economy	Premium & Upscale	Midscale & Economy	
Guest satisfaction index	88%	81%	84%	83%	84%
Uplifted Guests (Staff)	95%	93%	90%	90%	93%
Recommendation Rate	98%	97%	96%	96%	97%
Online reputation index	89%	79%	85%	77%	83%
TripAdvisor (average)	4.3	3.8	4.2	4.0	4.1
Booking.com (average)	9.0	8.0	8.5	8.3	8.5

ENERGY EFFICIENCY AND RENEWABLE ENERGY

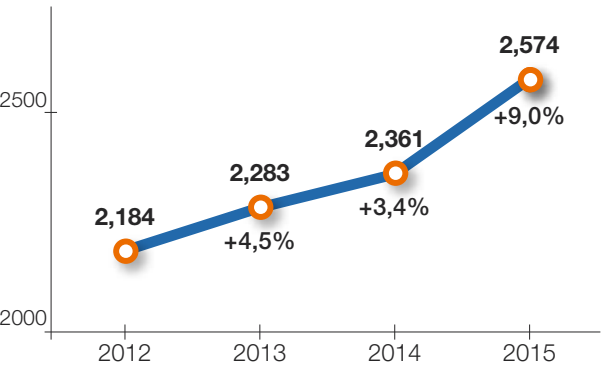
EMISSIONS OF GREENHOUSE GASES PER OVERNIGHT (KG)

	2014	2015	Increase
Emissions of greenhouse gases (t)	17,620	18,511	5%
Overnights	4,284,979	4,750,823	8%
Emissions of greenhouse gases per overnight (kg)	4.1	3.9	-2%

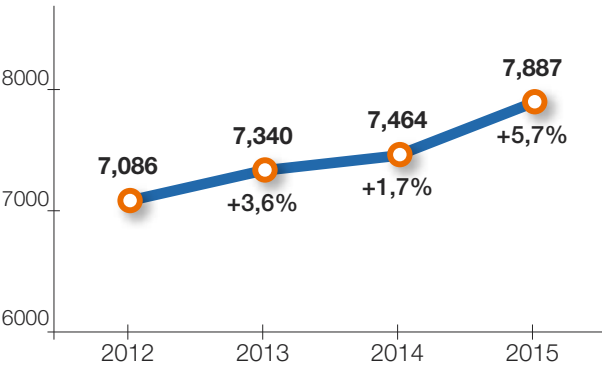


EMPLOYEES AND ORGANIZATION

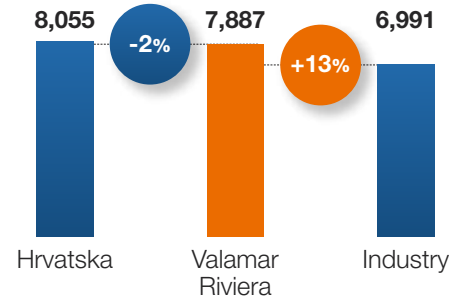
AVERAGE NUMBER OF EMPLOYEES



AVERAGE GROSS SALARY (HRK)



AVERAGE GROSS SALARY IN 2015 (HRK)¹



CORPORATE CULTURE AND CLIMATE
2015 Employee Satisfaction Survey Results

	2014	2015
No. of participants	2,909	3,099
Return rate %	87%	85%
Areas & criteria		
Education	4.2	4.3
Leadership	4.3	4.2
Organization of work	4.2	4.2
Attitude towards Employer	4,0	4,0
Life- Work balance	3.8	3.8
Career opportunities	3.7	3.6
Salary	3.2	3.3
TOTAL	3.9	3.9

VALAMAR ACADEMY

PROGRAM FOR FUTURE GENERAL MANAGERS AS OF 2007 2 YEARS TAILORED MADE PROGRAM				
No. of participants	Graduated	Promoted	Still in program	
40	36	28	3	
	90%	78%		

PROGRAM FOR FUTURE HEAD OF DEPARTMENTS IN OPERATIONS AS OF 2007 1 YEAR TAILORED MADE PROGRAM				
No. of participants	Graduated	Promoted	Still in program	
108	100	81	27	
	93%	81%		

PROGRAM FOR FUTURE MANAGERS IN SALES & MARKETING AND REVENUE MANAGEMENT AS OF 2012 1,5 YEARS TAILORED MADE PROGRAM				
No. of participants	Graduated	Promoted	Still in program	
6	6	6	5	
	100%	100%		

ALL PROGRAMS PARTICIPANTS OVERVIEW 2007 - 2016				
No. of participants	Graduated ²	Promoted	Still in program	
154	142	115	36	
	92%	81%		

¹ Gross I salary as reported by State Bureau of Statistics in 2016, Republic of Croatia
² 139 as of 2015

Business results 2015

In 2015 Valamar Riviera posted a high 18% operating income growth rate and a 49.1% EBITDA growth rate, resulting in a 32.7% EBITDA margin.

- Such growth rates are attributed to good-quality management, successful performance in the key markets and distribution channels, favourable weather conditions and the effects of four key strategy drivers:
- i) continued enhancement of the competitive strength and the improvement of services and facilities quality;
 - ii) focusing on sales, marketing, and operating excellence with a view to achieving profitability and sustainable growth;
 - iii) strategic acquisitions aimed at expanding our product portfolio and ensuring further growth of Valamar Riviera;
 - iv) development of destinations, products, and value added services.

Despite an increase in operating volume, wider consolidation scope, and acquisition of the Baška companies, operating expenses³ grew by nearly half as much as the sales revenues, recording a 9.2% growth. Excluding the business operations of the Baška companies, operating expenses were up by modest 3.7%, building on a positive cost efficiency trend after the consolidation of management and organizational and shareholding structure, as well as the restructuring of Valamar Riviera.

Revenue volume increase and streamlined cost management have resulted in an increase of EBITDA of HRK 139.5 million, i.e. of adjusted EBITDA by 38.2% to HRK 438.5 million⁵. Profit before tax and net profit follow the exceptional growth rates with an increase of 125.1%, respectively 105.2% to HRK 132.9 million, respectively HRK 105.5 million, with a 10.3% EBT margin (5.4% in 2014).

Compared to 2014, there is a strong 17.7% increase in sales revenues to HRK 1,268.7 million, resulting mainly from the increased volume of physical indicators and average daily rate, as well as the increased sale of à la carte food and beverages by 35%. National sales revenues amount to HRK 106.0 million, and are 16.7% above the previous comparable period.

Sales revenues generated on international markets are 17.8% up and amount to HRK

KEY FINANCIAL INDICATORS¹ [m HRK]

	2014	2015	2015/2014
Total revenues	1,117.6	1,333.5	19.3%
Sales revenues	1,077.7	1,268.7	17.7%
Board revenues (accommodation and board revenues) ²	895.9	1,043.3	16.5%
Operating expenses ³	767.9	838.4	9.2%
EBITDA ⁴	283.9	423.4	49.1%
EBITDA margin	25.9%	32.7%	680 bp
Extraordinary operations result and one-off items ⁵	33.5	15.1	-54.8%
Adjusted EBITDA ⁶	317.4	438.5	38.2%
Adjusted EBITDA margin ⁶	28.9%	33.9%	500 bp
EBIT	79.5	171.8	116.0%
Adjusted EBIT ⁶	113.0	186.9	65.4%
EBT	59.1	132.9	125.1%
EBT margin	5.4%	10.3%	490 bp
Net profit	51.4	105.5	105.2%

	31/12/2014	31/12/2015	2015/2014
Net debt ⁷ [m HRK]	687.6	1.082,5	57.4%
Net debt / EBITDA	2.4	2.6	5.6%
Net debt / Adjusted EBITDA	2.2	2.5	14.0%
Cash and cash equivalents [m HRK]	195.2	318.8	63.3%
Capital investments [m HRK]	381.7	310.5	-18.7%
ROE ⁸	2.7%	5.5%	280 bp
Adjusted ROCE ⁹	4.4%	6.3%	190 bp

VALUATION

	31/12/2014	31/12/2015	2015/2014
Average share price per 31 December [HRK]	19.82	23.92	20.7%
Market capitalization ¹⁰ [m HRK]	2,480	2,971	19.8%
EV ¹¹ [m HRK]	3,167	4,053	28.0%
EPS ¹² [HRK]	0.47	0.84	78.7%
DPS ¹³ [HRK]	0.50	0.55	10.0%
EV / Sales revenues	2.9x	3.2x	10.3%
EV / EBITDA	11.2x	9.6x	-14.3%
EV / Adjusted EBITDA	10.0x	9.2x	-8.0%
EV / EBIT	39.8x	23.6x	-40.7%
EV / Adjusted EBIT	28.0x	21.7x	-22.5%

1,162.7 million. Other operating income of Valamar Riviera, amounting to HRK 25.3 million, accounts for 1.9% (1.8% in 2014) of total revenues, indicating a 28.6% growth and resulting mainly from the one-off income from the reversal of provisions for termination benefits paid and, to a lesser extent, from the consolidation of other income generated by the companies in destination Baška. Financial income in the reporting period went up by HRK 19.3 million, primarily because of foreign exchange gains. The result is a 19.3% increase in total revenues to HRK 1,333.5 million. →

PROFITABILITY INDICATORS¹⁴

	2014	2015	2015/2014
EBITDA margin	25.9%	32.7%	680 bp
Adjusted EBITDA margin	28.9%	33.9%	500 bp
EBIT margin	7.2%	13.3%	610 bp
Adjusted EBIT margin	10.3%	14.4%	410 bp
EBT margin	5.4%	10.3%	490 bp
Net profit margin	4.7%	8.1%	340 bp
ROA	1.7%	3.0%	130 bp
ROE	2.7%	5.5%	280 bp
Adjusted ROCE	4.4%	6.3%	190 bp

- 1 Classified according to the Annual Business Financial Statement (GFI POD-RDG). EBIT and EBITDA are recorded on the basis of operating income.
- 2 In compliance with the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry).
- 3 Operating expenses include material costs, staff costs, other expenditures, and other operating expenses reduced by extraordinary expenses and one-off items.
- 4 EBITDA (eng. earnings before interest, taxes, depreciation and amortization) is calculated as: operating income - total operating expenses + amortisation + value adjustments.
- 5 The adjustment includes extraordinary income and expenses in accordance with the USALI standard classification and one-off termination benefit costs and administrative expenses related to the process of merger and business reorganisation. Adjustments have been made for: (i) the effect of extraordinary result (net income to the amount of HRK 7.8 million in 2015, i.e. income to the amount of HRK 13.3 million in the comparative period of last year); (ii) the effect of one-off revenues and expenses for termination benefits in 2015 (income from the reversal of provisions for termination benefits paid to the amount of HRK 8.5 million and termination benefit costs to the amount of HRK 15.3 million); (iii) the effect of one-off termination benefit costs and administrative expenses related to the, merger and restructuring process in 2014 (to the amount of HRK 20.2 million), and the effect of one-off costs related to the acquisition of new interests in the Baška companies in 2015 to the amount of HRK 0.5 million.
- 6 Adjusted by the result of extraordinary operations and one-off items.
- 7 Net debt: non-current and current liabilities to banks and other financial institutions + liabilities for loans, deposits and other-cash and cash equivalents – long-term and short-term investments in securities – current loans given, deposits, etc.
- 8 ROE refers to return on equity; calculated as: profit for the period / (capital and reserves).
- 9 Adjusted ROCE refers to return on capital employed; calculated as: adjusted EBIT / (capital and reserves at the end of the period + non-current and current liabilities to banks and other financial institutions - cash and cash equivalents - long-term and short-term investments in securities - loans given, deposits, etc.).
- 10 The number of shares as at 31 December 2015 net of treasury shares (includes 432,942 treasury shares of the subsidiary company Bastion upravljanje d.o.o.) amounts to 124,190,206, while per 31 December 2014 amounts to 125,113,784.
- 11 EV refers to enterprise value; calculated as market capitalization + net debt.
- 12 EPS refers to earnings per share calculated on the basis of net profit. Weighted average number of shares as at 31 December 2015: 124,784,807. Weighted average number of shares as at 31 December 2014: 108,769,757.
- 13 DPS refers to dividends per share.
- 14 Classified according to the Annual Business Financial Statement (GFI POD-RDG). The margins are stated on the basis of operating income.

Compared to the last year, in 2015, total operating expenses were up by 10.3%, mainly from increased operating volume and the acquisition of the Baška companies. Excluding the effects of consolidation of the Baška companies, operating expenses are up by modest 5.1%. The modest growth is a continuation of the positive trend of management consolidation and restructuring at all company levels.

Accounting for 35.5% (36.7% in 2014) of total operating expenses, material costs have increased by 6.4% to HRK 398.2 million; 4.1% of the respective growth is a result of Baška companies consolidation and the rest primarily of higher raw materials and materials costs, the most significant being the increase of direct food and beverage costs (increased operating volume and higher à la carte spending) and, to a lesser extent, the increase of water and electricity consumption (increased operating volume, new investments, and replacement of fuel oil with environmentally friendlier energy products).

Staff costs amount to HRK 327.9 million, accounting for 29.2% of total operating expenses (29.7% in 2014). An 8.5% increase in staff costs in 2015 comes from the takeover of employees from the newly acquired Baška companies and partially from an increase in employees’ salaries on two occasions (1.5% in November 2014 and 1.5% in June 2015).

Accounting for 20.8% (19.9% in 2014) of operating expenses, depreciation amounts to HRK 232.9 million (HRK 203.0 million in 2014). Its 14.8% increase being a result of an intensive 2014/15 investment cycle and, to a lesser extent, the wider consolidation scope.

Other operating expenses amount to HRK 14.5 million, indicating a 32.3% decrease, mainly as a result of lower compensations for damages coming from disputes and lower carrying value of disposals. Value adjustments are up by HRK 17.2 million over a write-off of receivable for given advance to Glavice d.o.o. Costs provisions, amounting to HRK 5.4 million, are down HRK 5.1 million and mostly refer to provisions related to initiated disputes. Other expenditures are up 18.3%, i.e. HRK 19.3 million, as a result of the Baška companies consolidation and termination benefits paid.

Valamar Riviera's financial income in the reporting period amounts to HRK 39.5 million and is HRK 19.3 million, i.e. 95.4% higher compared to the same period last year. Total foreign exchange gains are HRK 21.3 million

TOTAL OPERATING EXPENSES¹⁴ [m HRK]

	2014	2015	2015/2014
Operating expenses	767.9	838.4	9.2%
Total operating expenses	1,017.8	1,122.2	10.3%
Material costs	374.0	398.2	6.4%
Staff costs	302.1	327.9	8.5%
Depreciation and amortisation	203.0	232.9	14.8%
Other expenditures	105.5	124.8	18.3%
Provisions	10.4	5.4	-48.7%
Value adjustments	1.4	18.7	1,229.3%
Other operating expenses	21.4	14.5	-32.3%

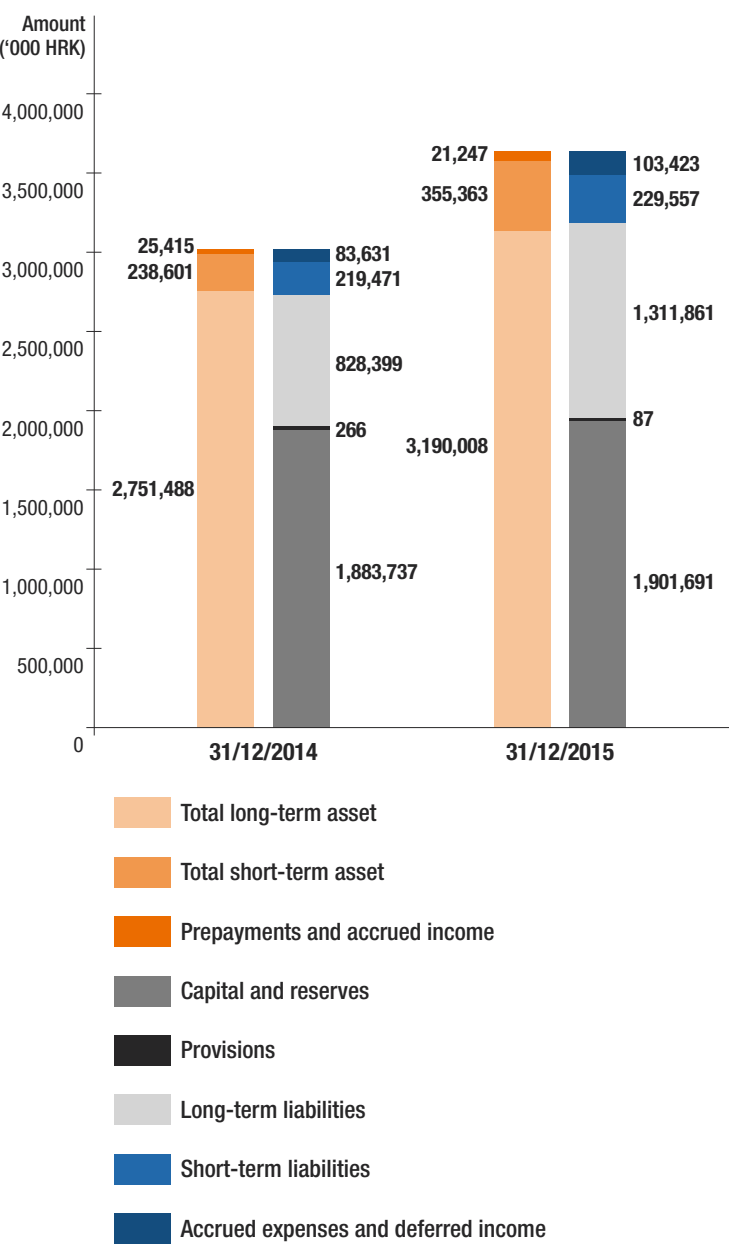
higher, whereby we point to the amended policy for accounting for unrealised foreign exchange differences and their recording in the quarterly dynamics. Revenues from interest income on deposits are HRK 4.7 million lower due to the lower amount of available cash funds (as a consequence of dividend distribution to shareholders of Valamar Riviera and the acquisition of Hoteli Baška d.d. carried out in the second half of the year to the amount of HRK 188.2 million) and the general decrease in market interest rates. Other financial income is HRK 2.7 million higher, resulting mainly (to the amount of HRK 2.3 million) from the valuation and reversal of unrealised derivatives positions during their realisation in the current year (forward transactions contracted for 2015 and interest swap).

Financial costs in the reporting period amount to HRK 78.3 million, accounting for 6.5% of total expenses (3.6% in 2014), and are HRK 37.6 million higher compared to the same period last year. Interest expenses and foreign exchange differences record a HRK 35.1 million increase, while the valuation of contracted IRSs and forwards during the year, including the reversal of their positions during realisation, has resulted in HRK 2.7 million additional expenses. Foreign exchange rate losses on existing loan portfolio, which recorded a HRK 29.2 million increase (resulting mainly from the appreciation of the Swiss franc exchange rate in the first quarter), are the biggest single item of financial costs. Please note the changed (quarterly) dynamics in recoding unrealised foreign exchange differences. The increase in interest expenses in the amount of HRK 6.0 million is a result of an increase in non-current liabilities driven by drawing funds from granted credit lines for financing the 2014/15 investment cycle and the consolidation of the Baška companies since July 2015.

As at 31 December 2015, compared to 31 December 2014, the total value of Valamar Riviera's assets is 18.3% higher. The reason for such an increase in assets value and other balance sheet items is to be considered in the context of disclosing the fair value of assets and liabilities of the newly acquired Baška companies in compliance with the provisions of IFRS 3 on the day of acquisition. The total share capital and reserves have increased from HRK 1,884 million to HRK 1,902 million, mostly as a result of the generated profit adjusted for distributed dividend and the purchase of treasury shares. Total long-term liabilities are 60.8% higher, amounting to HRK 1,331.9 million as at 31 December 2015, primarily driven by i) inflow of loans of the newly acquired Baška companies amounting to HRK 138.6 million, ii) utilisation of credit lines for financing the 2014/15 investment cycle (a total of HRK 265.8 million was drawn in 2015, and HRK 190,2 million for refinancing the acquisition of Hoteli Baška d.d.), iii) deferred tax liabilities disclosed for the difference in fair value of material assets of the acquired Baška companies as established on the acquisition date to the amount of HRK 20.4 million, and iv) foreign exchange rate differences on existing loan portfolio (HRK 19.9 million). Total short-term liabilities amount to HRK 229.6 million and are 4.6% higher compared to 31 December 2014, primarily due to higher short-term liabilities to banks (increase of 34.7% to HRK 139.8 million coming from the payment of the current instalment of the long-term debt).

Cash and cash equivalents as at 31 December 2015 amount to HRK 318.8 million, where this year's impact of the consolidation of the Baška companies amounts to HRK 12.5 million, indicating an exceptionally strong cash potential from operating activities, which, together with external debt, provides for a smooth continuation of future investing activities. →

ASSETS AND LIABILITIES



The acquisition of the Baška companies, investments in combination with a good response to marketing and sales activities, with the focus on the earlier mentioned changed marketing mix and price optimisation, have resulted in an increase in the number of overnights by 466 thousand (reaching in total 4,750 thousand), supported by a 6.9% rise of the average daily rate (6.7% excluding the business operations of Hoteli Baška d.d. in 2015 for comparability purposes¹⁵). Board revenues thus went up by 16.5% to HRK 1,043.3 million. Good response to marketing and sales activities (particularly first-minute offers) and growth in segments which are generating a higher average daily rate (individuals and M.I.C.E.) during the pre-season and at the beginning of the season have resulted in stronger initial booking, thus creating a good base for pricing policy management during the season. Creating a high-quality contractual basis with partners has also increased the quality in managing distribution, sales channels, optimum prices, and marketing and sales activities in high season.

Hotels and resorts¹⁵ together have posted board revenues of HRK 826.8 million, up by HRK 118.1 million year-over-year. The 10.7% increase in overnights and the 7.5% increase in the average daily rate have primarily been contributed to by the newly invested and upscale facilities. The increased board revenues have partly been affected by the consolidation of Hoteli Baška d.d.; excluding the effect of the respective consolidation, hotels and resorts have posted a 10.3% increase in board revenues.

HRK 29.5 million higher board revenues generated by campsites¹⁵ are a result of an increase in the number of overnights by 225 thousand and a HRK 12 higher average daily rate. Higher board revenues are mostly driven by the consolidation of Hoteli Baška d.d.; excluding the effect of the said consolidation, the campsites have generated 6.3% higher board revenues, mainly coming from the increase of the average daily rate. As to campsites, noteworthy are particularly invested campsites, i.e. Krk campsite and while Poreč campsites indicate a stable increase in board revenues, with the Lanterna campsite having the largest impact on board revenues growth.

15 In the 2015, the consolidation of the business operations of Baška companies for the period July – December 2015 is included, while the Baška companies are not included in the overview of 2014. Note: this has led to lower RevPAR and occupancy days values.

16 Average daily rate of accommodation unit sold is recorded on the basis of cumulative board revenues (accommodation and board’s food and beverage revenues).

17 Revenue per accommodation unit is recorded on the basis of cumulative board revenues (accommodation and board’s food and beverage revenues). Note: In 2015, RevPAR was impacted by the consolidation of Baška companies’ business operations solely for the period July – December 2015, which, in combination with the increased number of accommodation units led to somewhat lower RevPAR value.

18 When calculating adjusted EBITDA, internal allocation of revenues and expenses as well as inter-segment revenues and expenses are excluded from the calculation.

19 Other segments include business of central operations, laundry, sport, central kitchen, strategic rentals, etc.

TOTAL¹⁵

	2014	2015	2015/2014
Number of accommodation units (capacity)	16,056	17,783	10.8%
Number of beds	42,957	48,019	11.8%
Overnights [‘000]	4,285	4,751	10.9%
Operating days	193	183	-5.2%
Full occupancy days	121	119	-1.7%
ADR [HRK] ¹⁶	461	493	6.9%
RevPAR [‘000 HRK] ¹⁷	55.8	58.7	5.2%
Board revenues [m HRK]	895.9	1,043.3	16.5%
Adjusted EBITDA [m HRK] ¹⁸	504.5	628.4	24.6%

TOTAL HOTELS AND RESORTS¹⁵

	2014	2015	2015/2014
Number of accommodation units (capacity)	7,078	7,855	11.0%
Number of beds	16,499	18,251	10.6%
Overnights [‘000]	2,262	2,503	10.7%
Operating days	194	189	-2.6%
Full occupancy days	150	147	-2.0%
ADR [HRK] ¹⁶	668	718	7.5%
RevPAR [‘000 HRK] ¹⁷	100.1	105.3	5.2%
Board revenues [m HRK]	708.7	826.8	16.7%
Adjusted EBITDA [m HRK] ¹⁸	380.6	476.5	25.2%

TOTAL CAMPINGS¹⁵

	2014	2015	2015/2014
Number of accommodation units (capacity)	8,977	9,929	10.6%
Number of beds	26,458	29,768	12.5%
Overnights [‘000]	2,023	2,248	11.1%
Operating days	192	177	-7.8%
Full occupancy days	98	97	-1.0%
ADR [HRK] ¹⁶	213	225	5.6%
RevPAR [‘000 HRK] ¹⁷	20.8	21.8	4.8%
Board revenues [m HRK]	187.1	216.5	15.7%
Adjusted EBITDA [m HRK] ¹⁸	123.9	151.8	22.5%

OTHER SEGMENTS¹⁹

	2014	2015	2015/2014
Adjusted EBITDA [m HRK]	-187.1	-189.9	28.6%

Board revenues for premium segment hotels and resorts are at HRK 184.8 million with a HRK 66 million, and are the biggest contributor to total board revenue growth. A 55.7% increase in overnights and a 12.3% increase in average daily rates are a result of excellent business of Valamar Isabella Island Resort 4* and Valamar Dubrovnik President Hotel 5*. It is in these invested products and high-end facilities that a positive contribution is expected in the coming years, because they allow for better marketing and sales channel management due to increased demand.

The upscale segment of hotels and resorts marked an increase of HRK 11.5 million in board revenues to a total of HRK 206.9 million. The primary reason of board revenue increase is 20 thousand overnights more compared to the previous period. The biggest growth influence came from Valamar Argosy Hotel 4* and Valamar Club Tamaris 4*, which recorded stable sales results owing to high-quality distribution of allotments and groups in the pre-season, further providing has provided for a stable base used to develop activities in the individual channel.

The midscale segment of hotels and resorts¹⁵ recorded HRK 305.1 million in board revenues. The 20.1% increase in board revenues was mostly driven by the consolidation of Hoteli Baška d.d., and the rest is ascribed to the stable growth at Valamar Pinia Hotel & Residence 3*, Valamar Bellevue Hotel 4* & Residence Albona 3* and the hotel Allegro 3*.

The 7.5% decrease of board revenues in the economy segment of hotels and resorts is the result of quality upgrade at Valamar Isabella Island Resort 4*, which operated in the premium segment in 2015. By eliminating the business of Valamar Isabella Island Resort 4* in 2014, the economy segment marked an increase in board revenues of 3.3% owing to stable business at Hotel Pical, Girandella Tourist Village 2* resort and Marina Hotel & Mediteran Residence 2*. Lanterna apartments maintained an optimal combination of marketing segments with the purpose of securing stable revenue continuity. Apartments will still find a challenge in the growing online presence of private accommodation across all sales channels, whose low prices affect the economy segment.

HOTELS AND RESORTS

Segment: Premium	2014	2015	2015/2014
Number of accommodation units (capacity)	693	1,037	49.6%
Number of beds	1,386	2,153	55.3%
Overnights [‘000]	221	344	55.7%
Operating days	267	227	-15.0%
Full occupancy days	180	166	-7.8%
ADR [HRK] ¹⁶	953	1,070	12.3%
RevPAR [‘000 HRK] ¹⁷	171.4	178.2	4.0%
Board revenues [m HRK]	118.8	184.8	55.6%
Adjusted EBITDA [m HRK] ¹⁸	59.0	107.8	82.7%

HOTELS AND RESORTS

Segment: Upscale	2014	2015	2015/2014
Number of accommodation units (capacity)	1,422	1,422	0.0%
Number of beds	3,235	3,243	0.2%
Overnights [‘000]	468	488	4.3%
Operating days	189	196	3.7%
Full occupancy days	151	157	4.0%
ADR [HRK] ¹⁶	913	928	1.6%
RevPAR [‘000 HRK] ¹⁷	137.4	145.5	5.9%
Board revenues [m HRK]	195.4	206.9	5.9%
Adjusted EBITDA [m HRK] ¹⁸	109.2	123.0	12.6%

HOTELS AND RESORTS¹⁵

Segment: Midscale	2014	2015	2015/2014
Number of accommodation units (capacity)	2,438	3,047	25.0%
Number of beds	5,135	6,496	26.5%
Overnights [‘000]	836	971	16.1%
Operating days	207	189	-8.7%
Full occupancy days	161	148	-8.1%
ADR [HRK] ¹⁶	646	678	5.0%
RevPAR [‘000 HRK] ¹⁷	104.2	100.1	-3.9%
Board revenues [m HRK]	254.1	305.1	20.1%
Adjusted EBITDA [m HRK] ¹⁸	136.4	170.8	25.2%

HOTELS AND RESORTS

Segment: Economy	2014	2015	2015/2014
Number of accommodation units (capacity)	2,525	2,349	-7.0%
Number of beds	6,743	6,359	-5.7%
Overnights [‘000]	736	701	-4.8%
Operating days	166	170	2.4%
Full occupancy days	130	130	0.0%
ADR [HRK] ¹⁶	427	424	-0.7%
RevPAR [‘000 HRK] ¹⁷	55.6	55.3	-0.5%
Board revenues [m HRK]	140.5	130.0	-7.5%
Adjusted EBITDA [m HRK] ¹⁸	76.0	74.9	-1.4%

The campsite premium segment numbers a single campsite, Krk 4*, with its business affected in 2015 by increased marketing activity and improved pricing policy. This yielded high board revenue growth rates of 21.4% to the level of HRK 18.7 million, a result of a 14.3% average price increase and a 9.4% overnight increase.

CAMPINGS

Segment: Premium	2014	2015	2015/2014
Number of accommodation units (capacity)	452	475	5.1%
Number of beds	1,275	1,533	20.2%
Overnights ['000]	170	186	9.4%
Operating days	500	169	-66.2%
Full occupancy days	136	137	0.7%
ADR [HRK] ¹⁶	252	288	14.3%
RevPAR ['000 HRK] ¹⁷	34.2	39.4	15.2%
Board revenues [m HRK]	15.4	18.7	21.4%
Adjusted EBITDA [m HRK] ¹⁸	10.5	13.7	30.5%

CAMPINGS¹⁵

Segment: Upscale	2014	2015	2015/2014
Number of accommodation units (capacity)	3,750	4,449	18.6%
Number of beds	11,322	13,562	19.8%
Overnights ['000]	922	1,072	16.3%
Operating days	218	159	-27.1%
Full occupancy days	102	101	-1.0%
ADR [HRK] ¹⁶	231	243	5.2%
RevPAR ['000 HRK] ¹⁷	23.6	24.5	3.8%
Board revenues [m HRK]	88.7	108.9	22.8%
Adjusted EBITDA [m HRK] ¹⁸	60.8	80.9	33.1%

CAMPINGS¹⁵

Segment: Midscale	2014	2015	2015/2014
Number of accommodation units (capacity)	3,152	3,378	7.2%
Number of beds	8,875	9,537	7.5%
Overnights ['000]	605	669	10.6%
Operating days	182	197	8.2%
Full occupancy days	94	91	-3.2%
ADR [HRK] ¹⁶	197	203	3.0%
RevPAR ['000 HRK] ¹⁷	18.4	18.5	0.5%
Board revenues [m HRK]	58.1	62.7	7.9%
Adjusted EBITDA [m HRK] ¹⁸	34.9	38.7	10.9%

CAMPINGS

Segment: Economy	2014	2015	2015/2014
Number of accommodation units (capacity)	1,623	1,626	0.2%
Number of beds	4,986	5,136	3.0%
Overnights ['000]	326	321	-1.5%
Operating days	203	189	-6.9%
Full occupancy days	87	87	0.0%
ADR [HRK] ¹⁶	177	184	4.0%
RevPAR ['000 HRK] ¹⁷	15.4	16.1	4.5%
Board revenues [m HRK]	25.0	26.2	4.8%
Adjusted EBITDA [m HRK] ¹⁸	17.6	18.6	5.7%

Campsites in the midscale segment¹⁵ recorded HRK 62.7 million in board revenues, which is a HRK 4.6 million increase. If, for like-to-like comparison, we excluded the business of Marina campsite in 2014 (it was upgraded to the upscale segment in 2015), and the consolidation of the Hotel Baška d.d. in 2015, midscale segment campsites recorded a stable growth of 4.3%.

The campsite economy segment recorded a stable increase in board revenues of 4.8%, primarily the result of a 4.0% higher average rate per unit. This yielded board revenues of HRK 26.2 million. The growth was for the most part the result of operation at Brioni 2* campsite in Puntizela.

Board revenues in Poreč and Puntizela destination are up by HRK 45.1 million, as a result of a 1.8% increase of overnights and an 8.3% growth of the average daily rate per accommodation unit. Newly invested hotels (Valamar Isabella Island Resort 4* and Valamar Zagreb 4*) have a significant impact on hotel operations growth. Individual sales channels have recorded the highest revenue growth per sales channels in Poreč hotels, followed by groups and allotment. Certain lower category facilities have recorded lower growth, resulting in more attention being paid to high-quality distribution through fixed allotment and group segment, as well as to high-quality scheduling of events and placement of pre-seasonal activities promoting longer stays instead of increasing prices, with a view to maintaining board revenues. Apart from the usually good placement of groups in October, in post-season, Poreč saw an excellent response of sports groups as part of the Christmas tournament, as well as of individuals during the New Year holidays, resulting in four open and excellently booked hotels (Valamar Diamant 4*, Valamar Crystal 4*, Valamar Zagreb 4*, and Valamar Riviera 4*).

The Rabac destination has recorded a HRK 12.4 million growth in board revenues to HRK 143.6 million, driven by an 8.3% increase in overnights and a 1.3% growth of the average daily rate per accommodation unit. Higher category facilities (Valamar Sanfior 4* and Valamar Bellevue 4*) and certain lower category facilities are particularly worth mentioning. Namely, a successful replacement of the sales mix and carefully planned marketing activities and promotions in lower category facilities have helped to maintain continuous booking entries and, as a consequence, high board revenue growth rates. The growth of board revenues and accommodation units sold has been mostly driven by good group segment performance in the pre-season in 3* facilities and the increase of the individual segment during the season. In the post-season, more accommodation units were sold as a result of a better response of the group segment and a good response to the New Year's offering, while the following hotels were open: Valamar Casa & Sanfior 4*, Miramar 3* and Allegro 3*.

DESTINATION

Poreč and Puntizela	2014	2015	2015/2014
Number of accommodation units (capacity)	10,390	10,592	1.9%
Number of beds	29,332	30,054	2.5%
Overnights ['000]	2,669	2,717	1.8%
Operating days	191	184	-3.7%
Full occupancy days	114	113	-0.9%
ADR [HRK] ¹⁶	397	430	8.3%
RevPAR ['000 HRK] ¹⁷	45.1	48.5	7.5%
Board revenues [m HRK]	469.0	514.1	9.6%
Adjusted EBITDA [m HRK] ¹⁸	271.2	303.8	12.0%

DESTINATION

Rabac	2014	2015	2015/2014
Number of accommodation units (capacity)	1,913	1,913	0.0%
Number of beds	4,485	4,552	1.5%
Overnights ['000]	552	598	8.3%
Operating days	175	183	4.6%
Full occupancy days	127	138	8.7%
ADR [HRK] ¹⁶	539	546	1.3%
RevPAR ['000 HRK] ¹⁷	68.6	75.1	9.5%
Board revenues [m HRK]	131.2	143.6	9.5%
Adjusted EBITDA [m HRK] ¹⁸	71.9	79.8	11.0%

A 370 thousand, i.e. 75.1% increase in the number of overnights at the Krk¹⁵ destination and a 27.0% growth of the average daily rate to HRK 376 have resulted in a 107.1% increase in board revenues. Such high growth rates are driven by the consolidation of the Hoteli Baška d.d. company. Excluding the impact of the consolidation of Hoteli Baška d.d., the Krk destination has achieved a high 9.6% growth in board revenues. In the Korali 3* hotel, the individuals segment has recorded the highest board revenue growth. Intensified marketing activities and an improved pricing policy in earlier invested facilities on the island of Krk, Krk campsite and Stara Baška campsite, have led to high growth rates of average daily rates and board revenues.

Recent investments in higher category facilities at the Dubrovnik destination (Valamar Dubrovnik President 5*, Valamar Argosy 4*) have resulted in HRK 251.5 million board revenues, i.e. a 8.9% increase compared to the same period last year, particularly driven by a 8.4% increase of the average daily rate. Particularly noteworthy are the Valamar Argosy 4* hotel, accounting for high board revenues growth rates, and the Valamar Dubrovnik President 5* hotel, generating an exceptional growth in board revenues coming from its further focusing on high-end segment (individual segment) and M.I.C.E. and from an increase in the number of days during which it is open (46 in relation to the previous year as a result of investment in raising the quality to 5*). Comparing marketing and sales channels, the board revenues growth at the Dubrovnik destination has been driven by the replacement of allotment and groups with the individuals channel. In the post-season, Valamar Lacroma 4* recorded a good response in the M.I.C.E. and group segment from the American and Far East markets.

DESTINATION¹⁵

Krk	2014	2015	2015/2014
Number of accommodation units (capacity)	1,800	3,318	84.3%
Number of beds	5,154	9,411	82.6%
Overnights ['000]	493	863	75.1%
Operating days	185	150	-18.9%
Full occupancy days	122	107	-12.3%
ADR [HRK] ¹⁶	296	376	27.0%
RevPAR ['000 HRK] ¹⁷	36.0	40.4	12.2%
Board revenues [m HRK]	64.7	134.0	107.1%
Adjusted EBITDA [m HRK] ¹⁸	40.3	89.0	120.8%

DESTINATION

Dubrovnik	2014	2015	2015/2014
Number of accommodation units (capacity)	1,953	1,961	0.4%
Number of beds	3,986	4,002	0.4%
Overnights ['000]	571	572	0.2%
Operating days	230	229	-0.4%
Full occupancy days	153	153	0.0%
ADR [HRK] ¹⁶	773	838	8.4%
RevPAR ['000 HRK] ¹⁷	118.2	128.3	8.5%
Board revenues [m HRK]	230.9	251.5	8.9%
Adjusted EBITDA [m HRK] ¹⁸	121.1	155.8	28.7%

Opinion on the Integrated Report of Valamar Riviera for the year 2015

The report in front of us is a very thorough company report of Valamar for the year 2015. It presents a detailed overview of the historical development, business results, and figures for Valamar, as well as strategic goals, vision and mission, initiatives, corporate culture and, most importantly, corporate responsibility.

In the report for 2015, Valamar has for the first time included some of the indicators from the G4 reporting guidelines by the Global Reporting Initiative, as a representation of its willingness to align its reporting over the coming years with the requirements of the European Directive on Non-Financial Reporting, which prescribes reporting information on key non-financial impacts as well as the management approach company uses to manage these impacts.

The report presents information on initiatives to improve the impact on the environment and activities related to the local community, cooperation and support to the development of the community where Valamar is especially active. There is a strong emphasis on support projects for the development and preservation of cultural and natural resources in destinations where Valamar operates. This is an indication of Valamar's awareness of the need to preserve the environment and culture of local communities that are at the same time a valuable resource in the foundation of Valamar's offer. Consequently, by 2020 Valamar plans to invest 2.5% of its revenues into social corporate responsibility programs, including destination development, investments into environmental protection, investments into employees and philanthropy.

Along with investments in local programs, indicators measuring resource consumption are presented: energy and water, as the most important natural resources used by Valamar, and figures on employment and working environment that portray the approach to employee management as another important resource and a key success factor for Valamar. In this area Valamar stresses its goal to become the most preferred employer in Croatia's tourism sector by the year 2020.

Although the report includes a number of G4 guideline indicators, it is still not in accordance with the G4 core option. In order to increase quality in that regard, Valamar's report should include an analysis of non-financial effects that Valamar identifies as key, as well as associated risks. Along this analysis, information should be included on Valamar's approach to managing these non-financial impacts, in order to reduce risks to the environment and society as much as possible. Also, there should be a more detailed explanation of the management approach and the decisions-making process on economic, environmental and social impacts.

We are very pleased with the fact that Valamar Riviera, member of the Croatian Business Council on Sustainable Development (HRPSOR) since 2016, and winner of the CSR Index Award for best practice in environmental protection, has started a responsible and systematic communication of its goals and activities for sustainability and social corporate responsibility, thus affirming its ambition to become a leading example of sustainability and responsible development in the tourism sector.

Sincerely
Mirjana Matešić
Director



MIRJANA MATEŠIĆ,
Director
HRPSOR



Hrvatski poslovni savjet za održivi razvoj
Croatian Business Council for Sustainable Development

DISCLAIMER

Strategic goals presented in this report represent the intention of the management Board and are based on currently available information, current assumptions, and forward-looking expectations and projections. Strategic goals are not a guarantee of future results and are subject to future events, risks, and uncertainties, many of which are beyond the control of or currently unknown to Valamar Riviera, as well as to potentially incorrect assumptions that could cause the actual results to materially differ from strategic goals. Also, the level of capital investments in any given year is subject to specific proposals of the Management Board to the Supervisory Board, each Board may elect to deviate from this policy if appropriate under the then prevailing circumstances.

Risks and uncertainties include, without being limited to the ones described in the chapter “Risks and risk management“. Materially significant deviations from the strategic goals may arise from changes in circumstances, assumptions not being realized, as well as other risks, uncertainties, and factors, including:

- Macro-economic developments in the Republic of Croatia and in the emitting markets, including currency exchange rates fluctuations and prices of goods and services, deflation and inflation, unemployment, developments of the gross domestic product and industrial production, as well as other developments having a direct or indirect impact on the purchasing power of Valamar Riviera’s guests;
- Economic conditions, security and political conditions, and developments and events in the capital markets of the Republic of Croatia and in the emitting markets of Valamar Riviera;
- Spending level and disposable income of guests, as well as guests’ preferences, trust in and satisfaction with Valamar Riviera’s products and services;

- Development of the number of overnights, booking trend, and development of average daily rates of accommodations units in Valamar Riviera’s facilities;
- Development of the Croatian kuna exchange rate in relation to world currencies (primarily euro and Swiss franc), change in market interest rates, change in the price of equity securities, and other financial risks to which Valamar Riviera is exposed;
- Labour force availability, mobility and costs, transport, energy, and utilities costs, selling prices of fuel and other goods and services, as well as supply chain disruptions;
- Changes in accounting policies and findings of financial report audits, as well as findings of tax and other business controls;
- Outcomes and costs of judicial proceedings to which Valamar Riviera is a party;
- Loss of competitive strength and reduced demand for products and services of the Croatian tourism and Valamar Riviera under the impact of weather conditions and seasonal movements;
- Development of new technologies, reliability of IT business solutions and cyber security of Valamar Riviera’s business operations, as well as related costs;
- Issues with construction companies, sub-contractors, permits and permissions, weather, prices of goods and services in the course of realizing investments in Valamar’s hospitality asset portfolio
- Changes of tax and other regulations and laws, trade restrictions, and rates of customs duty;
- Adverse climatic events and environmental risks.

Strategic goals presented herein are not an outright recommendation to buy, hold or sell Valamar Riviera’s shares.



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