



VALAMAR
All you can holiday



2017

**INTEGRATED ANNUAL REPORT AND
CORPORATE SOCIAL RESPONSIBILITY**



EU Ecolabel : SE/011/05



The mark of responsible forestry



In accordance with Valamar Riviera's mission, core values and strategic initiatives, this report has been printed on EU Ecolabel, FSC™ and PEFC certified wood-free Munken Lynx paper.



VALAMAR
All you can holiday

2017

**INTEGRATED ANNUAL REPORT AND
CORPORATE SOCIAL RESPONSIBILITY**

VALAMAR RIVIERA d.d.



MESSAGE FROM THE CHAIRMAN



GUSTAV WURMBÖCK,
Supervisory Board
Chairman

For the third consecutive year, it is my great pleasure to present Valamar Riviera's integrated annual report in which we encompassed business reporting and sustainability reporting, thus presenting non-financial information on the company's environmental and social impacts by using the Global Reporting Initiative G4 standard as a general guideline in order to manage our business in a sustainable way.

The principles of sustainability and social responsibility are a fundamental part of our vision, our mission, our values, our business model and our daily practices. Valamar Riviera achieved exceptional results in all key financial indicators in 2017 and continued its strategic path to growth and development built on sustainability and corporate social responsibility. This comprehensive report renders a detailed presentation of the relationships that the company builds with its key stakeholders, including all our shareholders, employees, partners, guests and the community.

In 2017 we became the leading company in leisure tourism and also one of the 10 most important companies in Croatia.

We achieve double-digit EBITDA growth and our ambitious 2017/ 2018 cycle of investments in the portfolio is worth HRK 1.6 billion. Our successful acquisitions of Imperial on Rab Island and Hoteli Baška on Krk Island show excellent results. We focused on improving our guest relations, we

expanded strategic partnerships, we continued upgrading our service quality and developing our destinations and we focused especially on our employees. As the leading company in tourism, we continually work on initiatives aimed at human resource development in order to be recognized as the most desirable employer in Croatia's tourism.

When looking back on 2017, I am very proud to say that Valamar Riviera delivered excellent results that exceeded our expectations in all operating indicators and increased further the value of our enterprise and share. We grew revenues and operating profit in spite of the VAT rate growth in hospitality and a very unfavorable foreign exchange rate. Valamar's large investments in the portfolio, new partnerships, acquisitions, guest experiences and numerous recognitions for initiatives in the field of corporate social responsibility give us the confidence to move forward and develop our company guided by our strategic goals.

The investment in the development of our employees remains our top priority and is as important as our investments in hotels and campsites. High guest satisfaction and our outstanding service culture, where the smile of each of our employees counts, were recognized by the numerous awards that we received from professional organizations and the public. Therefore, I would like to thank our management and all our employees for their outstanding contribution to the excellent results achieved in 2017.

This was a great year for the shareholders of Valamar Riviera d.d. on the Zagreb Stock Exchange, as they benefited from the 25% increase in market cap in 2017. In 2017 the company paid out a dividend that is sustainable in the long term and enables Valamar to continue investing in the portfolio and achieve its strategic goals.

The current global conditions and trends which have resulted in the increased demand for certain Mediterranean destinations including Croatia, combined with historically low interest rates and our healthy balance sheet present a very good springboard for Valamar. Therefore, we will continue our large investments in the portfolio and consider growth opportunities in Croatia and abroad, while focusing on innovation and service excellence as key competitive advantages.

We will continue developing our destinations and local communities where we operate, and strengthen our relations with key stakeholders, while focusing especially on sustainable development and environmental protection. We aim to be recognized as the leading Croatian company in the field of corporate social responsibility and the most desirable employer in tourism.

As Supervisory Board Chairman, I am therefore proud to present our 2017 Integrated Report.



MESSAGE FROM THE CEO



ŽELJKO KUKURIN,
Management Board
President and CEO

The year 2017 was an outstanding year for Valamar Riviera: we confirmed that double-digit growth is not the result of favorable external factors, but the outcome of hard work and the successful implementation of Valamar's strategy for the period up to 2020. In spite of the VAT rate increase in hospitality and an unfavorable foreign exchange rate, we achieved a significant growth in operating profit as the result of increased operating efficiency, investments in product repositioning and the successful acquisitions and strategic partnerships. Today, Valamar is not only the leading company in tourism, but also a very important company in Croatia that employs a large number of people and invests in the development of Croatia's tourism. The results achieved in 2017 prove that our simultaneous investments in employees, quality, products and destinations in a sustainable and socially responsible way represent the only true formula for achieving double-digit growth in business and enterprise value.

We achieved significant growth by all indicators in 2017. Total revenues were HRK 1.84 billion and grew by 17%, while operating profit was HRK 623 million and grew by 20% over 2016 results. Thanks to our investments, quality improvement and change in the distribution policy, we increased sales revenues by 20.6% over prior year results. The number of overnights grew by 20% in 2017 and totaled 6.2 million, while the average rate grew by 6%. The strong business growth

combined with stable net debt and a favorable average financing cost of 2.3% underline further potential and growth through acquisitions and investments in the portfolio.

Last year we confirmed our status as leading investor in Croatia's tourism. Valamar invested over HRK 4 billion in the previous period in developing its business operations, and in 2017 the company realized its largest annual investment cycle worth HRK 906 million. It primarily focused on the largest investment in Croatian tourism in 2017, through which we created 400 new jobs in Rabac with the construction of the new resorts, Valamar Girandella Resort 4*/5* and TUI Family Life Bellevue Resort 4* that engaged more than 130 contractors and suppliers. It took only 18 months for us to prepare and realize this large project with the support of the Town of Labin and the Istrian County who recognized the importance of this investment for the local community. This investment will be completed with the opening of Valamar Girandella Maro Suites 5* in 2018, thus finalizing the repositioning of Rabac as leading holiday destination on the Adriatic coast.

Guest satisfaction grew further to 87% while as much as 58% of guests rated our service as "Unbelievable" thanks to the company's commitment to constantly improve quality and our service excellence. Moreover, we have significantly increased the share of direct sales to

43% and the number of guest with whom we communicate directly was over 1 million. Our employees' commitment and high guest satisfaction confirm the strategical importance of our focus on the guests and employees.

Besides our large investments in the portfolio, a significant business event that marked last year was the reorganization and restructuring of business operations at Imperial d.d. on Rab Island. This acquisition was justified in the first full year of business under Valamar's management as Imperial achieved strong operating results and value growth. Moreover, we firmly believe that forming partnerships with pension funds to invest in tourism projects will prove to be a Croatian model for tourism investments that will be successful in the long term. In line with this, we started our acquisition projects in Makarska and on Hvar Island and we expect to realize them in the course of 2018.

We are aware that our being among the 10 leading companies in Croatia's economy entails a great deal of responsibility for developing corporate social responsibility and sustainability, in which special importance is given to our care for our key stakeholders: guests, employees, shareholders, the local community and partners.

Valamar Riviera is the largest employer in Croatia's tourism, employing nearly 6,000 people during peak season in 2017, and creating 600 new jobs in

the 2018 season. We continually work on increasing employment and salaries and improving our employees' skills and working conditions. We will pursue with this policy because we believe that human resource management is the greatest challenge in the forthcoming period. This is why, besides focusing on our guests, we also focused on our employees in one of our key strategic initiatives. The average gross 1 salary in 2017 at Valamar Riviera was HRK 8,470 or 27% more than the average in this industry. We will continue providing adequate remuneration and harmonize company growth with salary growth. We will also persist in employing locally because we believe that it represents a great value that contributes to the authenticity of our hospitality. We have started a number of initiatives aimed at maintaining a high share of local employment and strengthening further employee loyalty.

We have competent managers and outstanding employees and I am convinced that with the support of the investment community and other stakeholders, we will strengthen our leading position in leisure hospitality in the Mediterranean. Valamar's business philosophy includes the simultaneous development of products, employees and destinations in a sustainable and socially responsible way and it proved to be successful in the previous period. Therefore, I believe that with its exemplary good business practice, Valamar's importance for the development of Croatia's economy will grow further in the future.



TABLE OF CONTENTS

1	ABOUT THIS INTEGRATED REPORT	10
2	ABOUT VALAMAR RIVIERA	12
	Valamar at a Glance	12
	History of Valamar Riviera	16
	Valamar Riviera's Business Model	18
3	THE HOSPITALITY INDUSTRY	22
4	ENGAGEMENT OF KEY STAKEHOLDERS AND MATERIAL ASPECTS	30
	Valamar Riviera's Contribution to Economic Development in 2017	34
	Identification of Material Aspects and Boundaries	36
5	VALAMAR'S CORPORATE STRATEGY	40
	Vision, Mission and Core Values	41
	Strategic Goals 2016-2020	42
	Our Strategic Initiatives	43
	5.1 FOCUS ON THE GUEST	44
	5.2 EMPLOYEES AND ORGANIZATION	62
	5.3 GROWTH STRATEGY	86
	5.4 INNOVATION AND DIGITALIZATION	108
	5.5 DESTINATION DEVELOPMENT AND RESPONSIBILITY TO THE LOCAL COMMUNITY	116
	5.6 COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY	140

6	INVESTOR RELATIONS	150
7	AWARDS AND RECOGNITIONS	156
	2017 International Awards and Recognitions	158
	2017 National Awards and Recognitions	159
	2017 Certificates and Standards	160
8	CORPORATE GOVERNANCE	162
	Corporate Structure	162
	Organizational Structure of Valamar Riviera	167
	Members of the Supervisory Board	168
	Management Board	171
	Division Vice Presidents at Valamar Riviera	172
	Internal Audits and Controls within Valamar Riviera, Project Management Office	174
	Risks for the Company and Group	178
	Ethics and Integrity	184
9	2017 BUSINESS RESULTS	186
	Results of the Group	188
	OPINION OF THE MANAGEMENT BOARD COMMITTEE OF THE CROATIAN BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT ON THE 2017 CSR REPORT OF VALAMAR RIVIERA	198
	GRI INDEX	200

1 ABOUT THIS INTEGRATED REPORT

This integrated report refers to the reporting period from 1 January to 31 December 2017. It is based on the Annual Report of Valamar Riviera Group* published on 28 February 2018.*

For the third consecutive year, Valamar integrated business reporting with sustainability reporting i.e. non-financial information on the company's environmental and social impacts, and used the Global Reporting Initiative G4 guidelines (core option) as general guidelines.

The Report presents information on how the company affects its natural, social and economic environment and how this impact is managed in the long term. Corporate social responsibility is approached in a comprehensive way with key stakeholders in mind. The company conducts

continual communication with stakeholders as part of Valamar's strategy where sustainable destination development, support to the local community and care for the environment is included in everyday business operations. As the largest employer in Croatian tourism, Valamar is committed to investments in human resources to maintain leadership and be recognized as a company providing the best conditions and overall care for its employees. The report presents new initiatives launched in 2017 and in the forthcoming years we will monitor their course, development and results.

The report is available at www.valamar-riviera.com. We invite all stakeholders to submit their comments and suggestions at integratedreport@valamar.com.

In order to make the presented data more relevant, the report concludes with the opinion and recommendations for future reporting given by the Croatian Business Council for Sustainable Development (HR PSOR).

* Valamar Riviera Group (hereinafter: the company, group, Valamar Group, Valamar, Valamar Riviera) in 2017 included the following entities: Valamar Riviera d.d., Valamar hotels & resorts GmbH, Elafiti Babin kuk d.o.o. (merged into Valamar Riviera d.d. on 29/12/2017), Magične stijene d.o.o., Palme turizam d.o.o., Pogača Babin Kuk d.o.o., Bugenvilia d.o.o., Puntizela d.o.o. (merged into Valamar Riviera d.d. on 31/03/2017) and Imperial d.d.



*Valamar Collection
Isabella Island
Resort 4*/5*, Poreč*

2 ABOUT VALAMAR RIVIERA



VALAMAR AT A GLANCE

Valamar is Croatia's leading tourism company and one of the largest investors in Croatian tourism.

Valamar Riviera operates about 12% of the total categorized accommodation in Croatia. We can welcome more than 56,000 guests daily in our 30 hotels and resorts and 15 camping resorts located in five attractive destinations along the Adriatic coast – in Istria, on Krk and Rab Island and in Dubrovnik.

Valamar's strategy is focused on investments as key growth drivers. The company invests to improve accommodation quality and develop talents, innovative services and destinations. Valamar Riviera is a large investor in tourism with over HRK 4 billion invested in the development and improvement of its portfolio. The skills, professionalism and hard work of Valamar's employees represent the foundation of our service excellence, sustainability and business growth. In peak season 2017, nearly 6,000 people

worked at Valamar and for the first time we welcomed more than one million guests.

Our vision is to be the leader in leisure tourism and create authentic guest experiences in partnership with our destinations. Steered by sustainability and social responsibility, Valamar Riviera's future growth and development are based on continual portfolio investments, acquisitions and partnerships and the development of our employees and destinations.

*Valamar Lacroma
Dubrovnik Hotel 4*,
Dubrovnik*



VALAMAR RIVIERA d.d.

Stancija Kaligari 1, 52440 Poreč, Croatia

Business activity:

Hospitality and tourism (core activities) and other associated activities related to the performance of core activities.

Primary Brands:

Valamar Collection

Valamar Collection Resorts

Valamar Hotels & Resorts

Sunny by Valamar

Camping Adriatic by Valamar

Portfolio :

30 hotels and resorts
and 15 camping resorts*

Land surface:

579 hectares, 46% owned and
54% under concession*

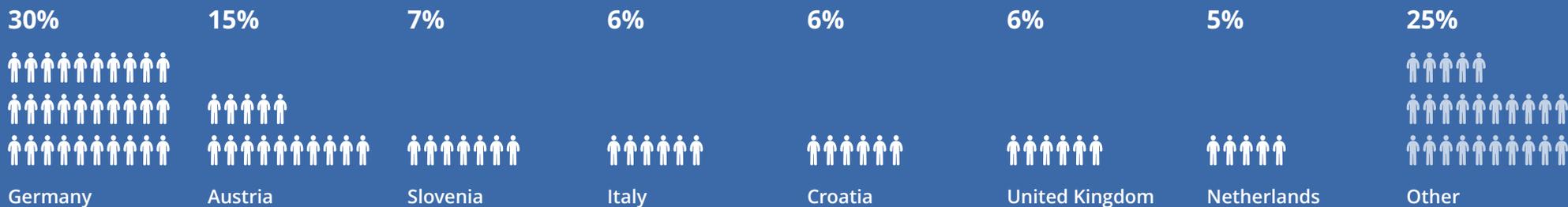
Maritime domain: 36 km*

* Imperial d.d. included in the financial information on
assets as at 31/12/2016.

KEY INDICATORS

	2016	2017	2017/2016
Total revenue (HRK bn)	1.58	1.84	+17%
EBITDA (HRK mn)	512.6	606.0	+18%
Net debt*/ EBITDA	2.73	2.92	+7%
Employees (peak season)	4,429	5,924	+34%
Capital investments (HRK mn)	428.4	877.7	+105%
Guests	888,573	1,013,873	+14%
Beds	48,524	56,662	+17%
Overnights	5,144,328	6,173,142	+20%
Keys	18,072**	20,852	+15.4%
Book value of long-term assets* (HRK bn)	4.10	4.63	+13%
Market capitalization as at 31/12 (HRK bn)	4.30	5.42	+26%
Shareholders as at 31/12	21,235	21,835	+3%

** Excluding Imperial d.d. accommodation (2,759 keys).

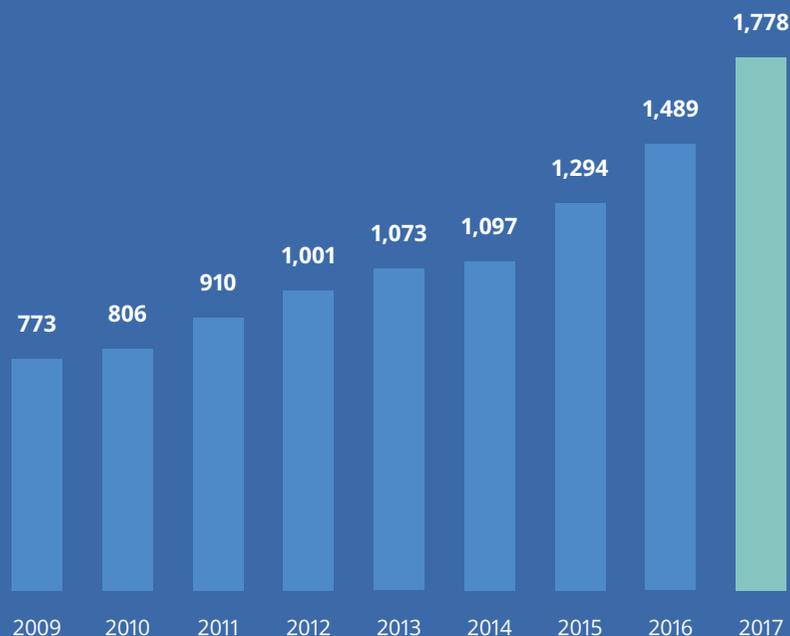
SOURCE MARKETS

NET OPERATING REVENUE (HRK mn)

	2016	2017**	2017/2016
Hotels and resorts	1,119	1,319	+18%
Camping resorts	303	400	+32%
Other*	45	49	+9%
Total	1,467	1,768	+20%

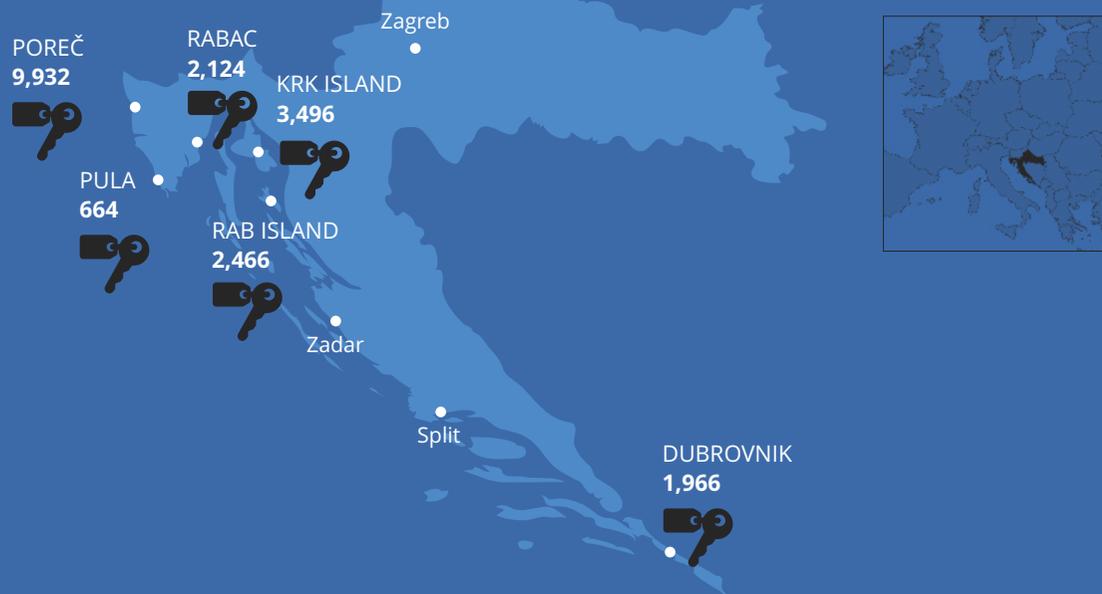
* Leasing, laundry facility and other operating revenues included.
 ** Imperial d.d. included.

OPERATING REVENUES* (HRK mn)**



*** 2017 data include Imperial d.d., but earlier data do not.

2018 PORTFOLIO OVERVIEW (by keys/pitches)



VALAMAR BRAND	Keys	2017 % of total capacity	2018 Keys	2018 % of total capacity	2018/2017
Valamar Collection	428	2%	428	2%	0%
Valamar Collection Resorts	576	3%	725	4%	+26%
Valamar Hotels & Resorts	3,511	17%	3,551	17%	+1%
Sunny By Valamar	3,641	17%	3,710	18%	+2%
Co-Branding / Outsourced Brands	542	3%	542	3%	0%
HOTELS AND RESORTS TOTAL	8,698	42%	8,956	43%	+3%
Camping Adriatic By Valamar – Premium Resorts	4,178	20%	4,053	20%	-3%
Camping Adriatic By Valamar – Resorts	5,397	26%	5,045	24%	-7%
Camping Adriatic By Valamar – Sunny	2,579	12%	2,594	13%	+1%
CAMPING RESORTS TOTAL	12,154	58%	11,692	57%	-4%
TOTAL	20,852	100%	20,648	100%	-1%



HISTORY OF VALAMAR RIVIERA

THE BEGINNING OF TOURISM AND HOSPITALITY IN POREČ

1895

First public bathing area on Sveti Nikola Island – Bagno Parentino

1910

Opening of the Riviera hotel in Poreč (the company was named after it)

1913 and 1923

Opening of the Venezia and the Parentino (hotels owned by the company to this day)

COMPANY BEGINNINGS

1953

Riviera Poreč established, the company-predecessor of Valamar Riviera d.d.

Management of hotels, bungalows and restaurants in Poreč and on Sveti Nikola Island

PERIOD OF INTENSIVE CONSTRUCTION

1967

Luna Hotels and Apartments

1968

Neptun hotel and Lanterna tourist village

1971

Kristal hotel, Rubin hotel, Camping Lanterna and Solaris

1976

Diamant hotel, Zagreb hotel, Solaris pavilion, Camping Istra

1979

Pical hotel (the first high-category hotel in Poreč)

1986

Fortuna hotel (Sv. Nikola Island)

1999

ESTABLISHMENT OF DOM FOND

Establishment of the largest privatization investment fund during the voucher privatization period in Croatia

1895 – 1950

HISTORY OF CROATIAN TOURISM:

120 years of tourism and hospitality

1950 – 1965

RIVIERA POREČ:

The beginning of organized tourism and hospitality in Croatia

1965 – 1990

DEVELOPMENT OF CROATIAN TOURISM:

Dynamic business growth and intensive construction of properties

1990 – 2000

PRIVATIZATION AND OWNERSHIP TRANSFORMATION:

The economic processes of privatization and ownership transformation in the war's aftermath

THE COMPANY VALAMAR HOTELI I LJETOVALIŠTA STARTS MANAGING HOSPITALITY OPERATIONS

Introduction of the first brands for hotels and campsites, Valamar Hotels & Resorts and Camping on the Adriatic

2010 – 2014 MANAGEMENT AND PORTFOLIO CONSOLIDATION

Zlatni otok d.d., Rabac d.d. and Dubrovnik-Babin Kuk d.d. were merged to Riviera Adria d.d., which later on integrated Valamar grupa d.d. and Valamar Adria holding d.d. The consolidated company started operating under the name of Valamar Riviera d.d. and was listed on the Official Market of the Zagreb Stock Exchange in December 2014

MERGERS AND 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),
Valamar grupa d.d. (est. 2005)

2015

INVESTMENTS IN PREMIUM SERVICES AND 4* AND 5* PROPERTIES

Opening of the Premium Valamar Isabella Island Resort 4*/5*

Takeover and merger of Hoteli Baška d.d. (est. 1949)

2016

By the end of 2016, Valamar Riviera established a strategic partnership with AZ pension fund successfully taking over Imperial d.d., Valamar Riviera acquired a 54.71% stake in Imperial d.d. and AZ fund acquired a 34.22% stake

Camping Resort Krk became the first 5-star campsite in Croatia

Camping Resort Lanterna 4* upgraded its services after a large investment cycle

Preparation of Valamar's largest annual investment cycle worth HRK 873 mn

Record business results

Redefined vision, mission and strategic goals for the period up to 2020

2017

The largest annual investment cycle worth over HRK 900 million

More than 1000 new jobs created

Opening of the largest investment in tourism and hospitality: Valamar Girandella Resort 4*/5* and TUI Family Life Bellevue Resort 4*

Share of the Year awarded to Valamar Riviera for the sixth consecutive time

2000 – 2010

BUSINESS GROWTH AND PORTFOLIO INVESTMENTS:

Improving the quality of properties and services

2010 – 2014

CONSOLIDATION OF THE MANAGEMENT AND THE PORTFOLIO

2015 – 2017

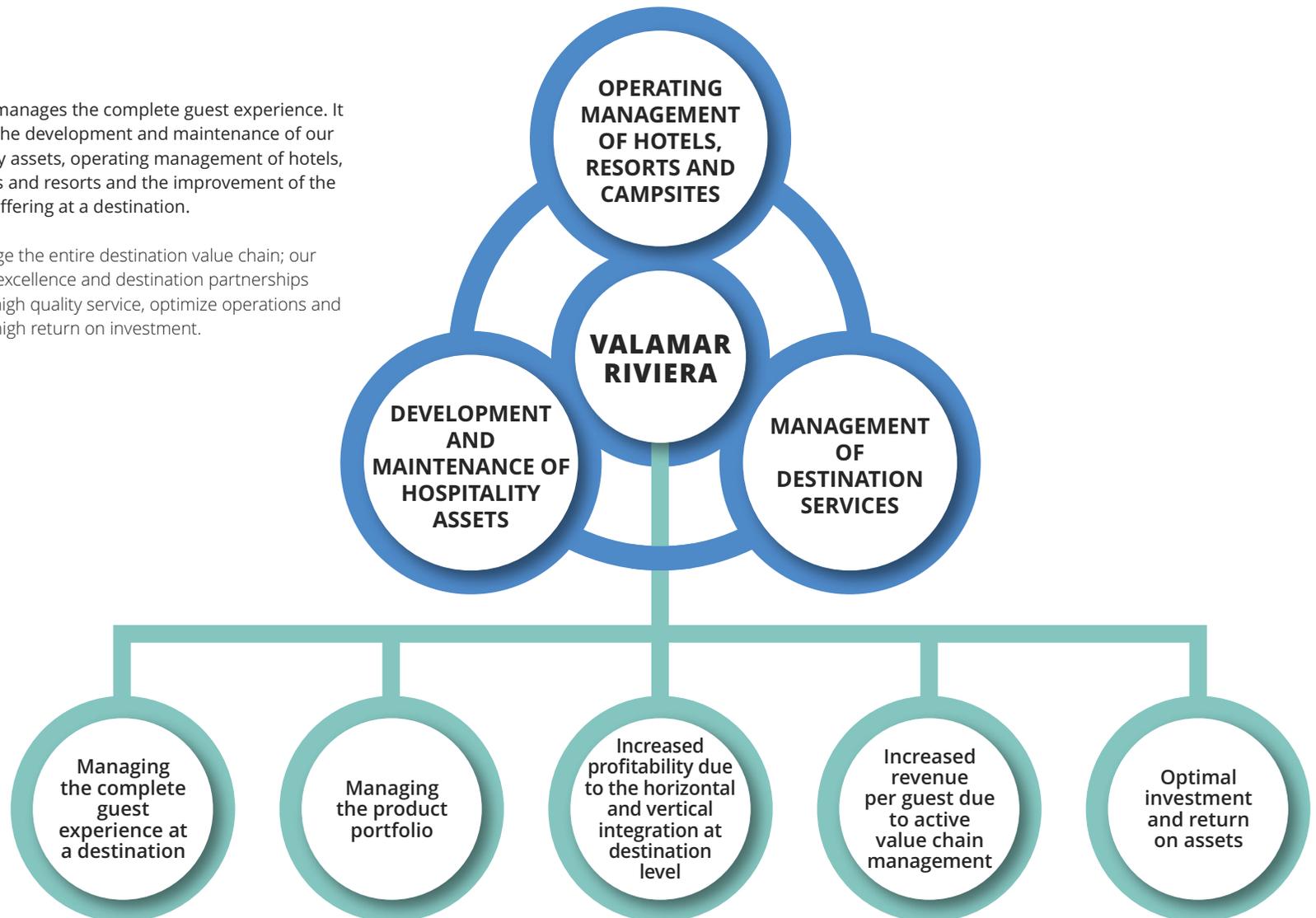
NEW STAGE IN GROWTH AND ACQUISITIONS



VALAMAR RIVIERA'S BUSINESS MODEL

Valamar manages the complete guest experience. It includes the development and maintenance of our hospitality assets, operating management of hotels, campsites and resorts and the improvement of the tourism offering at a destination.

We manage the entire destination value chain; our business excellence and destination partnerships produce high quality service, optimize operations and secure a high return on investment.



ASSET MANAGEMENT AND OWNERSHIP OF HRK 4.6 BILLION IN LONG-TERM ASSET BOOK VALUE

We have a truly enviable tradition in hospitality and a unique asset portfolio structure thanks to our company tradition spanning 60 years. Our portfolio's book value is HRK 4.6 billion and it represents the key factor of our success.

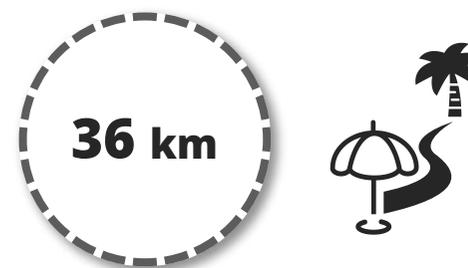
We operate properties on more than 579 ha of land in prime locations along the Adriatic coast that include 36 km of shoreline. Our locations represent our major strength and an excellent opportunity for future development. Over the years, we have developed the organization and knowledge to develop tourism products and efficiently manage the value of our assets.

Our policy is to annually invest 5% of total revenues in investment maintenance and FF&E to maintain the value and quality of our properties.

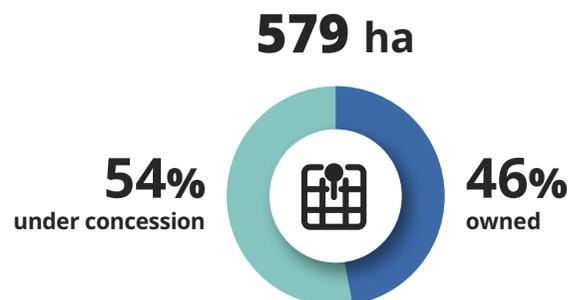
LONG-TERM ASSETS OF VALAMAR RIVIERA GROUP (Imperial d.d. included)

Hotels and Resorts	66%
Campsites	21%
Other ¹	13%
TOTAL	HRK 4.6 bn

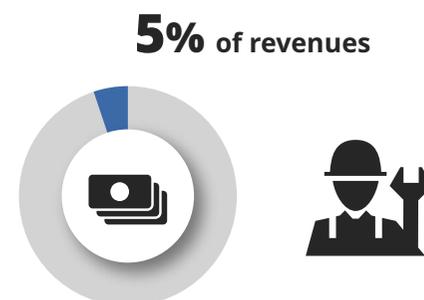
MARITIME DOMAIN²



LAND SURFACE



INVESTMENT MAINTENANCE AND FF&E³



¹ HQ building and non-core assets included.

² Maritime domain refers to the coastal area directly adjacent to Valamar's properties which is under concession, managed or used by Valamar and makes an integral part of Valamar beach and sea offer and services.

³ Our policy is to annually invest up to 5% of revenues in investment maintenance and FF&E (Furniture, Fixtures & Equipment).

VALAMAR BRANDS

	2017		2018		2018/ 2017
	Keys	% of total capacity	Keys	% of total capacity	
Valamar Collection	428	2%	428	2%	0%
Valamar Collection Resorts	576	3%	725	4%	+26%
Valamar Hotels & Resorts	3,511	17%	3,551	17%	+1%
Sunny By Valamar	3,641	17%	3,710	18%	+2%
Brand Partnerships	542	3%	542	3%	0%
HOTELS AND RESORTS TOTAL	8,698	42%	8,956	43%	+3%
Camping Adriatic By Valamar – Premium Resorts	4,178	20%	4,053	20%	-3%
Camping Adriatic By Valamar – Resorts	5,397	26%	5,045	24%	-7%
Camping Adriatic By Valamar – Sunny	2,579	12%	2,594	13%	+1%
CAMPING RESORTS TOTAL	12,154	58%	11,692	57%	-4%
TOTAL	20,852	100%	20,648	100%	-1%

HOTELS AND RESORTS

			Keys	% of capacity
VALAMAR COLLECTION			428	
Valamar Collection Imperial Hotel	★★★★★	Rab Island	136	32%
Valamar Collection Dubrovnik President Hotel	★★★★★	Dubrovnik	292	68%
VALAMAR COLLECTION RESORTS			725	
Valamar Collection Isabella Island Resort	★★★★★ (4/5)	Poreč	334	46%
Valamar Collection Girandella Resort	★★★★★ (4/5)	Rabac	391	54%
VALAMAR HOTELS & RESORTS			3,551	
Valamar Zagreb Hotel	★★★★★	Poreč	230	6%
Valamar Diamant Hotel & Residence	★★★★★	Poreč	372	10%
Valamar Crystal Hotel	★★★★★	Poreč	223	6%
Valamar Riviera Hotel & Suites	★★★★★	Poreč	152	4%
Valamar Tamaris Resort	★★★★★	Poreč	507	14%
Valamar Sanfior Hotel & Casa	★★★★★	Rabac	242	7%
Valamar Koralj Hotel	★★★	Krk Island	274	8%
Valamar Zvonimir Hotel	★★★★★	Krk Island	85	2%
Valamar Atrium Baška Residence	★★★★★ (4/5)	Krk Island	64	2%
Valamar Villa Adria	★★★★★	Krk Island	28	1%
Valamar Padova Hotel	★★★★★	Rab Island	175	5%
Valamar Carolina Hotel & Villas	★★★★★	Rab Island	152	4%
Valamar Lacroma Dubrovnik Hotel	★★★★★	Dubrovnik	401	11%
Valamar Argosy Hotel	★★★★★	Dubrovnik	308	9%
Valamar Club Dubrovnik Hotel	★★★	Dubrovnik	338	10%

			Keys	% of capacity
SUNNY BY VALAMAR			3,710	
Rubin Sunny Hotel by Valamar	★★★	Poreč	253	7%
Pical Sunny Hotel by Valamar	★★	Poreč	359	10%
Lanterna Sunny Resort by Valamar	★★	Poreč	956	26%
Pinia Sunny Residence by Valamar	★★★	Poreč	96	3%
Miramar Sunny Hotel by Valamar	★★★	Rabac	178	5%
Allegro Sunny Hotel by Valamar	★★★	Rabac	180	5%
Marina Sunny Hotel by Valamar	★★	Rabac	283	8%
Corinthia Baška Sunny Hotel by Valamar	★★★	Krk Island	456	12%
San Marino Sunny Resort by Valamar	★★★	Rab Island	457	12%
Eva Sunny Hotel & Residence by Valamar	★★	Rab Island	284	8%
Tirena Sunny Hotel by Valamar	★★★	Dubrovnik	208	6%
BRAND PARTNERSHIPS			542	
TUI Family Life Bellevue Resort	★★★★	Rabac	372	69%
COOEE Pinia Hotel by Valamar	★★★	Poreč	170	31%

CAMPING RESORTS

			Keys	% of capacity
CAMPING ADRIATIC BY VALAMAR – PREMIUM RESORTS			4,053	
Lanterna Premium Camping Resort by Valamar	★★★★	Poreč	2,870	71%
Krk Premium Camping Resort by Valamar	★★★★★	Krk Island	500	12%
Ježevac Premium Camping Resort by Valamar	★★★★	Krk Island	683	17%
CAMPING ADRIATIC BY VALAMAR – RESORTS			5,045	
Orsera Camping Resort by Valamar	★★★	Poreč	596	12%
Marina Camping Resort by Valamar	★★★★	Rabac	318	6%
Solaris Camping Resort by Valamar	★★★	Poreč	1,807	36%
Zablaće Camping Resort by Valamar	★★★★	Krk Island	654	13%
Bunculuka Camping Resort by Valamar	★★★★	Krk Island	408	8%
Padova Camping Resort by Valamar	★★★	Rab Island	453	9%
San Marino Camping Resort by Valamar	★★★★	Rab Island	809	16%
CAMPING ADRIATIC BY VALAMAR – SUNNY			2,594	
Tunarica Sunny Camping by Valamar	★★	Rabac	160	6%
Istra Sunny Camping by Valamar	★★	Poreč	1,007	39%
Brioni Sunny Camping by Valamar	★★	Pula	664	26%
Škrila Sunny Camping by Valamar	★★★	Krk Island	344	13%
Solitudo Sunny Camping by Valamar	★★★	Dubrovnik	419	16%

3 THE HOSPITALITY INDUSTRY

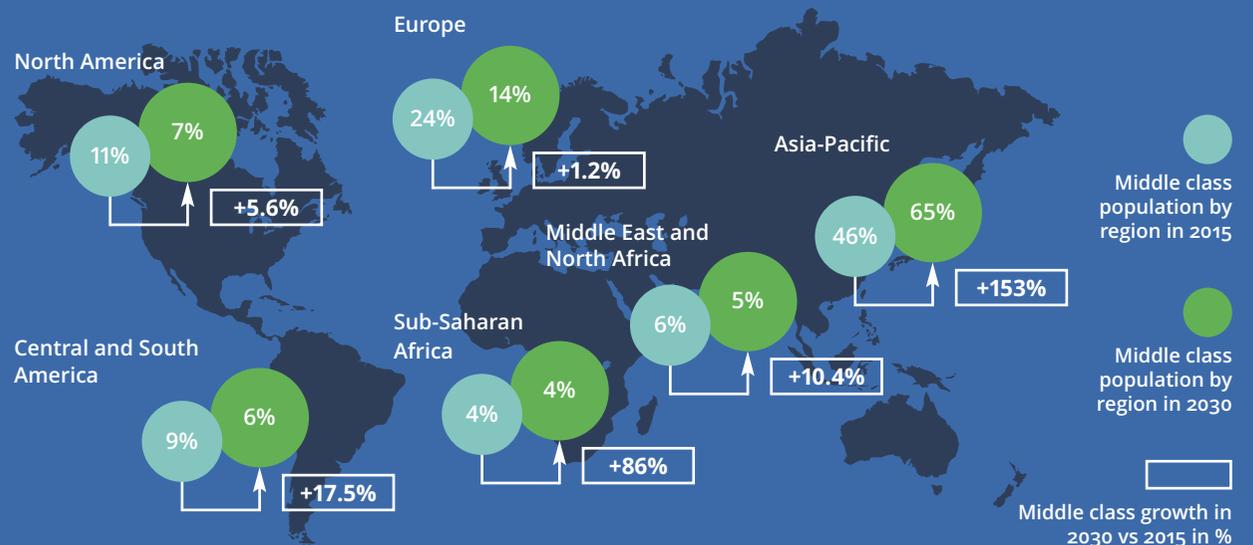
Tourism contributes to the global GDP with nearly 10%. Globally, it is the third sector by export and accounts for one in ten jobs.

HOSPITALITY AND TOURISM IN THE GLOBAL CONTEXT

For another consecutive year, tourism is one of the largest and fastest-growing global economic sectors, contributing to the global GDP with nearly 10%. Globally, it is the third sector by export and accounts for one in ten jobs with a globally estimated market value of EUR 800 billion.

With 1.3 billion of international tourist arrivals in 2017 and strong 7% annual growth that nearly doubled if compared to the 4% average growth rate in the 2010-2016 period, it grew in spite of terrorism and political instability while destinations such as Greece and Turkey started recovering.

MIDDLE CLASS POPULATION IN TOTAL POPULATION AND GROWTH FORECAST BY 2030



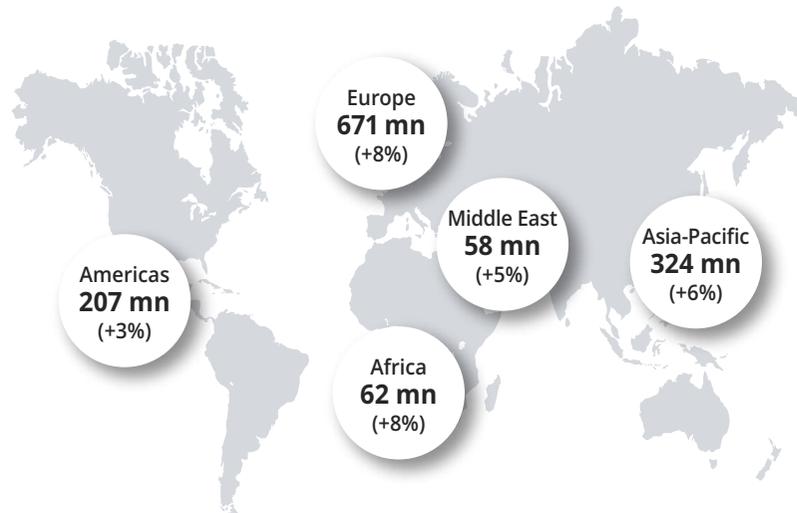


Demand for tourism-related services is mainly growing due to the emergence of a “new middle class”, especially in emerging markets such as Brazil, Russia, China and India. The dominant generator of the new middle class will be the region of Asia-Pacific where 65% of the total world’s middle class will live by 2030.

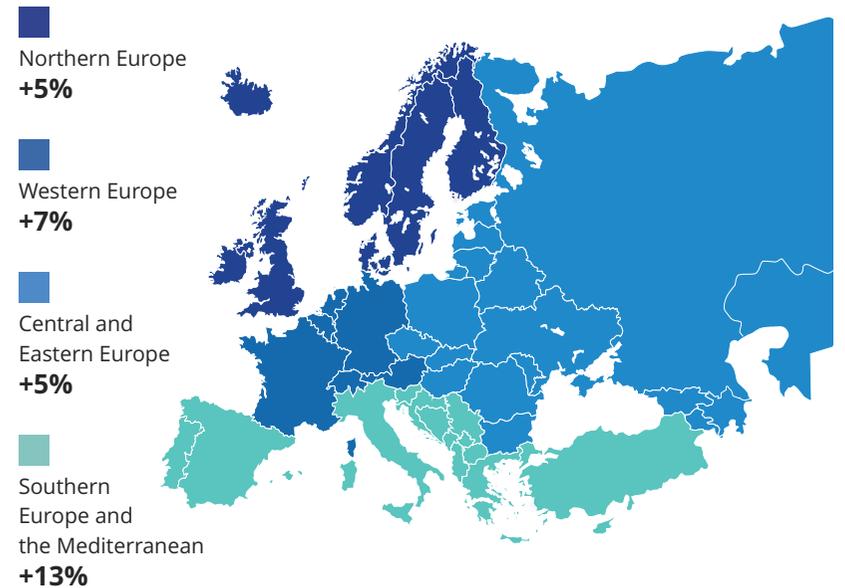
Predictably, in 2017 Europe was again the world’s leading destination with over 50% of international arrivals. Furthermore, it reported the strongest annual turnover growth of 8%, while the fastest growing region was Southern Europe and the Mediterranean (13%).



INTERNATIONAL TOURIST ARRIVALS IN 2017 AND GROWTH (IN %) VS. 2016



GROWTH IN INTERNATIONAL TOURIST ARRIVALS BY EUROPEAN REGIONS VS. 2016



TOURISM AND HOSPITALITY IN CROATIA

This was another record-breaking year for Croatian tourism and hospitality. For the first time since gaining independence, the country reported over 100 million overnights in all forms of accommodation, i.e. over 86 million overnights in commercial accommodation.

In the last 8 years, Croatia's average annual growth in overnights was 6.24%, with a faster growth pace in the last three years (9.27% average annual growth). The annual growth rate in 2017 was 14.16%, exceeding the average growth reported by Southern Europe and the Mediterranean.

In line with global trends, the average duration of stay is decreasing year after year: the 2017 average was 4.9 days, down by 7% compared to 2010.

According to the Croatian National Bank, tourism revenue in the first nine months of 2017 was EUR 8.7 billion, representing 24% of the GDP (in current prices).

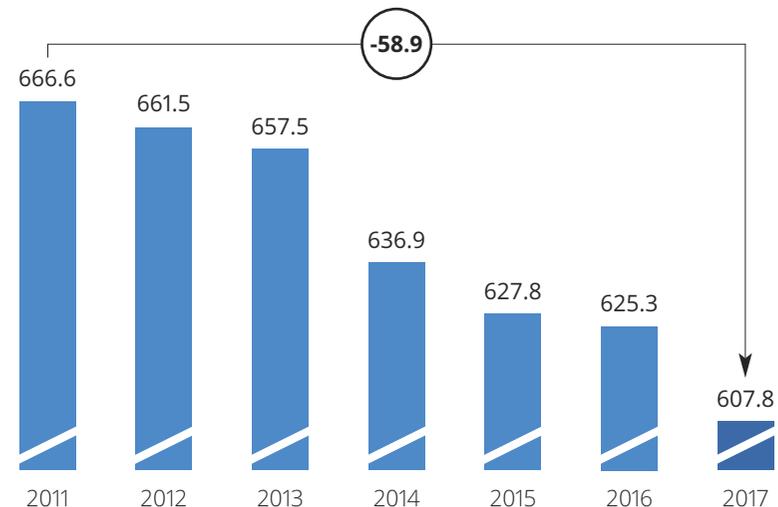
The results confirm that tourism and hospitality represent one of the most significant economic sectors in Croatia.

The Ministry of Tourism estimates that foreign currency revenue in 2017 were around EUR 10 billion.

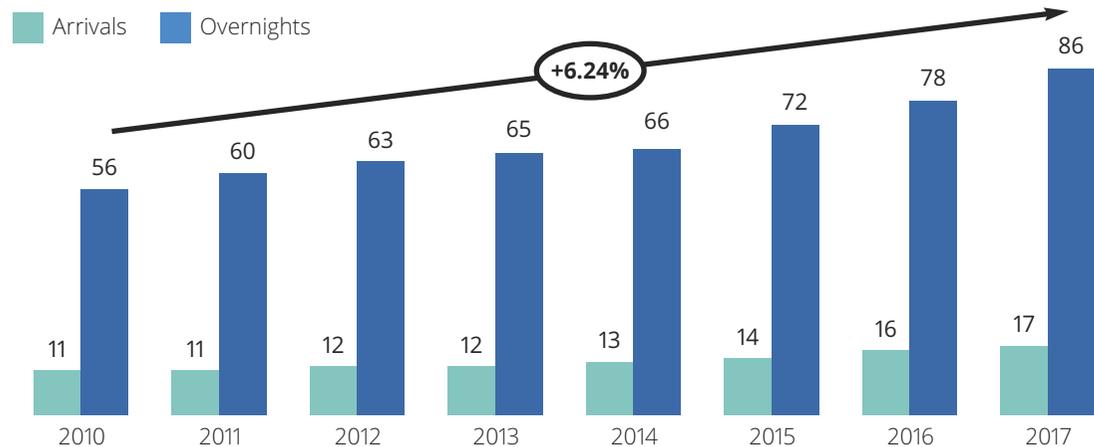
Although tourism turnover grew in volume, Croatia's average income per international arrival has decreased by over EUR 58 since 2011 and points at challenges in the sustainability of current value creation, especially in terms of accommodation structure where private accommodation accounts for nearly 60%. The sector's annual growth in turnover volume exceeds the growth in financial income.

Private accommodation accounted for 49% of 2017 overnights, hotels and similar accommodation accounted for 29% and the share of campsites was 22%.

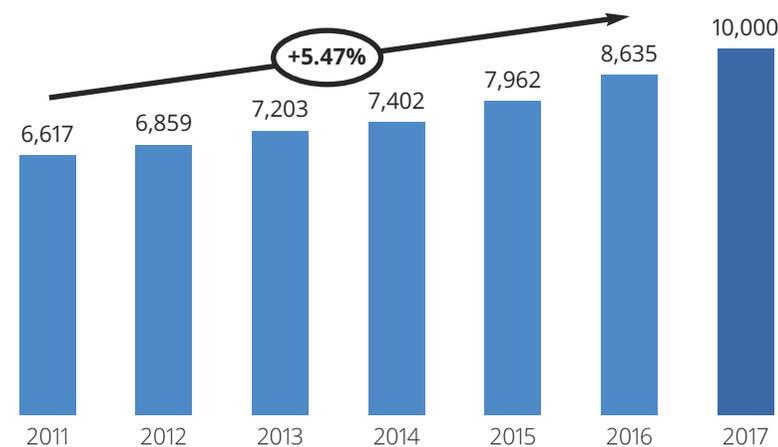
FOREIGN CURRENCY REVENUE PER INTERNATIONAL ARRIVAL (EUR)



ARRIVALS AND OVERNIGHTS IN CROATIA IN COMMERCIAL ACCOMMODATION FORMS (in millions)



FOREIGN CURRENCY REVENUE FROM TOURISM (EUR, mn)



Hotels reported average growth in total revenue per available room in the reviewed period since 2013, except for 2014. This growth was mainly driven by increased average daily rates, while in the last three years, particularly significant growth was also achieved in average occupancy rates, mainly because demand shifted from Mediterranean destinations due to security issues.

Resorts struggle to grow and maintain TRevPAR. However, in the first 11 months of 2017 compared to the same period

in the previous year, they reported double-digit growth in occupancy and ADR that drove double-digit growth in TRevPAR. Campsites are the absolute winners in all the reviewed categories, reporting growth in ADR mainly driven by increased rates and number of mobile homes. They report the strongest growth in all indicators in the first 11 months of 2017, compared to hotels and resorts.

In line with the structure of accommodation and hospitality products, in 2017 Croatia failed to make any

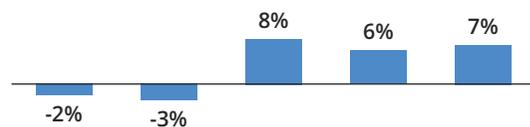
significant progress in the seasonality pattern: the June-September period is still the time of the year when 86% of all overnights take place.

Croatian tourism is still very unevenly developed: the Adriatic counties comprising 44% of the state's surface, reported 95.78% of all overnights in 2017, while the remaining overnights were reported in the continental part. In fact, 53% of them were reported by Zagreb as the leading continental destination.

ANNUAL TRENDS IN KEY PERFORMANCE INDICATORS OF CROATIA'S ACCOMMODATION INDUSTRY (2013-2017¹)

HOTELS

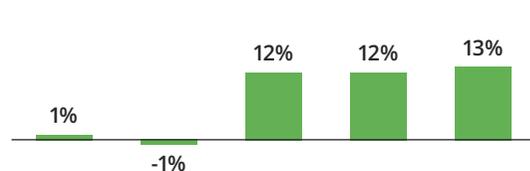
Occupancy



ADR



TrevPAR



2013/
2012

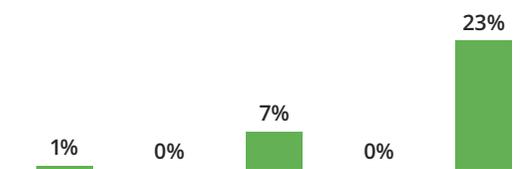
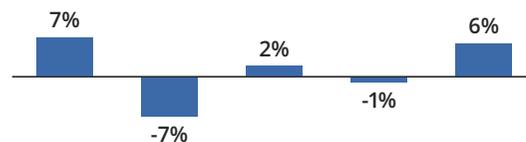
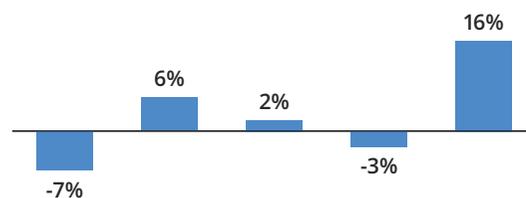
2014/
2013

2015/
2014

2016/
2015

I-XI 2017/
I-XI 2016

RESORTS



2013/
2012

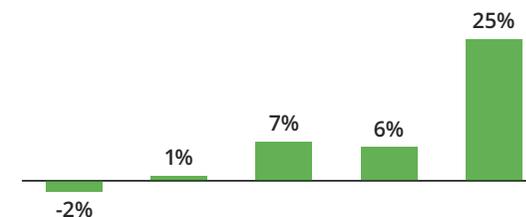
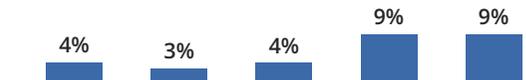
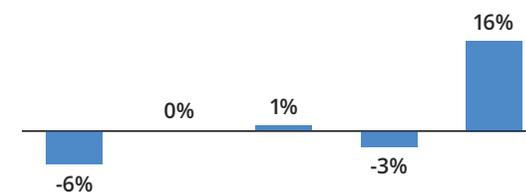
2014/
2013

2015/
2014

2016/
2015

I-XI 2017/
I-XI 2016

CAMPSESITES



2013/
2012

2014/
2013

2015/
2014

2016/
2015

I-XI 2017/
I-XI 2016

The key Croatian source markets remain unchanged. The leading five by overnights are again Germany, Slovenia, Austria, Poland and the Czech Republic that together make up nearly 50% of all overnights. Among them, Germany and Poland also report a double-digit growth in overnights compared to the previous year (13.6% and 21%, respectively).

Besides Germany and Poland, the fastest-growing markets with more than 1% share in total overnights are the United Kingdom, Scandinavian countries and the USA, reporting double-digit average growth rates every year since 2012.

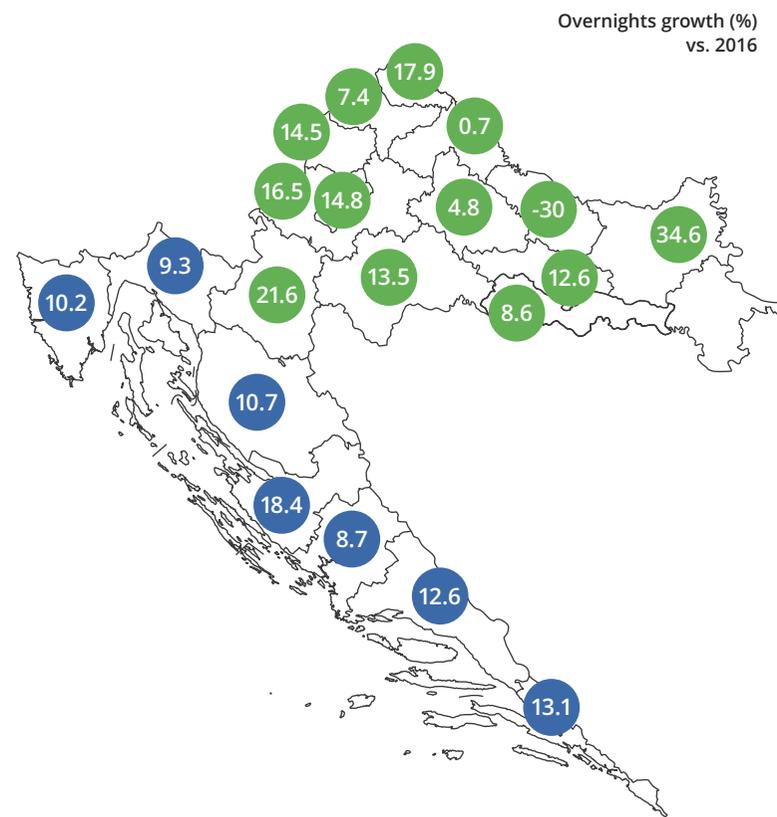
In spite of still holding a smaller share in total overnights, the double-digit growth in overnights by guests from Asian countries (China, Japan, Korea, Taiwan, India, Hong Kong and Thailand) is worth noting, in line with the global trends of increased demand from the above-mentioned source markets.

The sector saw large investments in 2017. According to the Ministry of Tourism, over EUR 800 million were invested in 2017, while another EUR 940 million are expected to be invested in 2018.



OVERNIGHTS BY COUNTIES IN 2017

City of Zagreb	2.24%
Zagreb County	0.15%
Krapina-Zagorje County	0.32%
Varaždin County	0.14%
Koprivnica-Križevci County	0.04%
Međimurje County	0.17%
Bjelovar-Bilogora County	0.08%
Virovitica-Posravina County	0.03%
Požega-Slavonia County	0.03%
Brod-Posavina County	0.05%
Osijek-Baranja County	0.18%
Vukovar-Srijem County	0.14%
Karlovac County	0.56%
Sisak-Moslavina County	0.09%
Total: Continental part	4.22%
Primorje-Gorski kotar County	18.24%
Lika-Senj County	3.13%
Zadar County	13.42%
Šibenik-Knin County	7.01%
Split-Dalmatia County	18.66%
Istra County	26.96%
Dubrovnik-Neretva County	8.35%
Total: Adriatic	95.78%



FASTEST-GROWING MARKETS WITH OVER 1% SHARE IN OVERNIGHTS

	2017 Share in overnights (in %)	2017 Overnights growth (in %)
Germany	20.29	13.65
Poland	6.21	21.09
United Kingdom	4.05	25.96
Sweden	1.69	13.05
USA	1.34	34.32
Norway	1.12	18.75
Belgium	1.00	10.60

OUTLOOK FOR THE FORTHCOMING PERIOD

Further growth in tourism turnover

According to forecasts for global tourism turnover in 2018, international tourist arrivals are expected to grow further by 4%-5% per year. In line with the existing trend, a stronger growth in demand is expected in emerging markets, South America, Asia and the Middle East in particular.

Generational transition continues

Millennials will continue shaping this industry globally. Although baby boomers had dominated the market for decades, this new generation of travelers born between 1980 and 2000 exceeded baby boomers in total travel made. Tech-savvy millennials are urban individuals looking for authentic experiences whose demands boost share economy

and whose expectations shape the approach, communication and service delivery used by providers in tourism and hospitality.

Focus on online channels

Although less than 50% of all travel made is planned and booked online, the global value of this channel is estimated at more than EUR 400 billion, and it has been growing by an average 8% annually since 2014, four times faster than total tourism market value growth. This growing trend in the online channel is expected to continue in 2018. Hotels will continue investing significant amounts in online advertising, building Instagram communities, developing mobile applications and improving the digital experience of guests during their stay at a hotel.

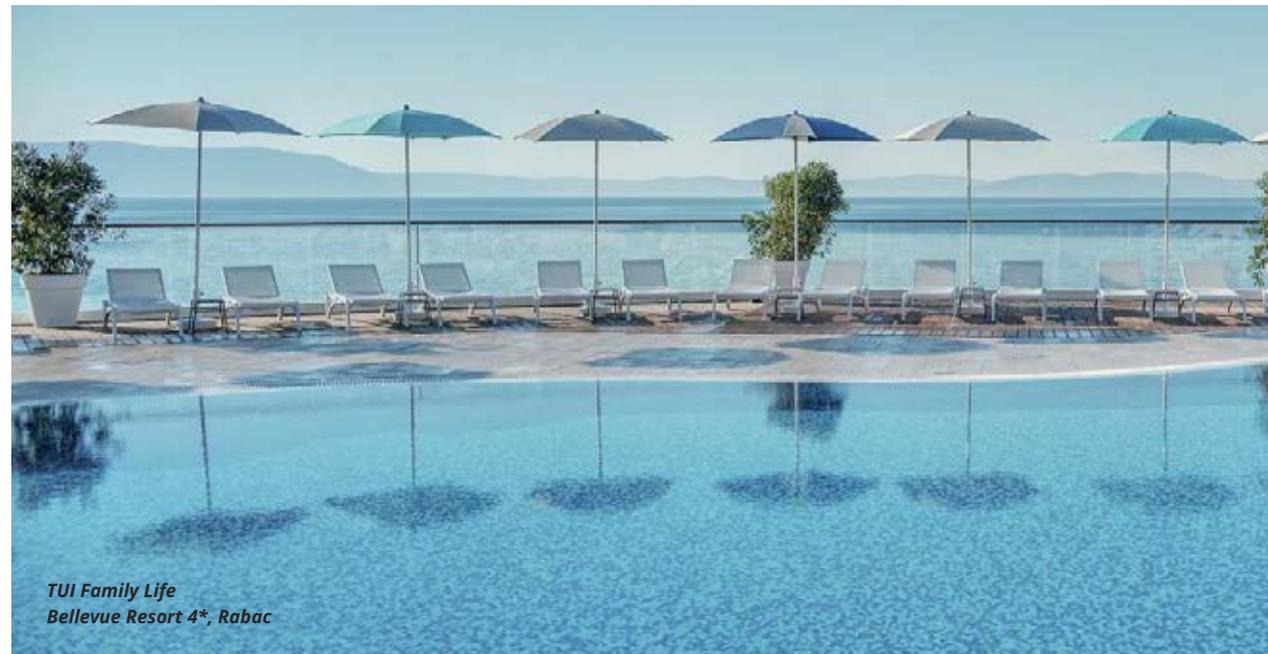
Expansion of hotel brands

The hotel sector is significantly consolidating, especially in the luxury brand segment. Since 2016, AccorHotels and Marriott International have doubled their brand portfolio largely through acquisitions.

This process continued in 2017 as Accor bought Mantra, an Australian hotel operator in order to consolidate its market share in the Asia-Pacific region, along with the previous acquisitions and strategic partnerships (25hours, Banyan Tree, Rixos Hotels & Resorts, onefinestay). Besides expanding the brand portfolio further, more global mergers and acquisitions can be expected in the future.



*Valamar Collection
Imperial Hotel 4*, Rab*



*TUI Family Life
Bellevue Resort 4*, Rabac*

Hotels are becoming experience platforms

New technologies are becoming increasingly integrated in tourism and hospitality, thus leading to an expected further expansion of hotel brands outside their traditional scope of services and business. Large hotel brands expand their service portfolio through the acquisition of technological start-ups and vertical integration in order to gain control over the whole decision-making process and service use, such as platforms for finding tours and activities within a destination, maps of local systems and similar. The integration of destination experiences and hotel services is expected to continue in the future. Similarly, hotels are likely to introduce services that will go beyond traditional accommodation and F&B services targeting both guests and the local population.



Further growth of the sharing economy

Airbnb was a global platform for private accommodation for years and then it entered the hotel segment in 2017, with long-term accommodation rentals that offer hotel-like features such as front offices.

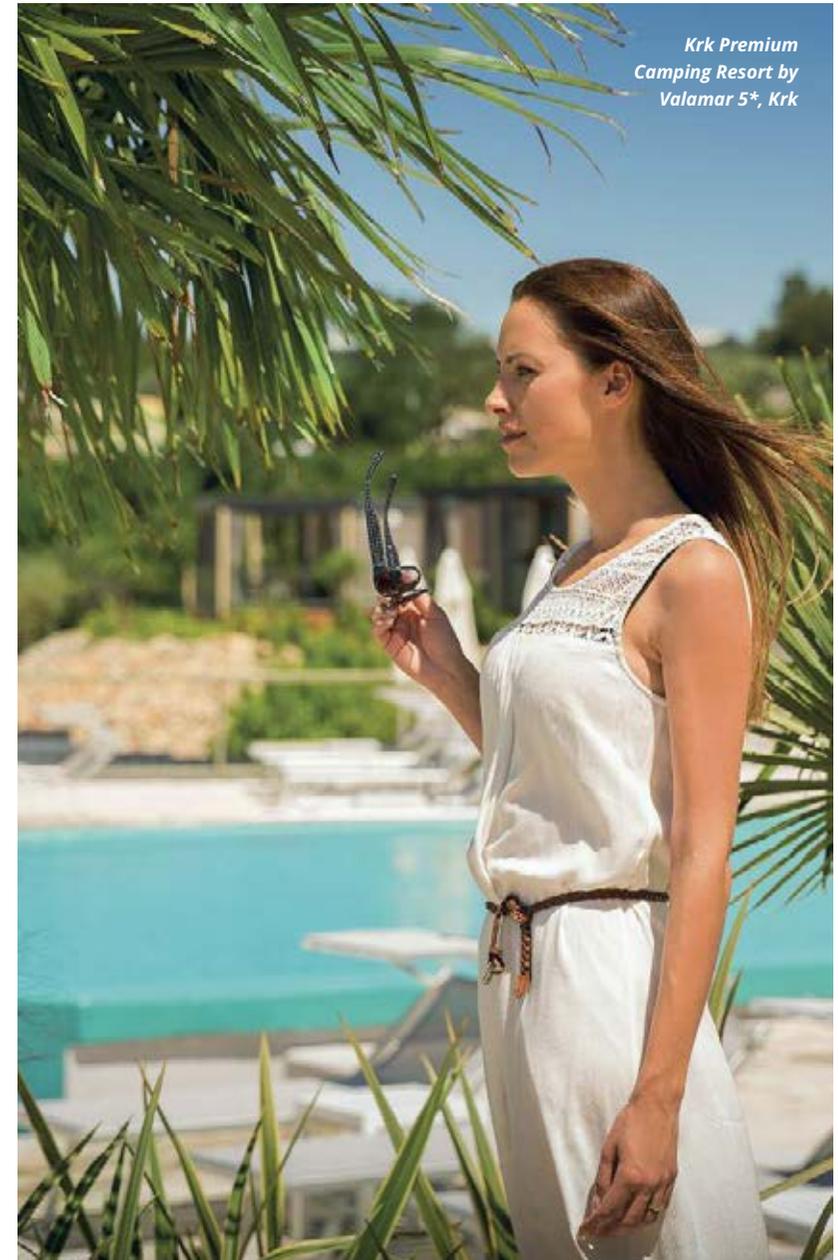
Furthermore, it has innovated services through Trips, an Airbnb platform for booking and buying experiences at a destination through direct contact with the local population. At the start of 2018, Airbnb partnered with SiteMinder to enable the commercialization of hotel accommodation through Airbnb's platform and charged significantly lower fees compared to classic OTA platforms. It can be expected that not only Airbnb but also other start-ups entering the market will continue evolving their service portfolio to include plane tickets, restaurants, transport on request and similar. Brian Chesky, CEO at Airbnb, believes that by 2020 over 50% of all revenues will be generated by business segments in which Airbnb is not even present at the moment.

Self-actualization as the new luxury

Travelers pursue life-transforming and life-enriching experiences that create long-lasting (and Insta-worthy) memories. Guests want to be the creators of their own experiences, thus challenging hotel operators to innovate services and programs (culinary academies, golf academies, well-being programs, unique experiences).

Visitor management and sustainability as the key to future development

Increased demand is putting pressure on the current infrastructure, requiring new facilities and lowering the quality of life and experiences at a destination. In the forthcoming period, destinations in partnership with the hotel business will have to find a way to manage tourism in a manner that will be sustainable in the long term.



4 ENGAGEMENT OF KEY STAKEHOLDERS AND MATERIAL ASPECTS

We have been building partnerships and fostering open communication with all our stakeholders for many years, because we believe that our business success depends on how well we understand each other's needs.

This report was created with the expert support of the Croatian Business Council for Sustainable Development. Continuous dialogue with stakeholders is an important part of our corporate social responsibility efforts integrated in our business strategy.

We have established policies at company level that represent our commitment to be the hospitality market leader in Croatia in terms of service quality, guest and user satisfaction, caring for the interests of our employees, company and local community, environmental protection and resource management.

Hence, Valamar Riviera has adopted the Quality and Sustainable Business Policy that focuses especially on the following aspects:

- ▶ compliance with legal and other requirements
- ▶ protection and rational use of resources
- ▶ pollution prevention as the foundation of our management of environmental aspects
- ▶ reduction of waste and adequate waste management
- ▶ improvement of energy efficiency
- ▶ purchase of energy-efficient products and services
- ▶ availability of information and resources related to the achievement of general and specific goals in the field of quality, safety, environment and energy
- ▶ employees' training
- ▶ labor law compliance and caring for our employees
- ▶ support for the local community and interests
- ▶ protection of children

Valamar Collection
Girandella Resort 4*/5*,
Rabac



COMMUNICATION WITH KEY STAKEHOLDERS

GUESTS

- ▶ surveys/ guest opinion research
- ▶ raising awareness about environmental issues
- ▶ involvement in charity events
- ▶ newsletters

EMPLOYEES

- ▶ surveys/ corporate culture and climate research
- ▶ communication through the monthly VIV corporate magazine and VIV blog
- ▶ daily, weekly and monthly department meetings
- ▶ workers' meetings
- ▶ annual party
- ▶ ongoing performance feedback

SHAREHOLDERS

- ▶ annual Shareholders' General Assembly
- ▶ financial reports
- ▶ corporate web site
- ▶ VIV magazine

SUPPLIERS

- ▶ 95% Croatian suppliers
- ▶ long-term collaboration and partnership
- ▶ quality assurance requirements for each product category

COMMUNICATION WITH RELATED STAKEHOLDERS

TRADE UNIONS

- ▶ collective agreement signed
- ▶ collaboration with the Workers' council regarding all key issues related to employees' rights and privileges

PROFESSIONAL ASSOCIATIONS

- ▶ promoting professional interests as member of various professional organizations (Association of Employers in Croatian Hospitality, Croatian Employers' Association, Croatian Chamber of Economy, Croatian Business Council for Sustainable Development, American Chamber of Commerce in Croatia and others)

LOCAL COMMUNITY AND DESTINATIONS

- ▶ Valamar's participation in the work of tourist boards
- ▶ collaboration in the organization of destination events and investment projects
- ▶ active participation in charity activities

INVESTMENT COMMUNITY

- ▶ transparent communication with all investors in the capital market (non-deal road shows, meetings and conferences, Investors Day, corporate web site)
- ▶ collaboration with development banks and commercial banks and creditors, proactive communication with analysts
- ▶ financial reports and immediate notification of all material facts for investors

PUBLIC ADMINISTRATION BODIES

- ▶ collaboration in the development and preparation of investment projects, student scholarships and dialogue related to legislative initiatives

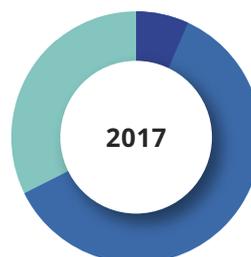
GENERAL PUBLIC

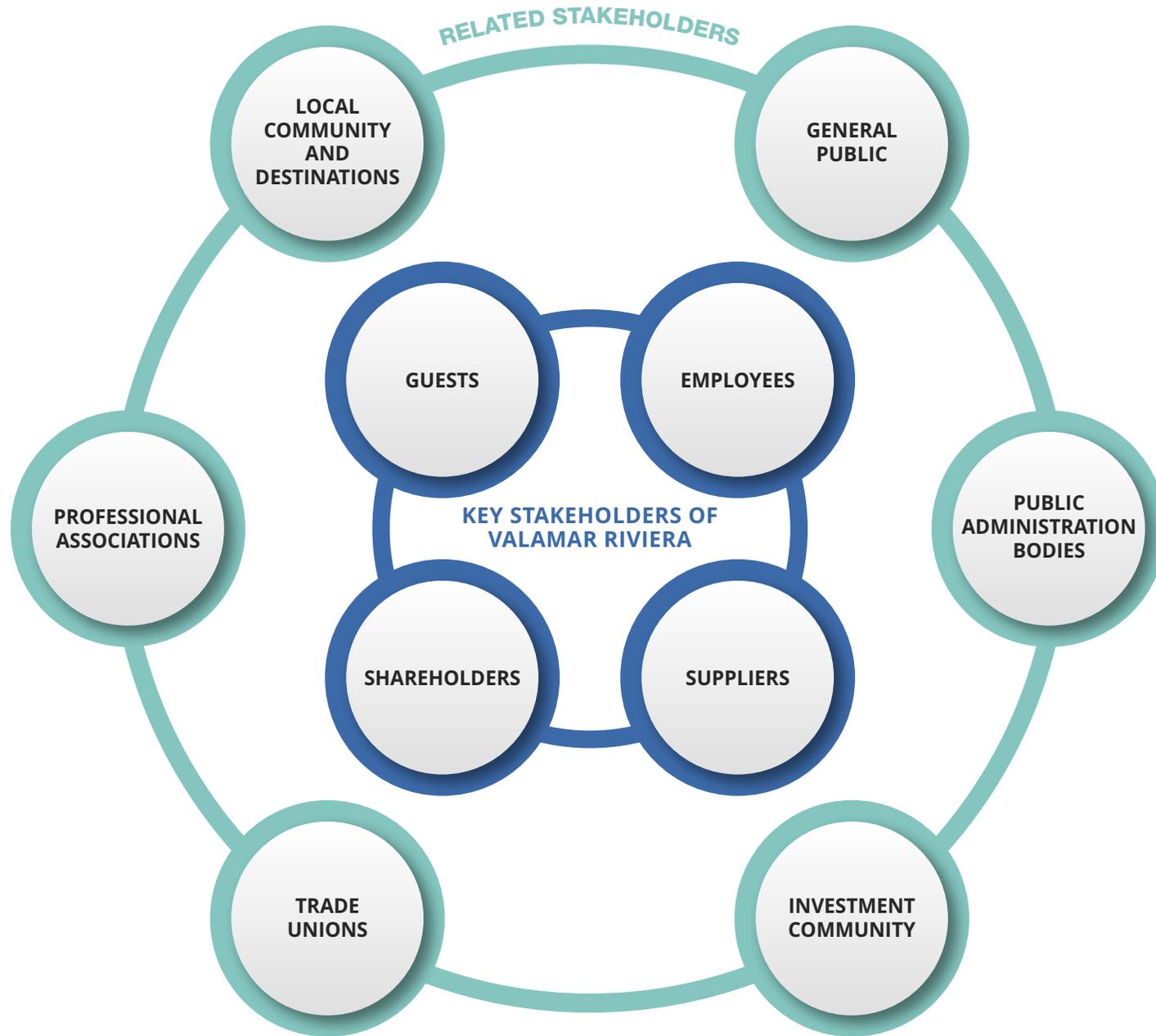
- ▶ press releases
- ▶ corporate website
- ▶ VIV magazine

2017 SHARE OF DOMESTIC FOOD AND BEVERAGE PRODUCTION AND LOCAL PRODUCTS

A large share in the food and beverage segment at Valamar Riviera is represented by domestic production and local products that make Valamar's services and products more authentic. By promoting local products, Valamar enriches its offering and develops a long-term collaboration with local producers.

	Croatian products that include products that may contain imported raw material that does not make up more than 50% of the final product value	6.8%
	Croatian products that contain only domestic raw material and production	60.7%
	Imported product	32.5%





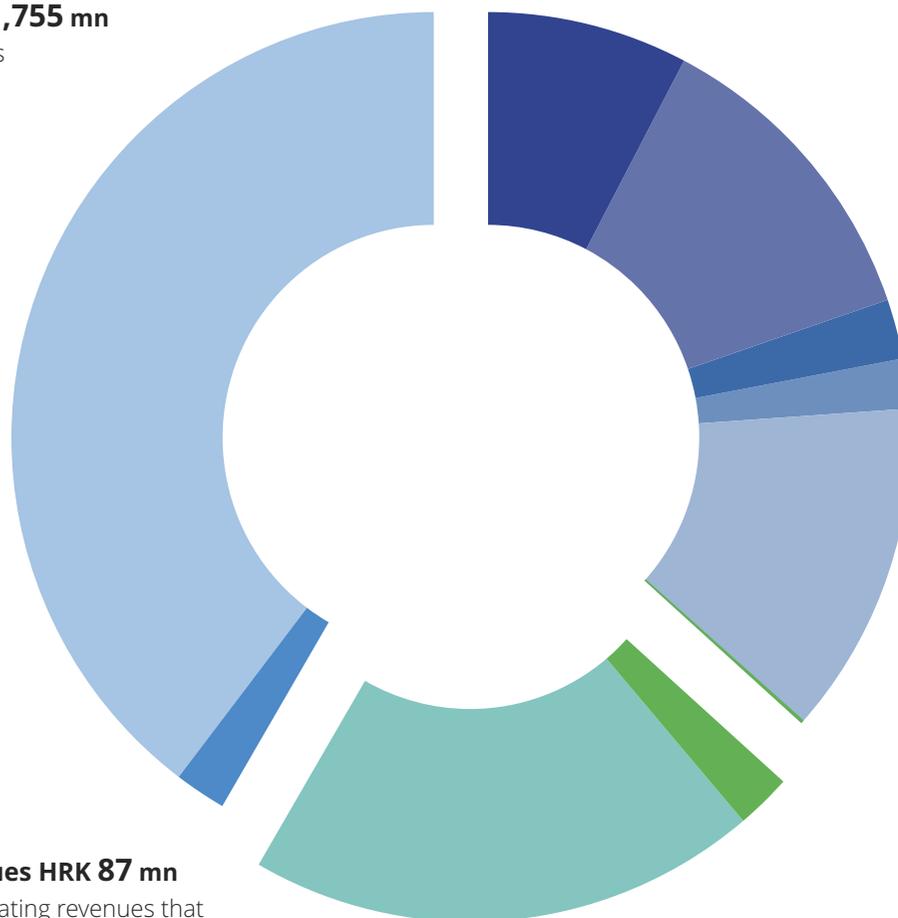


VALAMAR RIVIERA'S CONTRIBUTION TO ECONOMIC DEVELOPMENT IN 2017

DIRECT ECONOMIC VALUE GENERATED

■ **Guests HRK 1,755 mn**
net sales revenues

■ **Other revenues HRK 87 mn**
financial and operating revenues that also include insurance revenues, interest revenues, foreign exchange gains, revenues from shares and stakes sold etc.



ECONOMIC VALUE DISTRIBUTED

■ **Employees HRK 340 mn**
all net receipts by employees including salaries, rewards, incentive payments and other increments

■ **Suppliers HRK 534 mn**
costs paid to suppliers, including food and beverage, energy sources, communication, transport, promotion, maintenance, intellectual services and other

■ **Shareholders HRK 99 mn**
dividends paid to shareholders

■ **Banks and creditors HRK 85 mn**
interest and other costs related to financing

■ **Public administration HRK 564 mn**
VAT and other taxes, contributions on salaries, other payments to the public administration and institutions, corporate income tax excluded

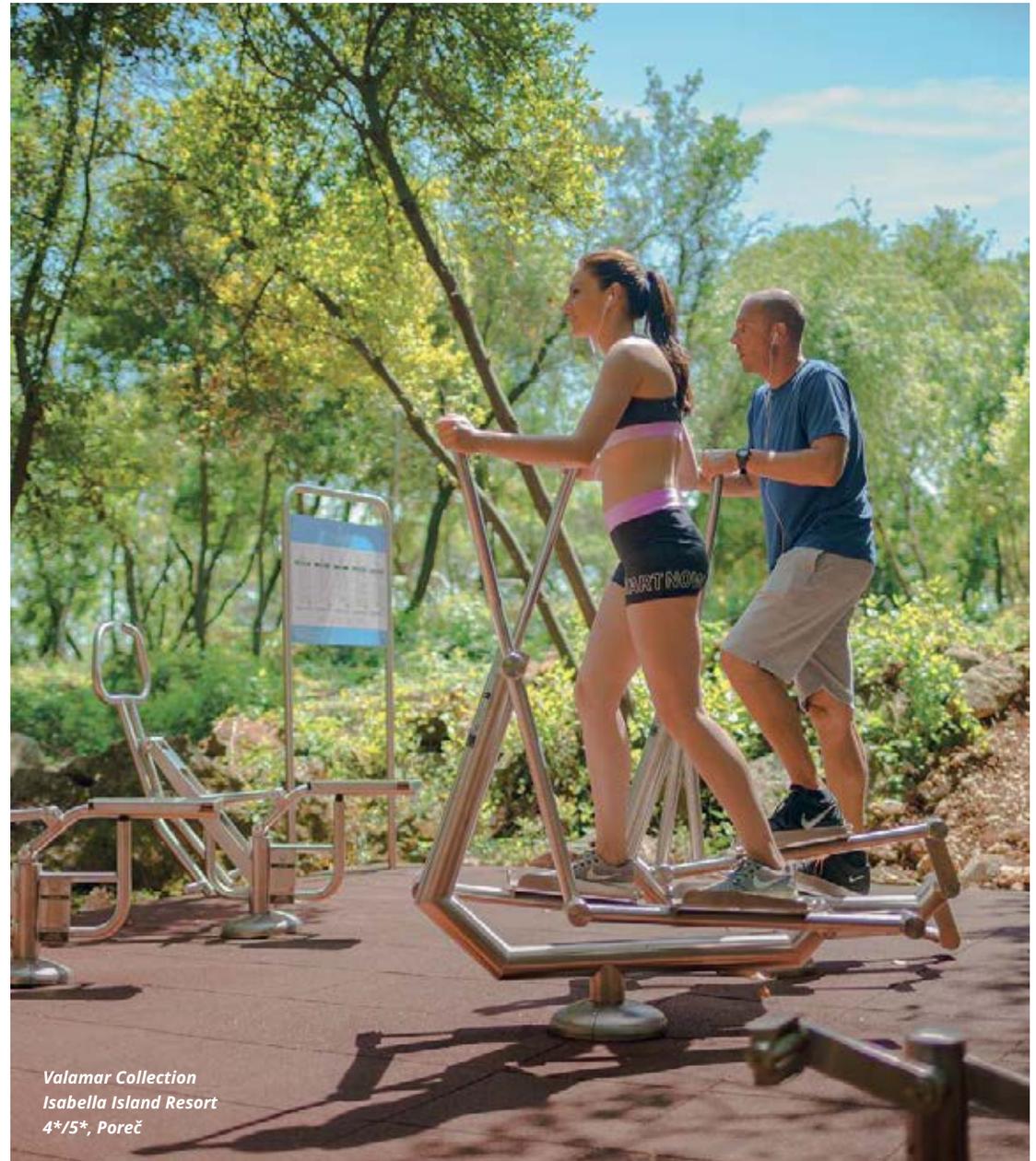
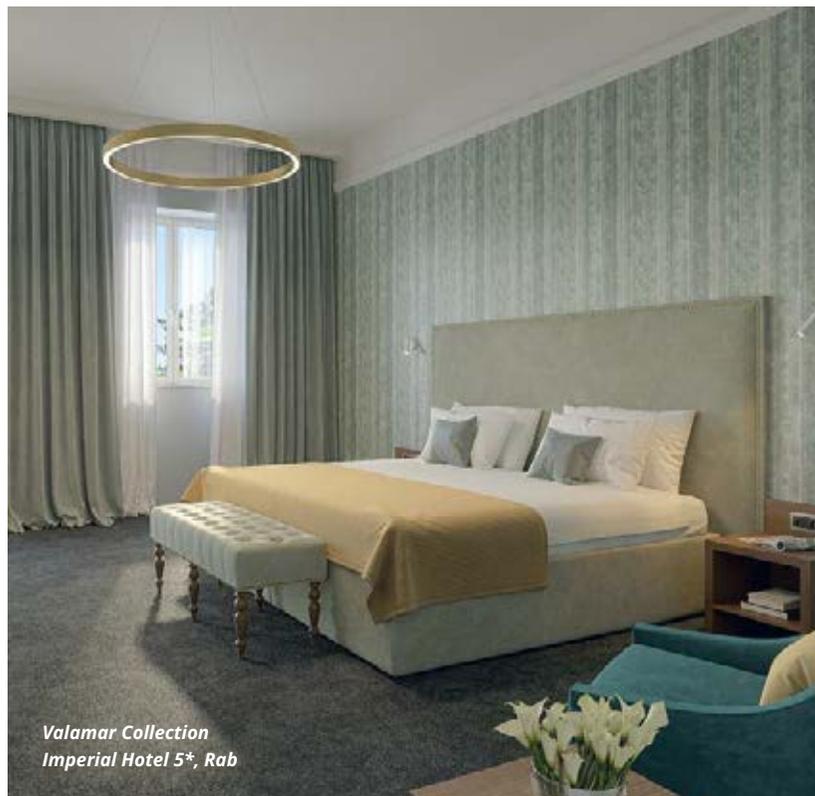
■ **Community HRK 1 mn**
donations and philanthropy

INVESTMENTS

■ **9 CSR umbrella programs HRK 96 mn**
total investments and projects included in the 9 CSR programs

■ **Portfolio investments HRK 866 mn**
capital investments in hospitality assets, equipment and services

Direct economic value generated	HRK 1,842 mn
Economic value distributed	HRK 1,621 mn
Economic value retained	HRK 221 mn
Total investments	HRK 962 mn





IDENTIFICATION OF MATERIAL ASPECTS AND BOUNDARIES

By identifying and quantifying the impact that our business operations have on the environment, the local community, our employees and society, we are able to thoroughly consider our operations in order to achieve long-term efficiency and a socially responsible business.

In 2016, we concluded the analysis of our corporate strategy and determined the new corporate vision, mission and core values for the company. Through joint workshops and selective in-depth interviews with the company's key internal stakeholders in various areas (human resources, environmental protection, technical maintenance of investments, legal affairs, investor relations, controlling, quality management and corporate affairs) and the top management, we carried out a joint determination of the material aspects within the organization that are not only key for the company but are also part of our corporate strategy.

The members of Valamar Riviera's Management Board actively participated in the determination of materiality together with the company's vice presidents, while the whole process was led by the Business Experience Committee (Željko Kukurin, Committee President; Ivana Budin Arhanić, Committee Vice President, and Committee Members David Poropat, Davor Brenko and Alen Benković). Valamar also received expert advice from Nikolina Markota Vukić, Ph.D. from the Croatian Institute for Corporate Social Responsibility. The inner operating team consisted of representatives of various departments within the company, including Investor Relations, Legal Affairs, Human Resources, Technical Department, Audit and Standardization Department, Strategic Planning and Controlling, Sales, Marketing, Purchasing, Quality and Corporate Communications, coordinated by the Corporate Affairs Department. The final conclusions were confirmed by the Management Board of Valamar Riviera.

Sectoral meetings were held in 2017 during which key indicators at Valamar Riviera level were confirmed and upgraded for each division and sector individually. The identified key indicators are in line with the company's defined strategy and goals as well as the measurable monitoring indicators for the forthcoming periods. When determining the company's key material aspects, we were guided by the principles of sustainability and took into consideration the impact that our business operations have on the environment, the local community, our employees and society. In line with the defined key material aspects of the business, the Management Board then identified the priorities that are also the company's strategic goals.

In 2017, we consulted our employees as key stakeholders of the company and through consultations carried out in all sectors, and through the corporate culture and climate survey, discussions during workers' meetings and meetings with the Workers' council, we determined the areas that we will improve further and continually monitor their results through annual surveys for all employees. "Employees and Organization" is a chapter in the report that renders a detailed presentation of the initiatives implemented in 2017. One of the initiatives is Valamar House, a place providing quality accommodation and board for all seasonal employees coming to work at Valamar's destinations from all parts of Croatia, and the cost is borne by the employer.



MATERIAL ASPECTS CONSIDERED

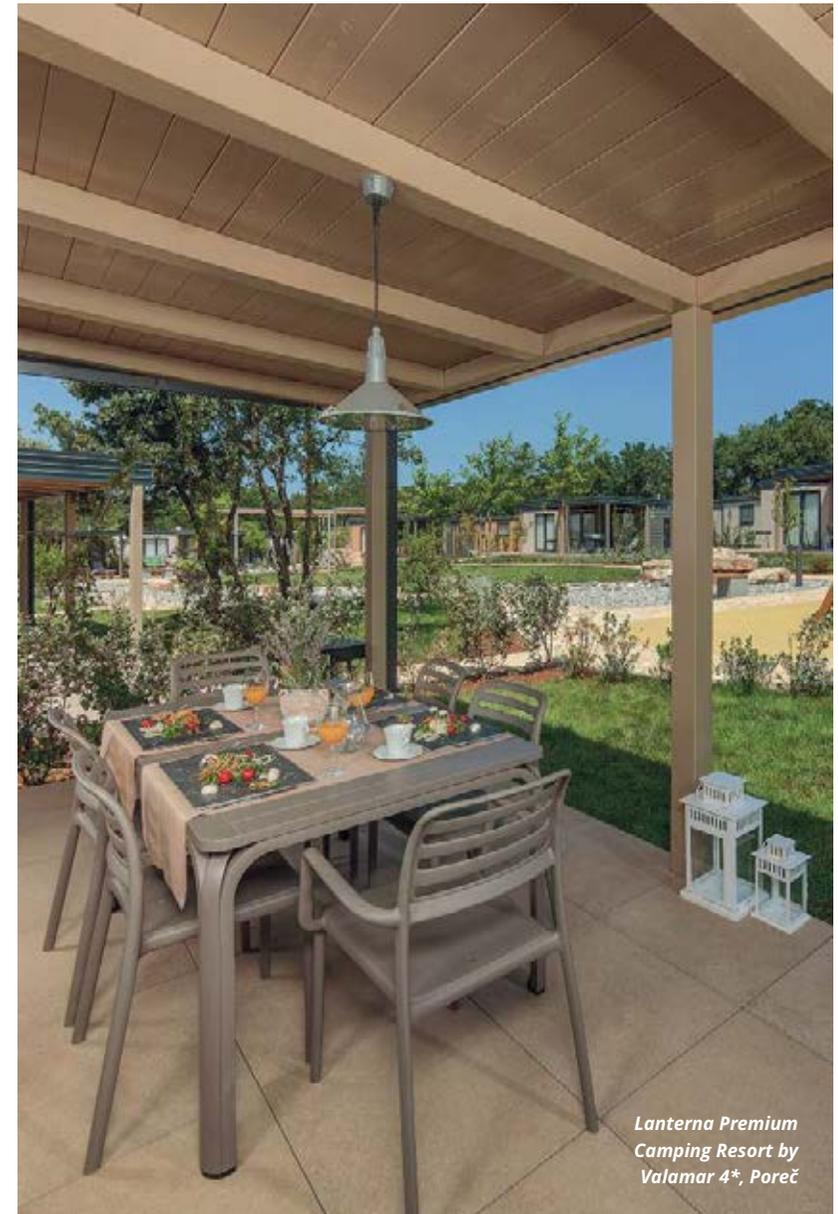
- ▶ economic effect
- ▶ market presence
- ▶ contribution to the community (economic and social contribution and employment opportunities)
- ▶ increase in the local employment rate – focus on permanent seasonal workforce
- ▶ employee training and education
- ▶ creating competitive working conditions
- ▶ dialogue with employee representatives
- ▶ local community
- ▶ improving energy efficiency and using renewable energy sources
- ▶ energy
- ▶ continual GHG reduction
- ▶ recycled water use
- ▶ water
- ▶ wastewater and waste
- ▶ ethical commitment and transparency
- ▶ responsible development of tourism

PROCESS OF DETERMINING SIGNIFICANT ASPECTS (CONTENT OF THE REPORT) AND ASPECT BOUNDARIES

An in-depth analysis of the impact of economic, environmental and social aspects of our business operations was carried out in 2016, followed by the identification and prioritization of the material aspects within the organization, following G4 GRI guidelines. These aspects were confirmed in 2017 during meetings within sectors at the company and additional prioritization was carried out in key areas for the forthcoming period.

We divided the process of identifying and prioritizing material aspects into three separate steps:

- 1 Materiality identification: significant environmental, social and economic material aspects were identified.
- 2 Aspect prioritization: the identified significant environmental, social and economic material aspects were prioritized with regard to the perception of key stakeholders and effects on the business strategy.
- 3 Materiality verification: internal key stakeholders verified and prioritized the identified significant environmental, social and economic material aspects with regard to the perception of key stakeholders and effects on the business strategy.



*Lanterna Premium
Camping Resort by
Valamar 4*, Poreč*

MATERIALITY MATRIX

In accordance with the process of identifying and prioritizing material aspects within the organization with regard to business operations, a materiality matrix was defined at the level of all of Valamar Riviera's organizational units. With the materiality matrix, the environmental, social and economic material aspects were identified and prioritized with regard to their effect on the company's operations and the importance for the identified key stakeholders.

- ENVIRONMENTAL ASPECTS**
- 1 Inspiring guests, employees and destination to be involved in environmental preservation
- 2 Biodiversity
- 3 Recycled water use
- 4 Transport
- 5 Emissions
- 6 Improving energy efficiency and using renewable energy sources
- 7 Energy
- 8 Continual GHG reduction
- 9 Using environmentally friendly materials
- 10 Waste reduction and adequate waste management
- 11 Wastewater and waste
- 12 Water

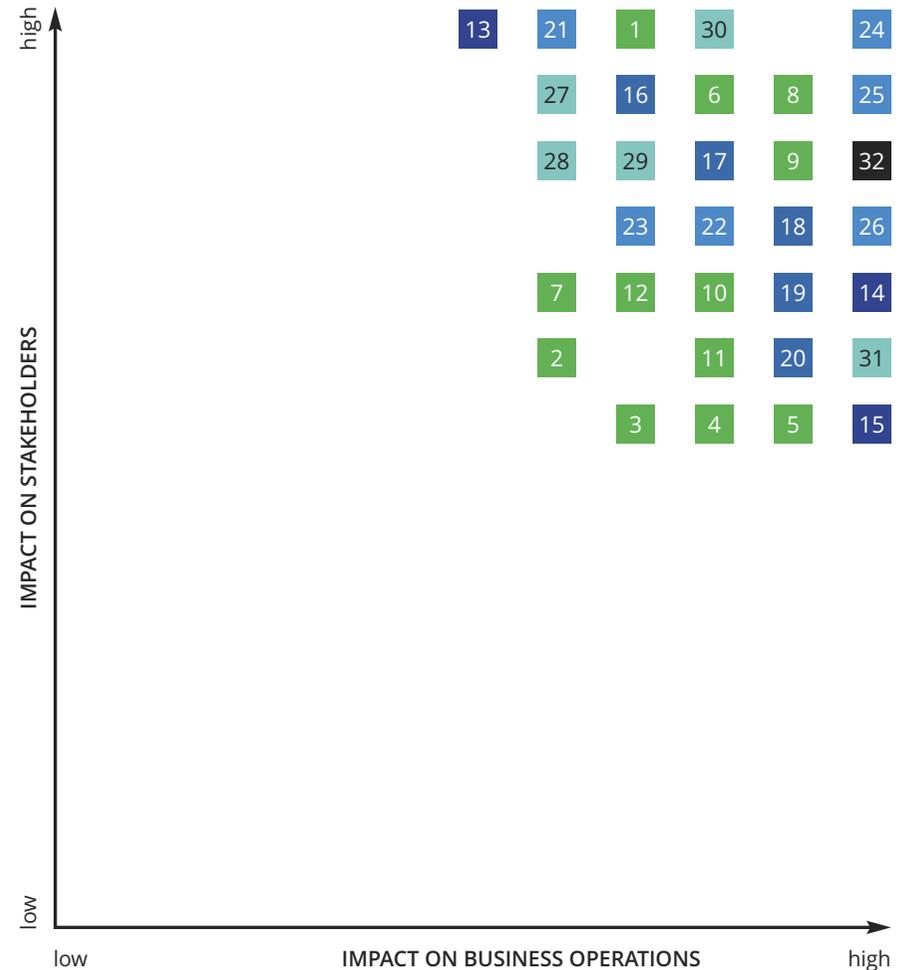
- ECONOMIC ASPECTS**
- 13 Indirect economic impact
- 14 Economic performance
- 15 Market presence

- RESPONSIBILITY TO PRODUCT AND SERVICE**
- 16 Raising awareness and including buyers with ethical obligations (environment)
- 17 Buyers' health and safety
- 18 Service excellence
- 19 Innovative products and services
- 20 Guest-oriented services

- RELATIONS WITH EMPLOYEES**
- 21 Contribution to the community (economic and social contribution and employment opportunities)
- 22 Dialogue with employee representatives
- 23 Workplace health and safety
- 24 Increase in the local employment rate – focus on permanent seasonal workforce
- 25 Employee training and education
- 26 Creating competitive working conditions

- HUMAN RIGHTS**
- 27 Ethical commitment and transparency
- 28 Responsible tourism development
- 29 Innovations and transparency with suppliers
- 30 Dialogue with stakeholders
- 31 Development of tourism destinations

- SOCIAL ASPECTS**
- 32 Local communities



*Valamar Collection
Girandella Resort 4*/5*,
Rabac*



5 VALAMAR'S CORPORATE STRATEGY



VISION

To be the leader in leisure tourism and create authentic guest experiences in partnership with our destinations.

MISSION

To create unforgettable guest experiences by using innovative services in leisure tourism.
To develop a stimulating corporate culture where guests and employees come first.
To deliver new value for shareholders through corporate responsibility by promoting sustainable development and supporting local communities.

CORE VALUES



GUEST-LOVING

We make our guests feel very welcome and highly appreciated.



AMBITIOUS

We set challenging goals and strive for excellence in everything we do.



RESPONSIBLE

We are a responsible business partner, a caring employer, supportive towards the community and committed to preserving the environment.



INNOVATIVE

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



PROUD

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



2016-2020 STRATEGIC GOALS



GROW SIGNIFICANTLY by retaining the market-leading position in Croatia, with double-digit EBITDA-CAGR in the next five years, through acquisitions and strategic partnerships in selected European leisure travel destinations.



INVEST HRK1.5-2 BILLION IN THE PORTFOLIO while maintaining a solid balance sheet; generate premium returns by steadily growing the EBITDA margin to 35-38% with a sustainable net debt/ EBITDA ratio.



STRENGTHEN DIRECT RELATIONSHIPS WITH GUESTS by achieving 50% of revenues from direct bookings and 30% of returning guests.



EXPAND STRATEGIC PARTNERSHIPS with well-known international companies and key partners in order to prolong the season, diversify the customer base and optimize business.



CREATE NEW VALUE FOR SHAREHOLDERS by significantly increasing our market capitalization.



STEER A SUSTAINABLE AND SOCIALLY RESPONSIBLE DEVELOPMENT OF DESTINATIONS by investing up to 2.5% of our revenues in corporate social responsibility, training and development projects in destinations.



OFFER ATTRACTIVE AND LONG-TERM SUSTAINABLE DIVIDENDS to our shareholders.



BE RECOGNIZED AS THE MOST DESIRABLE EMPLOYER IN TOURISM because we offer salaries above the Croatian average and hire locally, in order to achieve a 70% rate of returning seasonal workers and develop more than 80% of our management internally.



OUR STRATEGIC INITIATIVES



FOCUS ON THE GUEST

Provide excellent service in each contact with our guests to create unforgettable experiences and exceed expectations. Build long-term, personalized relationships with our guests while taking in consideration their individual needs.



CARING FOR OUR EMPLOYEES

Develop a stimulating corporate culture where the organization can learn and grow and where employees and guests come first.



GROWTH STRATEGY

Improve business operations and sales, develop the portfolio and expand through strategic partnerships and acquisitions in order to continually achieve strong revenue and profit growth.



INNOVATION AND DIGITALIZATION

Be an innovative hotel company in the leisure hospitality market and leverage the opportunities provided by digital technologies in order to fully meet and anticipate our guests' needs.



DEVELOPMENT OF OUR DESTINATIONS AND RESPONSIBILITY TO THE LOCAL COMMUNITY

Steer a sustainable and socially responsible development of destinations and improve social conditions in the local community.



COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY

Employ a proactive approach to environmental preservation and sustainability by efficiently using natural resources, protecting the sea and the environment, saving energy, adequately managing waste and raising awareness about environmental issues among guests, employees and suppliers. In this way, we protect the natural beauty of the environment where we work and live.

5.1 FOCUS ON THE GUEST

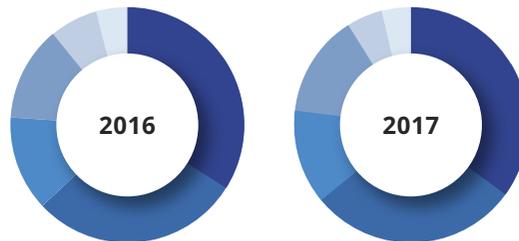
At Valamar Riviera, we focus on our guests' needs and desires throughout the year – before, during and after their stay. We use personalized communication and top quality services to create positive experiences and secure unforgettable memories in order to build a long-lasting relationship of trust with our guests.

➔ DEVELOPMENT OF TAILORED PRODUCTS AND SERVICE CONCEPTS BASED ON GUESTS' NEEDS AND DESIRES

Guests' expectations are rising, especially in the premium segment and Valamar Riviera responds to this trend by developing tailored products and service concepts that meet the needs of target guest groups in order to increase their satisfaction and secure new sources of revenue. Market segments in hotels and resort are stable in share of revenue and luxury camping is a trend experiencing growth.

VALAMAR MARKET SEGMENTS: HOTELS AND RESORTS 

	2016	2017
 Families	34%	35%
 Adults and couples	29%	29%
 Seniors	13%	13%
 Active guests	13%	14%
 MICE	7%	5%
 Leisure groups and tours	4%	4%



VALAMAR MARKET SEGMENTS: CAMPING RESORTS 

	2016	2017
 Families	42%	40%
 Adults and couples	20%	20%
 Luxury camping	18%	20%
 Active guests	7%	7%
 Seniors	7%	7%
 Short stay	6%	6%





*Valamar Collection
Isabella Island Resort 4*/5*,
Poreč*



VALAMAR SIGNATURE PROGRAMS

Valamar's product development strategy defines ambitious plans for the innovative improvement of Valamar signature programs with particular focus on the upscale and premium portfolio segment of hotels and resorts as well as camping resorts.

We aim to improve the content and definition of each program. The connection between our signature programs and the core values of the Valamar brand is of utmost importance- the focus is always on the guest. In order to make it possible, we develop tailor-made service concepts for targeted guest segments.

In 2017 we continued to improve the existing programs and started the successful

implementation of new ones. We have set very high standards for the quality and consistency of their implementation throughout our properties. This approach will also secure consistency in market communication and will ultimately lead to the creation of distinctive Valamar signature brands. Simultaneously, their development is an ongoing, continual process reflecting the latest market trends as well as guests' needs and expectations in years to come.



Valamar Collection
Isabella Island
Resort 4*/5*,
Poreč





V LEVEL

It consists of a series of exclusive privileges and personalized services for guests at selected properties in the Valamar premium portfolio. It offers personalized guest welcome and check-in, the selection of the best rooms and suites, private concierge service during the stay, exclusive beaches and poolside services, premium gourmet and fine dining, and a unique tailor-made destination experience so guests can enjoy premium-level services and products from the moment they arrive to the moment they leave.



MARO HOLIDAY

Providing a wealth of entertainment and programs for children and teenagers, Valamar offers the complete experience of an ideal family holiday with Maro signature programs, Super Maro and Teen. It includes family-friendly accommodation, swimming pools and family beaches with numerous amenities for children, a kids' corner featuring a special menu and entertainment at hotel buffet restaurants, children's Maro Club and Maro Baby Club, and the parents-free Teen areas, as well as day and evening programs throughout the week so parents can have a carefree holiday.



DESIGNED FOR ADULTS

It includes a special selection of accommodation, gourmet and entertainment experiences to meet all the needs and wishes of 18+ guests, couples or friends holidaying together. Special attention is directed to creating an oasis of peace, privacy and relaxation through specially designed amenities and services, such as beaches and pools, recreation activities and evening entertainment, with the essential touch of exclusivity and luxury in the wide selection of top restaurants and lavish romantic experiences for couples.



V SPORT

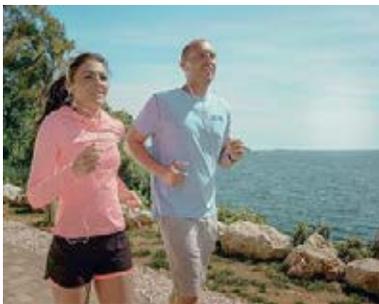
Created for dynamic and active families and individuals, V sport includes a wide selection of excellent sports and recreation amenities and services for an active holiday. V Sport Point is the central sporting feature offering over 25 attractive activities: under the guidance of our experienced and trained staff, our guests can embark upon their own fun-filled adventures on land and sea. The activities include diving, sailing, tennis, volleyball, basketball and others. V Sport Point also offers adrenaline activities as well as the possibility to rent sporting and beach equipment.





STAY FIT

Stay Fit is a program that includes everyday sporting activities for all ages and fitness levels. It was created in order to inspire guests to have an active holiday at one of Valamar's outstanding locations. Stay Fit is based on four groups of activities: Outdoor, Fitness, Spiritual workout and Sports competitions, and under the expert guidance of the Stay Fit team guests can start their day with a stimulating morning jog, followed by a yoga session, sports competitions or cycling adventures.



MUSIC AND FUN

Music and Fun is focused on creating up to date entertainment programs that will make our guests' stay even more memorable. With evening music events featuring bands and DJs, the varied Music and Fun concept program includes film projections under the stars as well as games and dancing programs for all ages. Special events such as Valamar Night, Beer Fest, Summer Carnival, All Day Beach Party, Camping Day or Half Year Party only confirm the variety of programs offered to create everlasting memories for all our guests.



CAMPING PIAZZA

Designed as the campsite's lively central venue and meeting place with its café and restaurant, Piazza also features a number of shops offering selected products by local producers and family farms that invite guests to discover authentic flavors typical of the destination. It also has a market and fish market, a kiosk, a supermarket, a hair salon and a pharmacy. It is a place where you can get your morning coffee and do some shopping, have lunch or grab a snack and enjoy the evening entertainment program on the central stage. Piazza is the focal point of the campsite's activities and an exciting meeting place.



FOOD AND BEVERAGE

The Food & Beverage segment of Valamar's signature programs brings together a number of branded themed à la carte and buffet restaurants, bars and clubs. By continually creating new restaurant features that combine Valamar's passion for gastronomy and design, the company improves and expands its food and beverage concepts that consist of specifically and professionally designed restaurants and bars. Guests can choose from a varied and specific offering that presents various complexity levels of dishes, drinks, ambience and service, depending on the occasion and mood. A common feature for all guests at Valamar hotels and resorts is breakfast at one of the classic buffet restaurants that serve a wide selection of local, regional and international dishes. Special attention is given to V Level guests for whom we have created the Momenti Restaurant. It offers an elegant gourmet breakfast served according to the highest standards and it is hailed as the most exclusive breakfast at Valamar.

UPSCALE RESTAURANTS

Only premium ingredients are turned into authentic flavors and innovative dishes by the hands of talented chefs at Valamar upscale restaurants. Offering the best food, drinks, service and ambience, these à la carte restaurants represent Valamar's top culinary experience.

The **Miramare Restaurant** is located in the most attractive part of Isabella Island Resort and Dubrovnik President Hotel, offering enchanting and refined dishes.

The **Spinnaker Restaurant** features a selection of creative dishes and an extensive wine list, served on the charming promenade of Poreč. The **Langusto Restaurant** offers fish-based delicacies and is one of the most prominent restaurants in Dubrovnik, while the **Black&Blue Steakhouse** at Valamar Girandella Resort offers the finest aged cuts of beef such as Boškarić, Chianina, Simmental, Black Angus and Creekstone Belgian Blue.

MIDSCALE RESTAURANTS

The contemporary, relaxed and family-friendly Valamar midscale restaurants offer a variety of dishes to suit different tastes and needs. Stunning interiors and themed menus are ideal for relaxing and socializing over a healthy Mediterranean dish accompanied by premium wines, craft beer and other drinks.

LA PENTOLA

In an attractive trattoria-style ambience, La Pentola offers homemade pasta, pizza, bruschettas and other all-time Italian favorites combined with local dishes.

CRAFT BEER AND GRILL

This restaurant offers an intriguing selection of craft beers, tasty homemade burgers and irresistible grilled dishes served in a relaxed and fun atmosphere.

GRANO DURO

Just a few simple ingredients, skillfully combined in the open kitchen at the

Grano Duro, will become a tasty dish in a matter of minutes. Homemade pasta is combined with classic sauces and the tasty pizza comes straight out of a stone oven.

TUNA BAY GRILL

Located next to the beach and featuring a contemporary designed interior, Tuna Bay Grill offers an excellent choice of superb tuna specialties and selected local dishes.

OLIVA GRILL

Oliva Grill serves delicious Mediterranean grilled dishes, salads and light meal choices as ideal and balanced refreshments in a hot summer day.

BONETA BISTRO & LOUNGE

Farmer's market, bakery, pastry shop and restaurant – all in one, Boneta is the perfect place to enjoy shopping and have your morning coffee and a snack, light bites and cocktails on the terrace or a full meal in the à la carte restaurant.

BEACH CLUBS

The exuberant beach-chic atmosphere of Valamar Beach clubs blends irresistible culinary pleasures with the relaxing experience of spending the whole day on the beach, enjoying the sea and sun. The inviting choice of dishes is perfectly complemented by a creative selection of cocktails and our staff will be happy to serve you while you relax in your sun lounger.

SUNDANCE BEACH CLUB

The contemporary concept of Sundance Beach Club consists of the finest Mediterranean and international dishes and refreshing cocktails with DJs playing club music until the early morning hours.

THE BEAT BEACH CLUB

This casual and fun summer venue offers light bites and a wide selection of refreshing cocktails and drinks. It is the perfect place for enjoying a day on the beach.



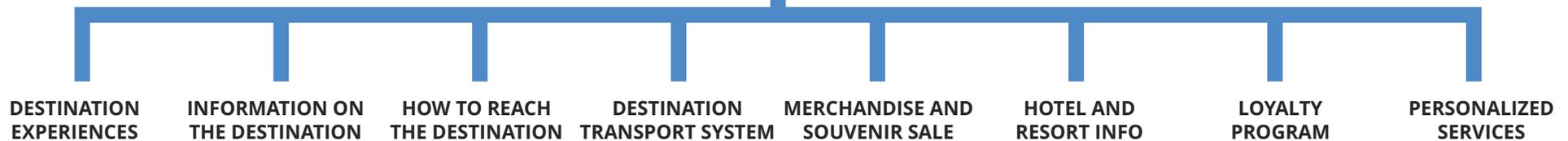
PERFECT EXPERIENCE CREATOR

We continued with the development of the innovative Perfect Experience Creator – a network offering information, services and products that allows guests to easily organize their holiday and destination experience.

This program has been implemented at all the destinations, offering information and advice on various destination services and experiences, including local attractions, places to eat, events, outdoor activities, transport services and much more.

With Perfect Experience Creator, booking and purchasing services and tickets to numerous events, as well as local souvenirs is very simple and easy.

- ▶ Experience-creator.com website
- ▶ Sales management platform
- ▶ 18 destination info points
- ▶ 300 selected experiences
- ▶ 100 local partners
- ▶ More than 100 souvenirs under the brands Valamar, Camping Adriatic by Valamar and authentic local souvenirs
- ▶ 20,000 experiences sold in 2017



DIRECT RELATIONSHIPS AND INCREASED GUEST LOYALTY

Creating returning loyal guests increases our revenues and allows us to increase the share of direct bookings. In 2017, Valamar Riviera reported HRK 612.1 million achieved via Valamar's direct distribution system: call center, direct online booking, loyalty program and front offices.

We are continually developing the loyalty strategy in order to create even more added value for our clients. At the same time, we also continue developing our website, e-marketing and technology, in order to increase the number of visits to our sites and the number of: unique web users (2017: 4.3 million), phone and email inquiries (2017: 374,858) and bookings (2017: 82,846).

Our goal is to reach a 50% share of direct bookings in revenues and increase the share of loyal guests to 30% by 2020. In 2017 the share of direct bookings was 43% and the share of loyal guests was 24%. The share of loyalty member revenue in total direct booking reached 40% in 2017.

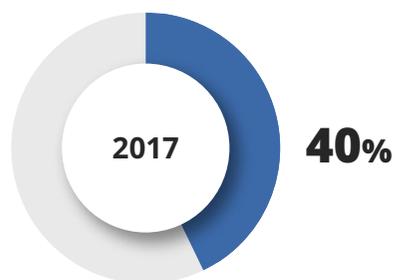


SHARE OF DIRECT BOOKING (by revenues*)



* Board revenues net of agency commissions.

SHARE OF LOYALTY MEMBER REVENUE IN TOTAL DIRECT BOOKING



DIRECT SALES AND MARKETING

	2016	2017
Board revenues (direct booking, HRK mn)	467.5	612.1
Number of bookings	68,932	82,846
Number of web sessions**	6,121,367	7,864,593
Number of unique web users**	3,885,591	4,250,214
Number of phone and email inquiries	305,401	374,858

** www.valamar.com and www.camping-adriatic.com.

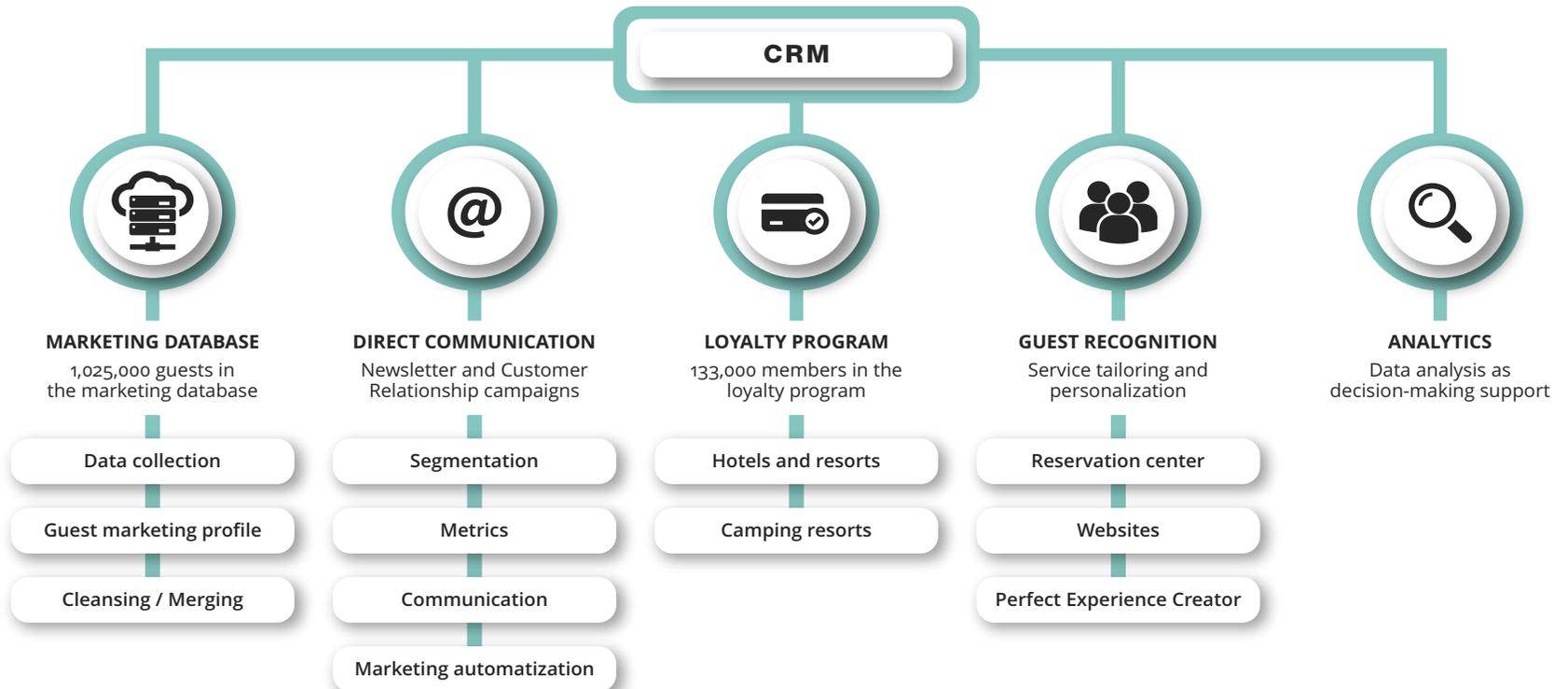


BUILDING LONG-LASTING AND DIRECT RELATIONSHIPS WITH OUR GUESTS

We have to know our guests if we want to provide the best services tailored according to their needs. We believe we can improve our focus on the guest through our customer relationship management (CRM) and by systematically collecting and analyzing guest preferences.

This information helps us address our guests' needs directly before, during and after their stay, thus establishing year-long communication. Our CRM is additionally supported by our loyalty programs – Valamar Plus Club for hotels and resorts and Camping Adriatic Plus Club for camping resorts. The programs are designed as an

attractive platform since the first day of membership. Our efforts have already produced good results: in 2017 the rate of returning guests was 24%. We believe that through our efforts to understand our guests better and provide personalized services, we will increase loyalty and reach the targeted 30% of returning guests.



SERVICE EXCELLENCE

Quality management at Valamar includes a consistent provision of excellent services for our guests in line with set standards, product development and continual improvement. Service quality is primarily assessed by measuring guest satisfaction. Based on 121,214 guest questionnaires, guest satisfaction was very high in 2017 and reached 87%. We have always been dedicated to raising our service to the highest level. Compared to the previous year, the Unbelievable index grew by 26% in 2017.

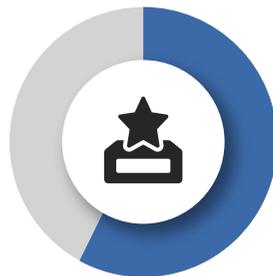
At Valamar, we strive to surprise our guests with an unexpected service according to our knowledge of a particular situation, and we also predict guests' specific needs and desires. We are able to achieve that by creating a service-focused culture within the organization. However, we focus not only on guests, but also on colleagues and partners.

Through prior staff training and development as well as organized workshops, employees are encouraged to direct their potential to providing top service in

each situation, towards guests, colleagues and partners.

The established system of quality improvement does not end until service excellence is achieved at all levels.

At Valamar, such a level of service is called Unbelievable; in 2017, as many as 58% of guests gave our staff the greatest possible rating – Unbelievable, thus confirming that our employees create unforgettable memories for our guests each day.



58%

the percentage of guests that rated Valamar staff as **Unbelievable** in 2017 (26% increase vs. 2016)





UP!LIFTING SERVICE

Up!Lifting service at Valamar, or service excellence, is achieved by raising the service to both guests and colleagues to a higher level, and by implementing our core values daily, because our key product is service. Service excellence is the foundation of a lasting and sustainable business success.

The total Up!Lifting index at Valamar is 93%, with 94% for hotels and 93% for campsites. Valamar introduced the Up!Lifting Service project in 2013 to achieve service excellence by transforming the culture of hospitality, so

that the company and our employees would be recognized as the best hosts on the Adriatic coast. There were more than 3,000 training sessions organized at our properties in 2017, as well as 100 commendation letters for our employees, 20 orientation presentations for new employees, 400 Up!Lifting-awarded ValamArtists, 300 SOP audits conducted at our properties and 5 Up!Lifting ambassadors.

The focus is on the employees: they lead the joint creation of service excellence in order to fulfill our vision and provide authentic hospitality. At Valamar, we achieve service excellence through daily training to perfect our professional skills, and the weekly Up!Lifting training sessions led by certified Up!Lifting trainers attended by all employees – general managers, department heads and all others. Last year, over 300 managers participated in the Up!Lifting program and the internal training program "Train the Trainer". Up!Lifting ambassadors at destinations regularly mentor and audit training sessions. The topics for the training sessions are determined weekly by the Quality Department. All managers conduct internal training sessions for the members of their teams in order to achieve service excellence and create unforgettable memories for our guests.

All our employees are ValamArtists and they contribute to our top-class service culture and our combination of proactivity, creativity, hospitality, team spirit and homely atmosphere. They all treat their colleagues and guests in accordance with Valamar's service culture principles.

Each ValamArtist follows these 10 ValamArtist principles :



1 Reliable



2 Cordial



3 Courageous



4 Understanding



5 Generous



6 Welcoming



7 Smiling



8 Friendly



9 Interested in learning



10 Proactive





*Krk Premium
Camping Resort
by Valamar 5*, Krk*



MEASURING GUEST SATISFACTION AND ONLINE REPUTATION

At Valamar, we use various tools to assess our guests' experience and perception of our service quality in order to get to know them better and provide the best service possible.

Valamar measures guest satisfaction via printed and digital in-stay and post-stay questionnaires. Over 90,000 guests completed our printed questionnaires, while over 20,000 of them completed our digital questionnaires and we received 5,000 guests' comments in our in-stay questionnaires. The online reputation index (overall score 24 months) was 87% for Valamar hotels and resorts and 86% for campsites.

In order to efficiently manage all sources of information on guest satisfaction and further improve its reputation on social networks, Valamar uses an online reputation management system. The majority of our properties is among the top 10 on the Tripadvisor list by destinations.

Valamar has a strong presence on the internet, online booking channels, and social networks, as well as in blogging communities, which is a great way of maintaining a two-way communication with guests before, after and during their stay.

In our two-way, personalized guest communication model, feedback is a crucial starting point. With this in mind, Valamar's Quality Department processes praises, comments, complaints and suggestions that guests leave during their stay at our properties in direct communication with our staff, via tablets or questionnaires in their rooms, and those collected via questionnaires after departure or posted on social networks.

Such a model allows Valamar to constantly improve service quality and manage it skillfully in various fields of activity, with a response time within 48 hours from inquiry.

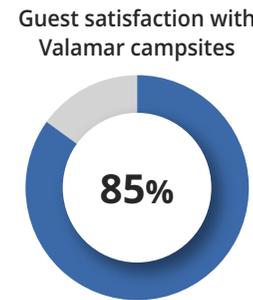
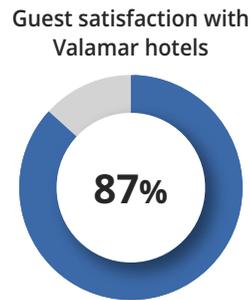
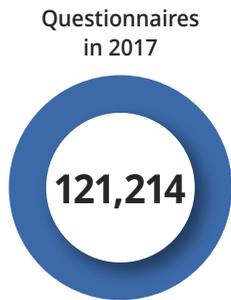
In this way we reinforce our connection with the clients and foster the trust they have in the company.

The key task of the Quality team is to monitor the consistent provision of excellent service in line with the set standards. At the same time, it continuously sets new quality standards to improve service and prevent service failures. It also provides constant reviews of business operations in order to achieve the best service possible. Guests expect top quality services and when they know they will receive the same or better service quality (as evidenced by the 24% of returning guests) we know we have accomplished our goal. Only then can we say that quality at Valamar is successfully managed and that we continually improve our products and services. Finally, 94% of our guests would recommend Valamar to their friends.



Valamar Collection
Isabella Island Resort 4*/5*,
Poreč





4.0

TripAdvisor average rating (on a scale of 1-5)

8.6

Booking.com average rating (on a scale of 1-10)

	2017							2016						
	Hotels and resorts			Camping resorts			Total	Hotels and resorts			Camping resorts			Total
	Premium & Upscale	Midscale & Economy	H&R TOTAL	Premium & Upscale	Midscale & Economy	Camping TOTAL		Premium & Upscale	Midscale & Economy	H&R TOTAL	Premium & Upscale	Midscale & Economy	Camping TOTAL	
Guest Satisfaction Index	89%	85%	87%	87%	84%	85%	87%	89%	84%	87%	87%	84%	85%	86%
UpLifting index	95%	93%	94%	91%	92%	92%	93%	94%	93%	93%	92%	93%	92%	93%
Unbelievable index	64%	59%	61%	52%	53%	53%	58%	50%	48%	49%	41%	43%	42%	46%
Guests who would recommend us	96%	94%	95%	95%	93%	94%	94%	98%	96%	97%	97%	95%	96%	97%
Online Reputation Index (overall score 24 months)	89%	85%	87%	87%	84%	86%	86%	89%	83%	86%	86%	84%	85%	86%
Guest who would return	93%	93%	93%	93%	92%	93%	93%	90%	83%	87%	86%	86%	86%	87%



CARING FOR OUR GUESTS' WELLBEING

In order to fulfil our guests' expectations, services at Valamar meet the highest quality, safety and health standards.

Numerous certificates and licenses confirm this:

- ▶ HACCP
- ▶ ISO 9001
- ▶ ISO 14001
- ▶ ISO 50001
- ▶ "Q" quality mark by Croatia's Ministry of Tourism
- ▶ FEE (Foundation for Environment Education) Blue Flag
- ▶ Sustainable Hotels
- ▶ Travelife Gold Award
- ▶ TUI Environmental Champions
- ▶ License for labeling vegetarian and vegan meals



Complying with regulations and voluntary codes is the company's priority when communicating with guests, including marketing communication such as advertising, promotion and sponsorships. Valamar has not registered a single instance of violation regarding regulations or voluntary codes.

TRAVELIFE GOLD AWARD

As of 2017, another two Valamar hotels carry the Travelife Gold Award certificate – Pical Hotel and Valamar Girandella Resort have joined other world-famous hotels that hold this accolade and Valamar now boasts 20 hotels carrying this prestigious certificate.



Travelife is an international certification system that promotes sustainability in tourism and helps tour operators, hotels and other forms of accommodation to manage and monitor their social and environmental impact, and to inform guests and partners of their achievements. Travelife Gold Award is a recognition for hotels that meet the strict sustainability criteria in the highest degree possible. The strategic goal of the certification project is to introduce the practice of green business and achieve a balance in economic progress, care for the environment in the most general sense, and social involvement in the community.

87% of our accommodation is part of a property holding the ISO 14001 certificate of environmental management, while 75% of our accommodation is part of hotels and resorts also holding the Travelife certificate of sustainability.



HOTELS HOLDING THE TRAVELIFE GOLD AWARD CERTIFICATE

Allegro Hotel	★★★	Rabac
Hotel & Casa Valamar Sanfior	★★★★	Rabac
Miramar Hotel	★★★	Rabac
Valamar Argosy Hotel	★★★★	Dubrovnik
TUI Family Life Bellevue Resort	★★★★	Rabac
Valamar Club Tamaris	★★★★	Poreč
Valamar Crystal Hotel	★★★★	Poreč
Valamar Diamant Hotel & Residence	★★★★	Poreč
Valamar Dubrovnik President Hotel	★★★★★	Dubrovnik
Valamar Isabella Island Resort	★★★★★ (4/5)	Poreč
Valamar Koralj Romantic Hotel	★★★	Krk Island
Valamar Lacroma Dubrovnik Hotel	★★★★+	Dubrovnik
Valamar Pinia Hotel & Residence	★★★	Poreč
Valamar Riviera Hotel & Residence	★★★★	Poreč
Valamar Rubin Hotel	★★★	Poreč
Valamar Zagreb Hotel	★★★★	Poreč
Valamar Club Dubrovnik	★★★	Dubrovnik
Tirena Hotel	★★★	Dubrovnik
Pical Hotel	★★	Poreč
Valamar Girandella Resort	★★★★★ (4/5)	Rabac



ENSURING SERVICE QUALITY

The Quality Department at Valamar Riviera strives to maintain the highest standards of service quality and work processes and employs internal audits of quality control. The audits serve as the base for receiving internationally recognized certificates: ISO 9001 and ISO 14001 for almost all our properties,

with 100% coverage by the ISO 50001 energy management system.

The focus of quality management is directly linked with the strategic goals of Valamar Riviera. We primarily focus on our guests, employees and the organization

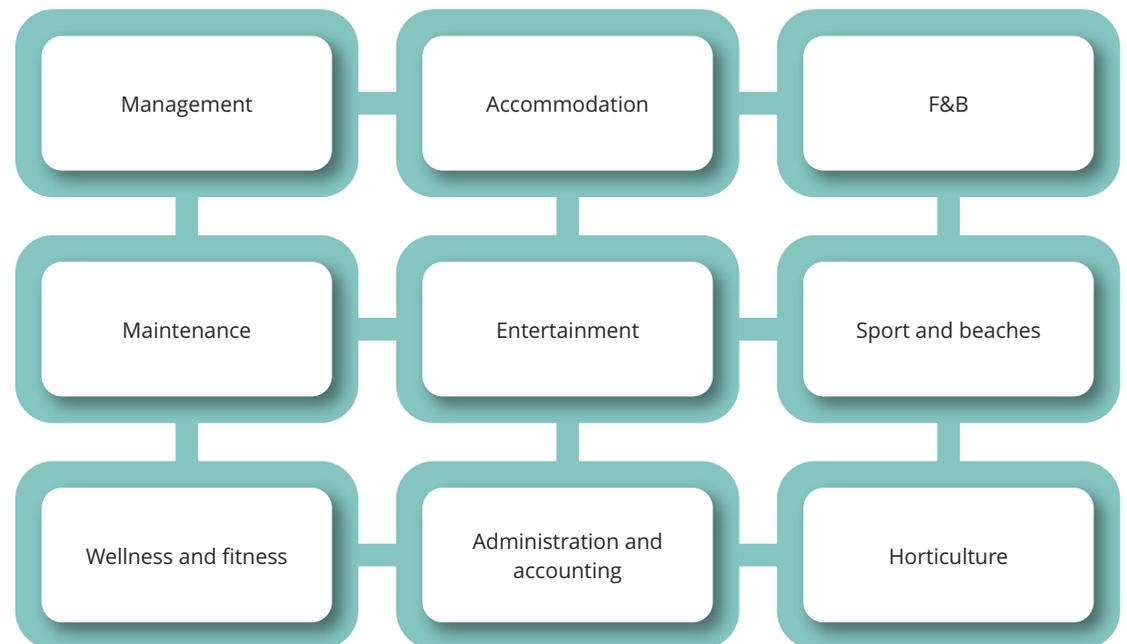
in order to secure service excellence for our guests and have satisfied employees. Internal audits conducted by the Quality Department continuously contribute to the improvement of services to maintain service excellence. The lowest score for internal SOP audits is 95%.

VALAMAR CERTIFICATES

- ▶ Food safety control system
- ▶ Quality management system
- ▶ Environmental management system
- ▶ Energy management system



STANDARD OPERATING PROCEDURES



The Audit and Standardization unit within the Quality Department includes these areas:

- ▶ establishing quality standards
- ▶ auditing and updating standard operating procedures
- ▶ internal audit
- ▶ preparing Valamar Riviera for certification by external bodies

The Quality Department also performs *ad hoc* inspections of Valamar's service quality and standards through mystery shoppers to ensure service quality and summarize the whole guest experience that starts when guests want to book their accommodation and ends when they leave the property.



Valamar Collection
Isabella Island Resort 4*/5*, Poreč

5.2 EMPLOYEES AND ORGANIZATION

Valamar Riviera is the most desirable employer in tourism and it develops a stimulating corporate culture where employees and guests always come first.



RESPONSIBLE MANAGEMENT OF HUMAN RESOURCES

As the largest employer in tourism, Valamar Riviera has a great responsibility to steer top quality management of human resources. The company continually strives to develop highly trained, strongly motivated and satisfied employees because Valamar Riviera's success relies on its employees.

Only with such employees is it possible to achieve strategic goals and provide excellent service. Valamar Riviera received the Employer Partner certificate for the twelfth consecutive year and was the only tourism company to be among the best employers in Croatia. The company scored an impressive 95% in spite of much stricter certificate criteria. This status builds on the continual efforts to achieve the fundamental strategic goals of human resources at Valamar Riviera: to be recognized as the most desirable employer in the industry, to develop a competitive salary policy and working conditions above Croatia's average, to secure employee loyalty and the further growth of local employment as well as Valamar's

integration into its destinations, and to constantly improve career development programs.

This is the foundation of a stimulating corporate culture that Valamar continually develops by always putting people first.

The focus of human resource management directly leans on Valamar Riviera's strategic goals defined for the period up to 2020. The focus is primarily on the guest, our employees and the organization through which we want to develop, empower and reward the employees, who are at the heart of the organization, and create long-term employee relations based on trust.

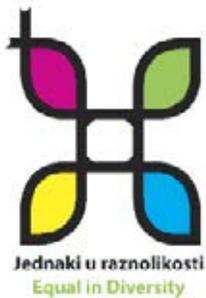
Employees represent the greatest challenge in Croatian tourism and Valamar Riviera's development is not possible without quality in human resource management. With the opening and expansion of the labor market, we have detected risks related to high-demand positions, and the development of new knowledge and specific skills. Recognizing global trends in tourism and hospitality helps us define the needs for new knowledge and skills and find ways to successfully address these challenges. Despite the lack of labor force in tourism, Valamar filled all job vacancies in 2017 thanks to the quality of numerous measures and programs started in the previous period.

Through a continual dialogue with social partners we have secured a high level of employee rights, in terms of salary competitiveness, motivation and reward systems, career development, care for the wellbeing and cooperation with educational institutions across Croatia.

DIVERSITY CHARTER

Valamar Riviera is aware that a policy supporting workplace diversity and non-discrimination is the precondition for developing individual talents, creativity and innovations.

This is what motivated Valamar Riviera to be among the first companies in Croatia to sign the Diversity Charter, an initiative started in 16 EU countries and developed in Croatia as part of a HR PSOR project (HR PSOR- Croatian Business Council for Sustainable Development) that included 34 companies and organizations. By signing this document, Valamar Riviera committed to enforcing workplace diversity and non-discrimination policies and reporting on its activities in this area.





PERMANENT AND YEAR-LONG EMPLOYMENT

Following continual investments and quality improvements that require a change in the employment structure, the number of employees at Valamar Riviera keeps growing year to year. We created 1000 new jobs in 2017, out of which 178 represented permanent employment contracts. The key factor in achieving this kind of employment growth in spite of Croatia's labor market challenges is the strategic new employment plan, carried out by Valamar Riviera in the last ten years, which includes the active search and employment of skilled and talented individuals.

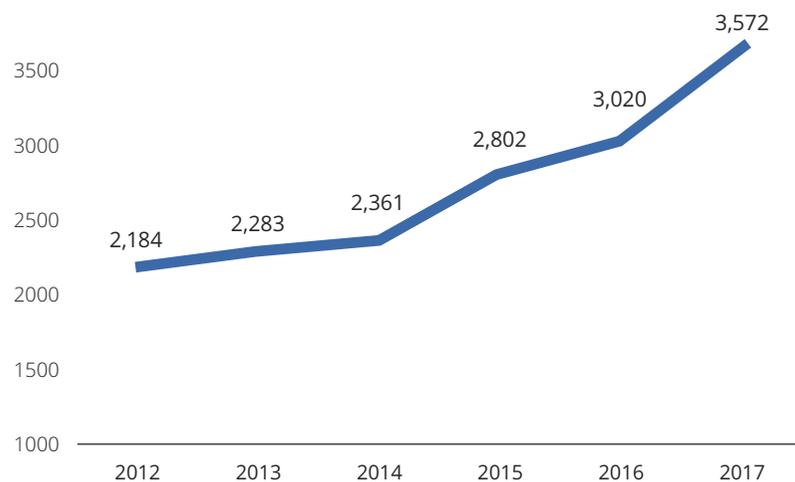
This growing demand is evidenced by the fact that in the period between 2012 and 2017, the average annual number of employees based on full-time equivalent grew by as much as 63.5%. During the same period, and measured at peak employment times (31 July) the total number of employees (pupils and students included) grew by 72%.

The employee structure reflects the highly seasonal character of Valamar Riviera's operations so as at 31 July 2017 this share represented 76.9% of the total number of peak-season employees. On the other hand, in 2017 Valamar Riviera continued to focus on increasing the number of permanent seasonal workers, increasing

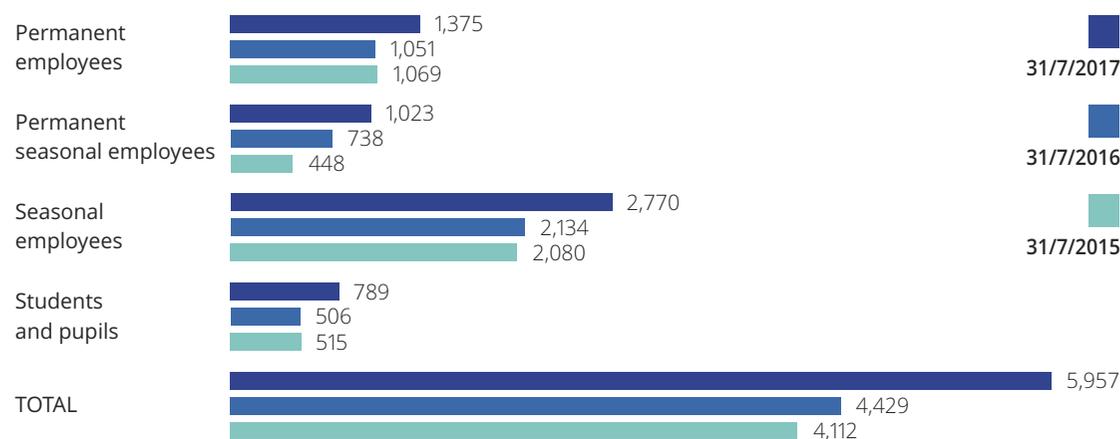
employee loyalty through various programs as well as local employment and an individualized approach to the development of employees.

2017 saw the continuation of existing trends in the Croatian labor market that has been depleted in recent years due to high emigration and low attractiveness of jobs in hospitality and tourism. Therefore, Valamar Riviera has been investing enormous efforts and continually carrying out an active policy of attracting and employing staff through cooperation with the local community and educational institutions, and the development of specific programs aimed at various employee groups.

AVERAGE NUMBER OF EMPLOYEES BASED ON FULL-TIME EQUIVALENT

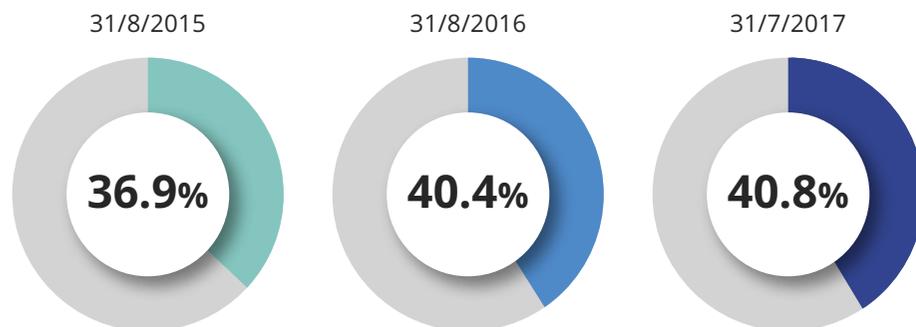


EMPLOYEE STRUCTURE BY TYPE OF CONTRACT*



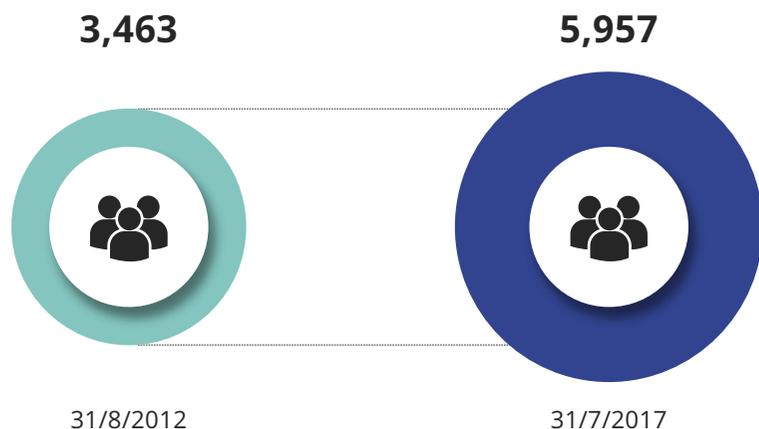
* Imperial Rab included.

YEAR-LONG EMPLOYMENT INDEX



Year-long employment index is the sum of “permanent work” and “year-long work” divided by the total number of employees.

INCREASE IN THE NUMBER OF EMPLOYEES (2012 – 2017)



EMPLOYEE TURNOVER RATE

Valamar Riviera monitors employee turnover for all its destinations: in comparison to 2015, the number of permanent employees who left the company fell by 36%, and the turnover rate fell from 12% to 6%.

PERMANENT EMPLOYEES WHO LEFT IN THE PERIOD FROM 1/1/2015 TO 31/12/2015

	Men	Women	Total	Turnover rate
Baška	1	1	2	3%
Dubrovnik	14	21	35	13%
Krk	2	4	6	15%
Poreč	25	38	63	12%
Rabac	7	11	18	11%
Total	49	75	124	12%

PERMANENT EMPLOYEES WHO LEFT IN THE PERIOD FROM 1/1/2016 TO 31/12/2016

	Men	Women	Total	Turnover rate
Baška	7	6	13	18%
Dubrovnik	14	19	33	14%
Krk		1	1	3%
Poreč	16	20	36	7%
Rabac	2	1	3	2%
Total	39	47	86	8%

PERMANENT EMPLOYEES WHO LEFT IN THE PERIOD FROM 1/1/2017 TO 31/12/2017

	Men	Women	Total	Turnover rate
Baška	2	4	6	9%
Dubrovnik	7	2	9	3%
Krk	1	0	1	2%
Poreč	17	24	41	7%
Rabac	4	3	7	7%
Total	39	40	79	6%



PERMANENT SEASONAL WORKERS AT VALAMAR RIVIERA AND THE VALAMAR +3 PROGRAM

The number of permanent seasonal contracts increased by 44% in 2017. The number of these contracts reached 893, compared to 621 in 2016, with nearly 500 of them included in our Valamar +3 program.

The Valamar +3 program is the development of the Permanent Seasonal Worker measure that raised much interest among Valamar Riviera employees. This program guarantees employment for a period of at least 9 months a year during a three-year period for permanent seasonal workers. For the employee, this means receiving a stable and good salary throughout the year.

Throughout the three-year contract period, a permanent seasonal worker enjoys employment status and extended pension and health insurance for the whole period.

Permanent seasonal workers are also guaranteed financial aid in the period they might not be working (60% of the average monthly gross 1 salary that was paid out in the previous three months, up to the maximum amount of HRK 3,979). Besides guaranteed employment duration, financial aid and extended pension and health insurance, permanent seasonal workers have the opportunity to make extra earnings in the period they are not working

and receive additional remuneration for this engagement.

The Valamar +3 program also offers a number of additional benefits for our permanent seasonal workers, so their terms are closely matched to those of permanent employees:

- ▶ They all have the possibility to develop a professional and specialist career via numerous targeted education and training programs (at the beginning of 2017, 27 of them were included in Valamar Academy, an internal program through which employees are trained for management positions)
- ▶ Participation in some of the 21 reward programs
- ▶ Valamar's employee healthcare program offers permanent seasonal workers free health check-ups
- ▶ Priority for permanent employment



*Lanterna Premium
Camping Resort
by Valamar 4*,
Poreč*





SEASONAL EMPLOYMENT

Valamar Riviera offers the best working conditions in Croatia for seasonal employment in tourism and hospitality and opportunities for career development in the most attractive economic sector.



LOYALTY

Due to the large number of seasonal workers and the growing need for new seasonal employment, one of the key strategic guidelines at Valamar Riviera is increasing their loyalty.

This strategic guideline aims at increasing the total satisfaction of seasonal employees, the share of local employees and the number of returning seasonal workers in each season. In 2016 there were 2,872 seasonal workers and as much as 56% of them returned to work at Valamar in 2017. Valamar Riviera continues to carry out a number of activities focused on increasing the percentage of returning workers, such as the loyalty program included in the 21 rewarding programs.

PERCENTAGE OF RETURNING SEASONAL WORKERS BY REGION*

Region	2016	2017
Dubrovnik	59%	55%
Krk	51%	59%
Poreč	66%	59%
Rabac	73%	46%
Baška	45%	65%
Rab	/	55%
Total	63%	56%

* The 2017 percentage of returning seasonal workers is lower than in 2016 due to approx. 1,000 new jobs opened and a large number of people employed for the first time.

COMMUNICATION WITH EMPLOYEES

Regular and informative communication with seasonal employees, even in periods when they do not work, is an important factor of satisfaction because it increases the sense of belonging to Valamar Riviera and involvement in all the important events at the company. Therefore, we continue investing efforts in this aspect of increasing their loyalty and satisfaction.

Employees are informed via personal contact with their colleagues and direct superiors, through the internal monthly magazine VIV (Vijesti iz Valamara – News from Valamar) that all employees receive at their home address, and various social networks. Employees are keen to be informed on the current events at Valamar Riviera,

SHARE OF LOCAL EMPLOYEES BY REGION

Region	2016	2017
Dubrovnik	68%	61%
Krk	60%	59%
Poreč	76%	71%
Rabac	94%	78%
Baška	51%	45%
Rab	/	65%
Share of local employees	74%	68%

as evidenced by the survey that measured employees' satisfaction with the contents of VIV. According to the survey, the number of readers is increasing and the most interesting segment is *Valamar News*.

When they start work, all seasonal employees have the opportunity to familiarize themselves with Valamar Riviera in detail, through structured orientation and job induction programs, and afterwards, during regular daily internal training sessions organized at all Valamar Riviera's properties.

There is a half-day orientation workshop for all the new employees that offers plenty of information on their work team, Valamar Riviera key facts and business processes, accommodation, meals, transport, salary policy and rewarding programs. In 2017, the orientation process was developed and structured further, with special attention given to new employees at hotel operations (95% of all new employees).

During the employment period, special attention is given to regular communication with workers; they receive timely feedback on their work quality, and at the end of the season they have the chance to arrange the exact date to start work in the next season.

To improve service authenticity and support the local community's economy, we devote particular attention to hiring workers from that particular destination, and the average share of local employees in 2017 peak season was 68%.

VALAMAR HOUSE – HOME AWAY FROM HOME FOR SEASONAL EMPLOYEES

As the largest employer in the sector, Valamar Riviera has the responsibility to exemplify excellence in human resource management. Securing the best possible living conditions for our seasonal employees is one of the key aspects of our investments in employees who are considered to be the main potential of the company. Valamar Riviera carries on investing in Valamar Houses, modern accommodation facilities for seasonal employees that are part of our continual care for the overall quality of living and working and satisfaction of our employees.

Before the 2017 season started, Valamar completed the second phase of refurbishing the two new parts of the building in Krk, with 79 beds in 46 rooms. The company is planning to add a third part, with 34 single rooms. Valamar House was also opened in 2017 in Rabac, with another one under construction in Poreč and planned investments in Dubrovnik in the year 2018.

In its new, modernly furnished facilities, Valamar secures lodging and board for seasonal workers who come to work at our destinations and the cost is borne by the employer. Employees can use mainly single and double rooms, with en-suite bathroom and toilet, new furniture, a TV set and a refrigerator. Special attention is given to the common areas- the kitchen, dining room, living room and launderette, equipped with all the necessary appliances and comfortably furnished. There is also a garden with wooden furniture and a grill. The goal for the forthcoming period is to provide accommodation for all non-resident seasonal employees in accommodation facilities that follow the Valamar House standards.

VALAMAR HOUSE BENEFITS

- ▶ Modernly furnished accommodation that offers maximum comfort
- ▶ Mainly single or double bedrooms with en-suite bathrooms and toilets, comfortably furnished, with TVs and refrigerators
- ▶ Common rooms with all the necessary appliances, new and comfortable furniture, and technical equipment that provide a feeling of home: a furnished kitchen, a dining room, a launderette, and a room for relaxation and socializing
- ▶ Air conditioning in all rooms and common areas
- ▶ Free WiFi
- ▶ PlayStation in the common recreation room
- ▶ Garden with grill and exercise equipment





REMUNERATION AND EMPLOYMENT



BASE SALARY

The current trends in the labor market justify the importance of Valamar Riviera's strategic guideline to secure competitive salaries as well as other material and non-material benefits to employees in relation to the industry and the environment. In 2017, these efforts resulted in the guarantee of the minimum income as well as the increase of the base salary and coefficients that drove a 19% growth in the total cost of salaries.

Following an agreement with trade unions, the base salary increased by 1.5% as of 1 June and an additional 2% as of 1 December. Valamar also increased the tariff appendix coefficients by an additional 2.5% for nearly 50 core positions such as hotel maids, cleaners, waiting staff, cooks and others. With this, the nearly two thousand Valamar's employees holding key jobs received a 3.5% average increase in the base salary and an additional 8% through the increase in coefficients. The total salary volume thus increased by 6% in 2017.

Last year's salary increases resulted from the continual dialogue with social partners and proactive analysis of the competition and the labor market.



HRK 6,055

average net income
at **Valamar Riviera** in 2017

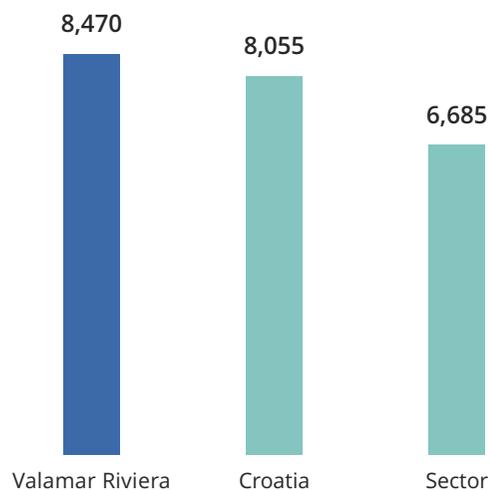
Thanks to these, the average salary at Valamar Riviera has been significantly above the industry average over the recent years. In 2017, salaries at Valamar Riviera were 5.1% higher than the Croatian average and about 27% higher than the industry average.

The average gross 1 salary in 2017 at Valamar Riviera totaled HRK 8,470 while the average salary for

Croatia was at HRK 8,055 and the industry average totaled HRK 6,685.

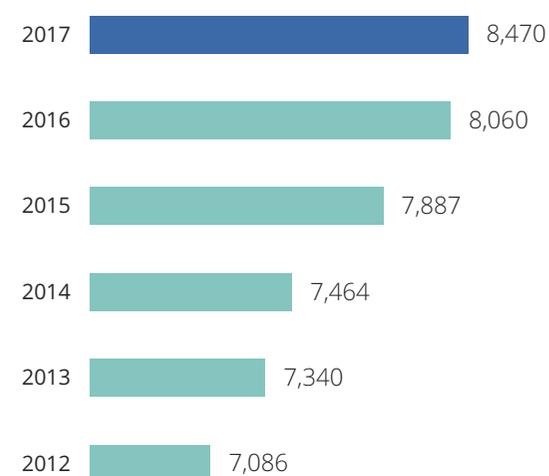
Valamar's salary policy resulted in the average salary at Valamar going up significantly over the past five years: compared to 2012, the average salary increased by nearly 20%.

COMPARISON OF AVERAGE GROSS 1 SALARY FOR 2017 (HRK)



Source: Croatian Bureau of Statistics.

GROWTH OF AVERAGE GROSS 1 SALARY IN 2017 VS. 2012 (HRK)



2017 growth vs. 2012: 20%

HRK 4,000 INCOME MINIMUM GUARANTEED

As of 1 June 2017, Valamar Riviera secured a HRK 4,000 monthly income minimum to all its permanent and seasonal employees who were eligible if they worked full-time during the month.

REVISIONS OF POSITIONS AND SALARIES

Besides enforcing an active salary policy, each year Valamar Riviera carries out a regular revision of job complexity for all key positions, introduces new jobs following industry trends, and uses findings to

revise salaries for certain jobs. In this way, the company maintains competitiveness for jobs of special importance to the company and the industry.



573

Employees

that received the difference up to the guaranteed **HRK 4,000 net** minimum from Valamar Riviera





EMPLOYEE BENEFITS

The human resource management strategy at Valamar Riviera includes above-average salaries and other material rights in relation to the sector average.

Valamar Riviera shows continuous care for its employees, grounded on the genuine belief that employees are the heart of our organization and our most valuable resource. Our care for employees starts with the implementation of all legal obligations and compliance with the collective agreement as well as other benefits.

Valamar Riviera has a collective agreement that guarantees not only the base salary, but additional material benefits as well. All Valamar Riviera employees have a guaranteed holiday allowance of HRK 52 net per day of holiday, child bonus, and other increments (shift work, Sunday and holiday work, night shift work, performance incentives etc.).

In addition to the employee rights agreed on in the collective agreement, Valamar Riviera offers its employees many other benefits. In 2017, the company paid out the Christmas bonus to all the employees who had at least 750 total hours of work in that year; more than 4,600 employees received the bonus (20% more than in 2016), and there was also a HRK 400 reward in kind for more than 3,272 employees.

Valamar Riviera additionally covers the expenses of health checkups for all permanent employees and permanent seasonal workers.

Feedback shows a high response to participating in health checkups, and employees see this benefit as an extremely positive one. They appreciate and respect the employer's care for the employees' health. One of the initiatives our employees especially appreciate is the use of lower, preferential prices of accommodation at all of our destinations (family members included) and our employees use this option very often.



HRK 483,720

invested in health check-ups

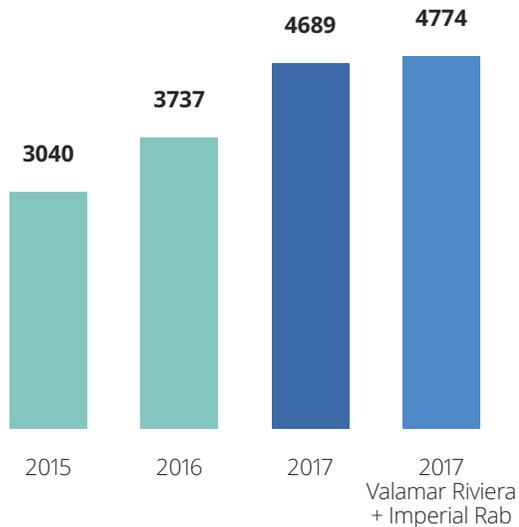


REWARDING OF EMPLOYEES

Valamar Riviera continually stimulates and rewards its employees throughout the year. One of the most important improvements to the overall policy on salaries is a development of the employee rewards program at Valamar Riviera.

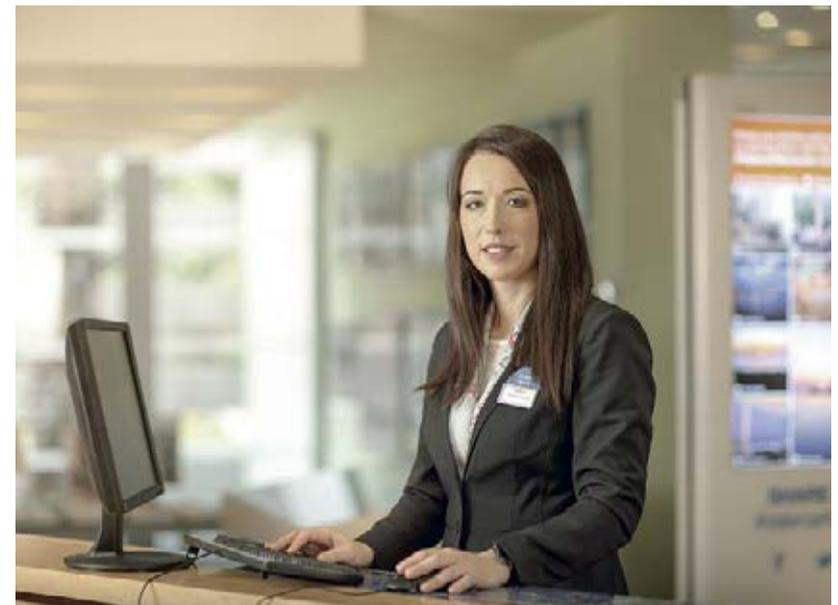
Following the introduction of new programs, there were a total of 21 rewarding programs in force in 2017. All the programs are defined by the Rules on Rewards, and they are presented in detail and available to employees via various communication channels, from Management Board decision memos, presentations at employee meetings and the corporate VIV magazine, as well as orientation programs. In 2017, as many as 4,774 employees were rewarded through various programs.

NUMBER OF REWARDED EMPLOYEES IN 2015, 2106 AND 2017



2017 REWARDING PROGRAMS

- 1 Monthly salary increment-incentive
- 2 Monthly and annual Up! rewards and recognitions for employees – OPS
- 3 Monthly and annual Up! rewards and recognitions for employees – VRC
- 4 Monthly reward – PC PEC
- 5 Bi-monthly Upselling reward for reception workers at hotels and campsites
- 6 Bi-monthly reward for reception workers – Loyalty program, hotels and apartments, camping and PEC
- 7 Monthly rewarding of Reservation Center employees
- 8 Periodical rewarding-Sales and Marketing Division and Sector, UP – Dubrovnik Region
- 9 Rewarding for results at competitions
- 10 Annual F&B rewarding for above-budget results in outlets
- 11 Annual rewarding of Valamar Academy mentors and trainers
- 12 Annual rewarding of corporate employees (best employee)
- 13 My idea for Valamar-periodical and annual rewarding
- 14 Annual corporate rewarding-Best performance-hotels and campsites, Best team, Best Up!Lifting practice, Record-breakers, Best Innovation, Employee of the Year
- 15 Reward for participating in events
- 16 Rewarding reception staff for DCC
- 17 Cross selling employee reward
- 18 5% for 5*
- 19 Good job at Valamar
- 20 Bonus
- 21 Management loyalty reward





SOCIAL PARTNERSHIP AND TRANSPARENT COMMUNICATION WITH EMPLOYEES

Valamar Riviera constantly fosters collaborative relationships with social partners and respects freedom of association as a basic human right defined by international declarations and conventions, as well as collective bargaining as an important form of stakeholders' inclusion.

There are two trade unions active at Valamar Riviera: Trade Union of Tourism and Services of Croatia, and the Trade Union of Istria, Kvarner and Dalmatia and the collective agreement covers all employees, except for management board members. For all significant changes in business operations that reflect on employees, there is the legal regulation that defines

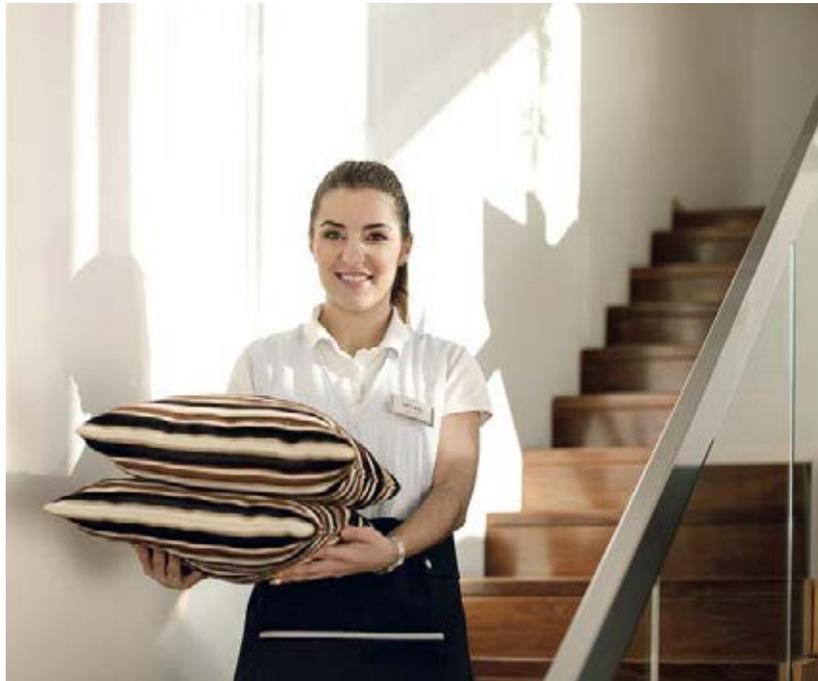
times to inform, gain consent from the Workers' council, trade unions etc.

The cooperation with social partners is based on regular meetings with employer's and social partners' representatives, and negotiations on employees' material rights.

The employer maintains regular dialogue with the Workers' council, which includes 11 employee representatives, discussing the areas of consulting, presenting the company's business plans, and participation in employee gatherings organized by the Workers' council. In April 2017, the Workers' council members were appointed following the regular election process.

Through the Workers' council, the employees are included in the consultations and decisions regarding employee-related issues.

Employee gatherings (usually held twice a year at all destinations) are the basis for improving relations between the workers and the management, and their goal is to inform workers about the company's strategy, as well as strategies of individual organizational units, and the tasks and goals set before them. In 2017, there were 4 workers' gatherings at Valamar with numerous participants. Workers' gatherings usually have a good turnout at all destinations, confirming that employees want to be informed on processes at the company and business results as well as the forthcoming investment cycle.



CONTINUOUS COMMUNICATION WITH EMPLOYEES

At Valamar Riviera, special attention is given to regular communication with employees, with the goal of unambiguous, transparent and fast exchange of all key information. Valamar Riviera received confirmation of communication quality in 2017 through the Employer Partner certificate, scoring the best possible result of 100% for the criterion regarding internal communication.

Employees' satisfaction with internal communication is measured through several channels: the regular corporate climate and culture survey poses questions that measure satisfaction with communication. The communication satisfaction index for 2017 was 4.46, while in the previous year it was 4.37.

Furthermore, communication satisfaction is measured by assessing the satisfaction of internal users with the quality of cooperation with all supporting services at the company, and as of 2016 the company has been measuring employees' communication satisfaction via the internal monthly VIV (Vijesti iz Valamara – News from Valamar). According to the survey published in April 2017, almost 70% of employees read VIV, and 24% read VIV occasionally.

The findings of a series of external and internal studies into the perception of our company, and continued work on developing new communication channels have resulted in a stronger employer brand, or a better image of Valamar Riviera as an employer, but also as a business in all the areas where we hold active presence.

Together with our employees, Valamar Riviera is building a vision and creating positive atmosphere, guided by our corporate values:

- ▶ **Guest-loving** – integrated into human resource processes via Up!Lifting projects for employees – ValamArtist competence promotion, Family Day organization, care for pensioners
- ▶ **Ambitious** – integrated in all the activities related to recruitment, selection, internal employee training, rewards, Valamar Academy program
- ▶ **Responsible** – integrated in the activities related to employee care, health protection, various forms of aid and support, flexible working arrangements
- ▶ **Innovative** – integrated in the activities and criteria for employee rewards, organization of a company that encourages employee innovation
- ▶ **Proud** – integrated through the Employer Partner certificate, a sense of belonging to the company, employee loyalty, employee well-being, focus and commitment to internal promotion.

In the forthcoming period, Valamar Riviera plans to implement a survey of employee satisfaction with their accommodation and meals, and employee satisfaction with the orientation program. We believe that this too will contribute to the quality of our communication with the employees.





LIFE-LONG LEARNING AND TRAINING

With continued investments in the development of employees' competences and internal programs of expert and management training, life-long learning and development has become a new corporate value.



EMPLOYEE DEVELOPMENT, TRAINING AND EDUCATION

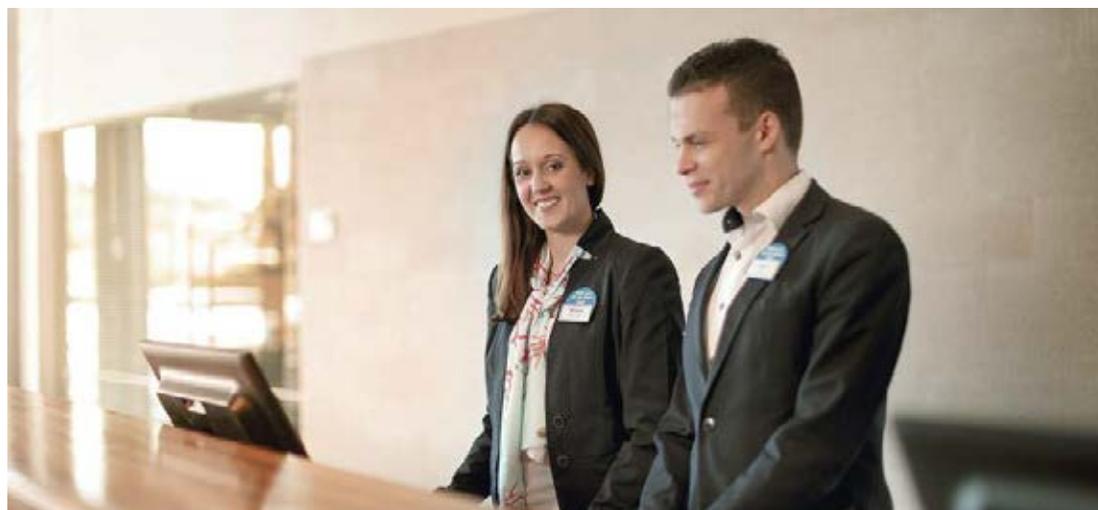
The training planning process always begins by identifying needs and wishes of the majority of employees. All employees at Valamar Riviera have the opportunity to receive additional training, depending on job requirements, and in 2017 almost 100% of employees received some form of training. The average number of training hours was 20.95 hours per employee, and the total investment in training programs was HRK 5.7 million.

The total hours of employees' training was nearly 83,000 hours in 2017 and represents a 33% growth vs. 2016.

Employees can take various forms of expert programs and professional training organized in Croatia and abroad as well. With the option of one-day courses or longer, employees can take part in professional conferences, fairs, expos and meetings. There is also the opportunity to participate in

postgraduate studies and internships, foreign language courses, in accordance with the business needs and employees' potentials.

Over the past several years, more focus was given to internal training by employees / internal trainers, in the areas of professional training for some departments, in line with the Train the Trainer program. At company level, there are more than 200 internal trainers.



Our objective is to have department heads that mentor their employees on a daily basis, as determined by the program Train the trainer that aims to develop managers to take over new internal training roles to enable an adequate, fast and efficient transfer of skills and knowledge.

With its practice of innovative services, quality mentors and trainers, Valamar Riviera is becoming a partner to the institutional education sector in the creation of specialist programs.

All key employees are involved in the training project via mentoring young employees, as well as new employees, with the goal of helping develop skills needed to advance professionally.

The employee mentorship program is formalized through the mentor program and status. All Valamar managers are involved as internal educators in the Valamar Academy program.




21

2017 Average training hours per employee



VALAMAR ACADEMY

Valamar Academy, a well-known program that has existed for 12 years, aims at training future hotel general managers (GMs) and department heads (HODs) in hotel operations as well as corporate department heads and specialists. It is a program that promotes internal promotion and life-long learning, and Valamar Riviera especially focuses on the continual development of this program.

The Valamar Academy education program has helped train a large portion of the company's current management team. Currently, about 70% of general managers, department heads and assistant managers have completed the Valamar Academy program lasting 12 to 24 months, and they have successfully assumed more demanding positions and responsibilities

The year 2017 saw great increases in numbers and illustrates well this program's appeal for employees and the importance of program participants for the company. In 2017 there were 65 employees involved in this program, out of which 56 of them for HOD positions and 9 for GM positions. The number of Academy mentors reached 53: 27 newly appointed and 26 experienced ones. Operations in Baška received the first five Valamar Academy participants and four mentors.

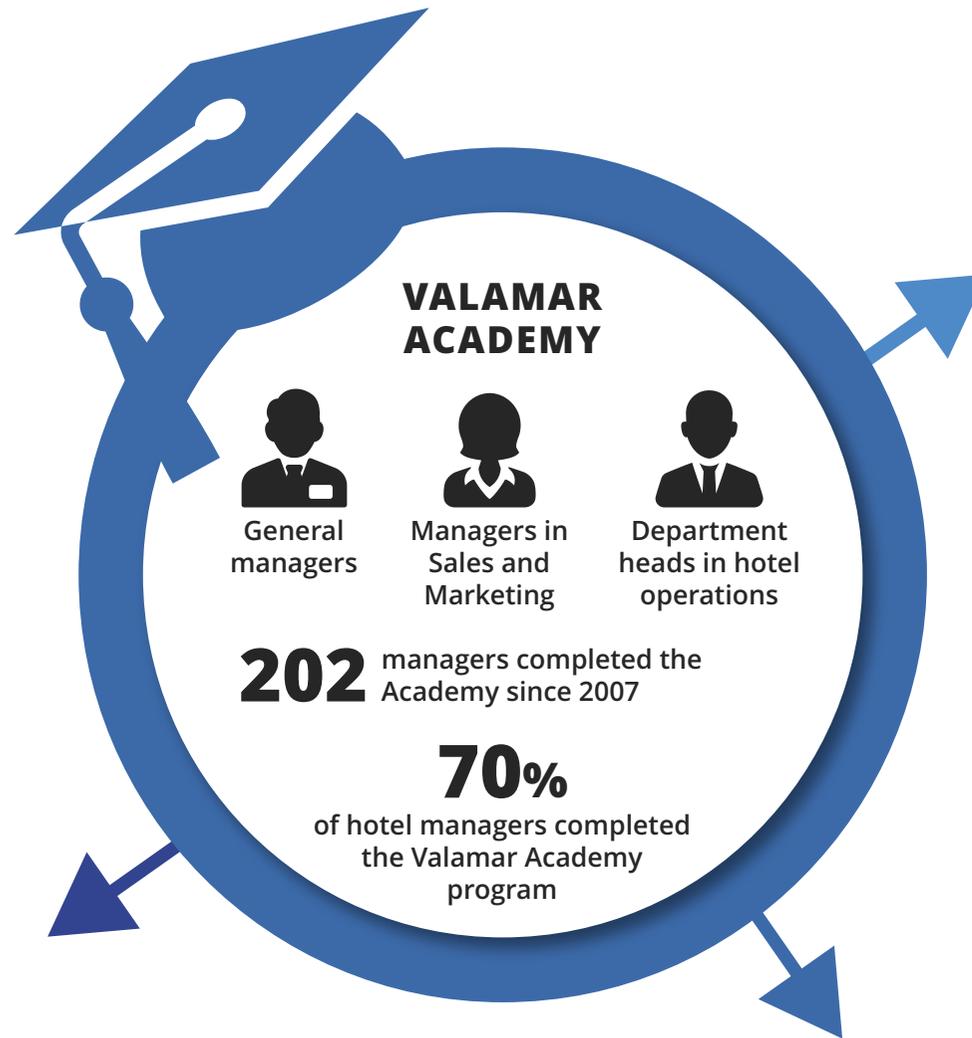
Sport, a new Valamar Academy program intended for expert training of managers of sports facilities and services such as beaches and pools has been designed and implemented: in 2017 10 new candidates participated in this program.

The numerous training programs for hotel operations employees are strategically managed, and the programs are aligned with the all-encompassing human resource strategy. Such an approach will allow us to additionally improve and standardize all training programs, resulting in higher work quality among employees. With the successful development of employees' key competences, Valamar Academy increases the motivation of the nominated and included candidates: they see it as a recognition to be proud of.

The recognition of employees' potential and their development through the Valamar Academy program greatly contributes to growing employee satisfaction with the corporate culture and climate, and their loyalty to the company. Their success stories, that are also published in VIV, word of mouth among colleagues and good practice of internal career development by further promotions and management statuses, have a positive impact on the recruitment of new candidates whose numbers doubled in 2017 and keep growing.

Finally, the Valamar Academy program has a positive effect on Valamar's image as an employer, resulting in more frequent job applications, as well as applications for internships and scholarships.





COOPERATION WITH EDUCATIONAL INSTITUTIONS



Colleges



Vocational secondary schools

EMPLOYEES AT HOTEL OPERATIONS



Outlet managers



Chefs



Wellness staff



Sports

CORPORATE EMPLOYEES



Finance



Controlling



Human Resources



Purchasing



VALAMAR'S MANAGEMENT

With new investments and the increase in work complexity, the number of managers at the company keeps growing. In 2017, there were 493 managers representing a 15% increase compared to 2016. Valamar Riviera strongly promotes a culture of competence development for all the key employees in the company's management.

Compared to the overall number of employees during peak season, the share of management is a high 8%, so one of the key goals and priorities at Valamar Riviera is to develop and build competent management that has all the needed knowledge, skills and abilities to lead people towards the realization of the company's strategic goals. One of the key factors in management development is the company's commitment to internal promotion, so

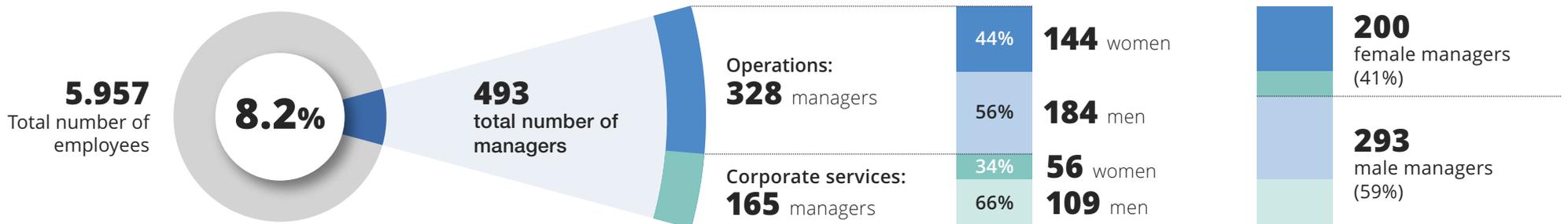
the largest part of current managers (more than 50%) grew and developed in the ranks at Valamar Riviera. All employees are made aware of the options to advance during annual evaluation talks with their direct superiors, and they receive timely feedback on their performance and career development plan, which includes a training plan. With these measures, tools and processes, the company has secured a long-term, comprehensive and integrated approach to strengthening the company's management competences and a structured process of identification, selection, development and retention of key employees for current and future needs at the company.

At the same time, by developing a sustainable management succession plan, Valamar Riviera

creates flexibility of organization and fast reactions to changed working conditions, and strongly motivates and retains its best employees. In line with the salary and reward policy at Valamar Riviera, key employees in management positions at the company, who realize clearly defined key performance indicators and achieve precisely determined individual goals, have the chance to participate in annual management rewards according to the Rules regarding the conditions and criteria for bonus eligibility for employees with special authorities and responsibilities at the Company.

The total number of employees with special authorities and responsibilities at the company in 2017 was 493, with 200 women and 293 men, as the result of equal opportunities for all employees.

SHARE OF MANAGERS IN TOTAL NUMBER OF EMPLOYEES IN 2017



EMPLOYEE SATISFACTION AND IMPROVEMENT OF WORKING CONDITIONS

As a key performance indicator in various aspects of human resource management, Valamar surveys employee satisfaction among all employees (both seasonal and permanent) as part of the annual corporate culture and climate survey (the 3C project), which collects employee feedback in eight distinct areas: work organization, management, training, attitude toward the employer, career opportunities, salary, meals and work/life balance.

For several years, we have had a stable level of employee satisfaction, rated 3.8 out of 5. In order to have the “real” picture, questionnaires are distributed during peak season, in August. In 2017, 88% of the questionnaires were completed and handed in (5198 distributed and 4559 received), and this is a representative sample for the interpretation of results and development of a corrective activity plan.

After the employee satisfaction survey, results are communicated at all levels, from presentations for the Workers' council, at workers' gatherings, to the monthly magazine VIV, followed by a definition and implementation of the plan of activities resulting from gathered employee suggestions.

Managers receive insight into their own ratings, which are used in their evaluation and rewarding system.

Valamar Riviera is extremely proud of the above-average results of the corporate climate and culture survey that the company is achieving in the work organization (4.0) and management (4.2) criteria. They are key elements in corporate management that secure a stable and top-quality employee engagement in the long term.

UP!LIFTING, ENCOURAGING ACKNOWLEDGEMENT AND FOSTERING TEAM SPIRIT

In 2013, Valamar introduced the Up!Lifting Service project into its operations. The project's aim was to increase the level of excellence by transforming the culture of hospitality, so that the company and our employees would be recognized as the best hosts on the Adriatic coast. It is a systematic approach that includes continual training and mentoring, selection and orientation programs for new employees, rewarding according to achieved guest satisfaction, communication and the fostering of team work. This award-winning project encourages employees to acknowledge one another, and strengthen their sense of community and team spirit.

In 2017 there were:

- ▶ 3000 Up!lifting training sessions at properties
- ▶ 100 commendation letters
- ▶ 20 orientation presentations for new employees
- ▶ 400 ValamArtists awarded by Up!Lifting
- ▶ 300 SOPs audits at properties
- ▶ 121,214 questionnaires (printed and digital)
- ▶ 5,000 in-stay questionnaires that enabled fast reactions by hotel management
- ▶ 5 Up!Lifting ambassadors

MY IDEA – CONTRIBUTING TO THE DEVELOPMENT AND SUCCESS OF THE COMPANY

My idea for Valamar is a program that was started to stress the importance of employee contributions to business decisions and the success and development of the company. The purpose of this program is to motivate employees to suggest ideas to improve business and be awarded for solutions that will be implemented as part of an existing practice or that will introduce better processes. The criteria include the whole business, from reducing costs/ increasing revenues, improving operating processes and the quality of services and products as well as increasing guest satisfaction.



NEW HQ BUILDING IN POREČ – A FIVE-STAR WORK ENVIRONMENT

The reconstruction of the HQ building in Poreč was one of the significant 2017 investments aimed at improving work processes and communication. It encompassed the expansion of office spaces, the improvement of external areas and landscape redesign.

The distinctive visual identity of the Valamar Riviera HQ building in Poreč is built around the philosophy of a contemporary business in hospitality. The HQ building

concept is based on the idea of top service and experiences that Valamar creates for its guests, and aims at providing a top work environment, starting from the entrance that resembles a hotel front office and lobby.

On one hand, the new HQ building improved the quality of life at work by introducing a number of common areas – the lobby bar, the atrium and comfortably furnished areas to relax, work out and socialize.

On the other hand, the reconstruction aimed at creating quality in the new working environment according to contemporary office trends: new capacities, new meeting and teamwork rooms, open-space areas for informal team or individual work and events, a library and “Creative Box” – a room where employees and external users can share new ideas, brainstorm and meet.

The interior design follows a modern concept that will enable better communication and team work, with plenty of places to work, but also common rooms for meetings, areas for socializing, exchanging ideas, have a coffee break as well as a restaurant and other rooms.

The new building also includes an event area that is used on Friday afternoons for events during which employees are encouraged to meet and get to know each other. The events included wine and olive oil tasting, film projections, workshops and others.



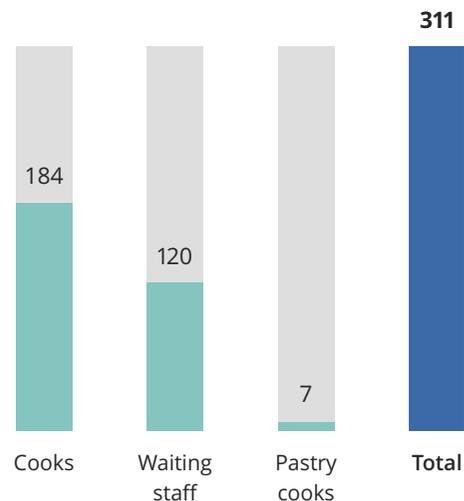




INVESTMENT IN FUTURE EMPLOYEES AND PROMOTING JOBS IN HOSPITALITY AND TOURISM

As one of the preconditions of long-term business sustainability in tourism, Valamar Riviera invests in future employees by maintaining a continual relationship with vocational schools and higher education institutions in order to develop skills, knowledge and competences of potential employees and promote jobs in tourism and hospitality. The scholarship program has a very important role in this, however, the investment in future employees also involves the organization of traineeships, Open Doors days and participation in a number of activities and projects that have a wide social impact.

NEW SCHOLARSHIPS IN 2017/2018: STRUCTURE AND TOTAL NUMBER



During the school year, we carried on with our scholarship program for students of vocational secondary schools that train for jobs in hospitality such as cooks, waiting staff, pastry cooks and receptionists. This program is carried out in collaboration with the Ministry of Tourism. During the two autumn months in 2017, HR Development Department employees visited numerous Croatian vocational secondary schools in Slavonski Brod, Osijek, Nova Gradiška, Požega, Pula, Poreč, Labin, Virovitica... – and presented the company to the students and parents while focusing on career and scholarship opportunities at Valamar Riviera in the school year 2017/18.

In the previous school year Valamar granted 217 scholarships, and 74% of them were given to students from the continental part of Croatia. The total scholarship amount was HRK 1,085,000.00 and Valamar Riviera became the largest scholarship provider in Croatian tourism (89% of the 245 scholarships granted was provided by Valamar Riviera).

In the school year 2017/2018, Valamar Riviera granted 311 scholarships and confirmed to be the leader in this segment with a HRK 1,555,000 investment in scholarships.

HRK 1,555,000

Valamar Riviera is the largest single scholarship provider in Croatian tourism

The scholarship program secures a monthly amount of HRK 1,000 during the school year (10 months), the possibility of traineeship at one of Valamar's properties and first employment opportunity for senior year students with accommodation secured for those coming from other parts of Croatia.

In 2017, the number of secondary school students included in the organized summer group traineeship from the continental part of Croatia increased by nearly 50%. 20 students from a vocational school in Nova Gradiška had their summer traineeship organized in Baška, and 11 of them held our scholarships. The 17 students from a vocational school in Požega had their summer traineeship in Poreč and 9 of them had been granted Valamar scholarships. After their traineeship, 13 of them stayed to work in Poreč for the summer. We are especially proud of the trust that these students and the scholarship holders as well as their parents placed in Valamar. We also continued to organize summer traineeships for students from schools at our destinations and in 2017, there were 108 of them.

Valamar Riviera established collaborations with international schools: as part of Erasmus+, Valamar

311 scholarships

Valamar Riviera is the largest single scholarship provider in Croatian tourism

hosted two international projects, one in collaboration with a Hungarian secondary school from Kaposvár that partnered with Valamar back in the 1990s and the project included a traineeship for 45 students at Valamar. The second Erasmus+ project was carried out in collaboration with partner schools from six countries – Croatia, Austria, Germany, Norway, Romania and Turkey: during their stay at Valamar, their students visited Camping Resort Lanterna. The company also hosted a group of vocational school students from Myslenice-Krakow that visited Valamar Isabella Island Resort during their visit to Istria.

In order to promote job opportunities to the local community, Valamar Riviera carries on with its Open Doors days as well as numerous visits by secondary schools of various profiles (vocational and other) and elementary schools (ages 13 to 15) as part of its CSR program “Excellence through Knowledge”.

We have also continued our successful collaboration with higher education institutions to promote jobs in tourism and hospitality and present new trends in human resource development as well as internship opportunities. Furthermore, this kind of collaboration crossed the national borders and in 2017 Valamar

Riviera was the selected employer for the second consecutive year for the “Project Week” traineeship for the students of a Swiss hotel school from Bellinzona.

All our previous initiatives related to investments in future employees have had a tremendous effect on the general social influence that Valamar Riviera strives for:

- ▶ Encouragement and support for young people to enroll and complete their education in the field of hospitality and tourism
- ▶ Stronger ties between Valamar Riviera and vocational and hospitality schools across Croatia
- ▶ Raising the overall quality of Croatian tourism and the quality of personnel in hospitality and tourism.



13 vocational schools

Valamar Riviera promoted scholarship opportunities and jobs in tourism in 13 vocational schools

DIVISION BETWEEN DESTINATION AND EXTERNAL SCHOLARSHIP HOLDERS

Valamar Riviera

Year	Destination	External	Total
Senior	25	115	140
Other years	46	116	162
Total	71	231	302

Valamar Riviera + Rab

Year	Destination	External	Total
Senior	28	115	143
Other years	52	116	168
Total	80	231	311

5.3 GROWTH STRATEGY

In 2017, Valamar Riviera achieved an exceptional increase in both revenue and profit, owing to our continued efforts to improve our business processes, develop our portfolio, increase our focus on the guests and develop our business through strategic partnerships and acquisitions.

Furthermore, we identified the following key factors to support our further growth in revenue, profit and share value:

- ▶ portfolio capital investments and asset development
- ▶ sales and distribution strategy
- ▶ management of the Valamar brand
- ▶ segmentation and selection of target markets
- ▶ increase in direct bookings and guest loyalty
- ▶ strategic partnerships and supplier relations
- ▶ new programs and products in collaboration with strategic partners and destinations to prolong the season
- ▶ growth through acquisitions, mergers and business cooperation in leisure destinations
- ▶ optimization of prices, occupancy and distribution to increase revenues
- ▶ focus on operating efficiency
- ▶ active participation in associations and institutions to develop and promote tourism.



PORTFOLIO CAPITAL INVESTMENTS AND ASSET DEVELOPMENT

Since 2004, Valamar Riviera has invested over HRK 3.5 billion in the development of its portfolio, thus increasing the share of premium and upscale accommodation to 39%.

In the course of 2017, investments worth HRK 877.7 million were capitalized in the existing portfolio of long-term tangible assets. It should also be noted that HRK 174.2 million represented preparation for asset investment. The total 2016/2017 investment cycle was over HRK 900 million and it represents the largest investment in the portfolio of hospitality properties so far.

A total of HRK 494 million was intended for improving the quality of tourism products and services in Rabac (Family Life Bellevue Resort 4* and Valamar Girandella Resort 4*&5*). Apart from investments in hotels and resorts, Valamar Riviera continued investing in campsites (HRK 186 million) and the most significant investments were made in the campsites of Lanterna, Zablacé and Ježevac. HRK 68 million went into investment maintenance, and HRK 138 million into other portfolio investments. Moreover, nearly HRK 21 million were the investments made by Imperial d.d.

At the start of the 2017 tourist season, the guests in Rabac were welcomed by two luxury resorts, a new Family Life Bellevue Resort 4* (Croatia's first TUI Family Life hotel) and a completely reconstructed Valamar Girandella Resort 4*&5*. The comprehensive investment project in Rabac included a full reconstruction of the two resorts featuring a total of

764 keys, 17 restaurants and bars and 13 pools with water surface area amounting to 2,000 m².

The construction included a Maro Club for children and several children's playgrounds, two entertainment centers, a wellness center, an indoor and an outdoor fitness facility, a bike center, and many other sports amenities. Nearly 600 employees there serve over 2,700 guests daily. The investment also included the improvement of beaches and promenades, as well as a landscape redesign of the entire zone. Croatian contractors and suppliers were hired to carry out most of the construction work and about 50% of them were local, Istrian businesses.

Thanks to these investments, Rabac was repositioned as leading high-end leisure destination. Moreover, the three-year strategic partnerships (seasons: 2017, 2018 and 2019) with the leading European tour operators TUI and DER Touristik Köln secured occupancy. Consequently, more than 100,000 guests are expected to visit Rabac in the next three years, thus improving the promotion of Istrian tourism. Moreover, new opportunities for season prolongation will emerge as the number of guests from air travel markets grows.

Besides key investments in Rabac, Valamar Riviera continued investing in the concept of premium camping. HRK 98 million were focused on upgrades at Lanterna 4*, one of the best European campsites. The reception area with the shops and catering establishments underwent renovation, and the campsite now features new high quality mobile homes and amenities for children.



HRK 66 million were invested in upgrading accommodation and services on Krk Island and new high-quality mobile homes for two campsites, Ježevac 4* and Zablacé 3*. In order to improve the quality of other campsites on Krk, in Istria and Dubrovnik, a range of investments was focused on improving accommodation, beach amenities, restaurants and bars.

Imperial completed its investments totaling nearly HRK 21 million in 2017. Most of it was invested in a new premium zone and luxury mobile homes at San Marino campsite 3*. Significant investments were

made in improving the business communication network and preparing the necessary project documentation for the forthcoming investments.

Moreover, several other projects to create new and upgrade existing features were completed and they will considerably improve the quality and experience at

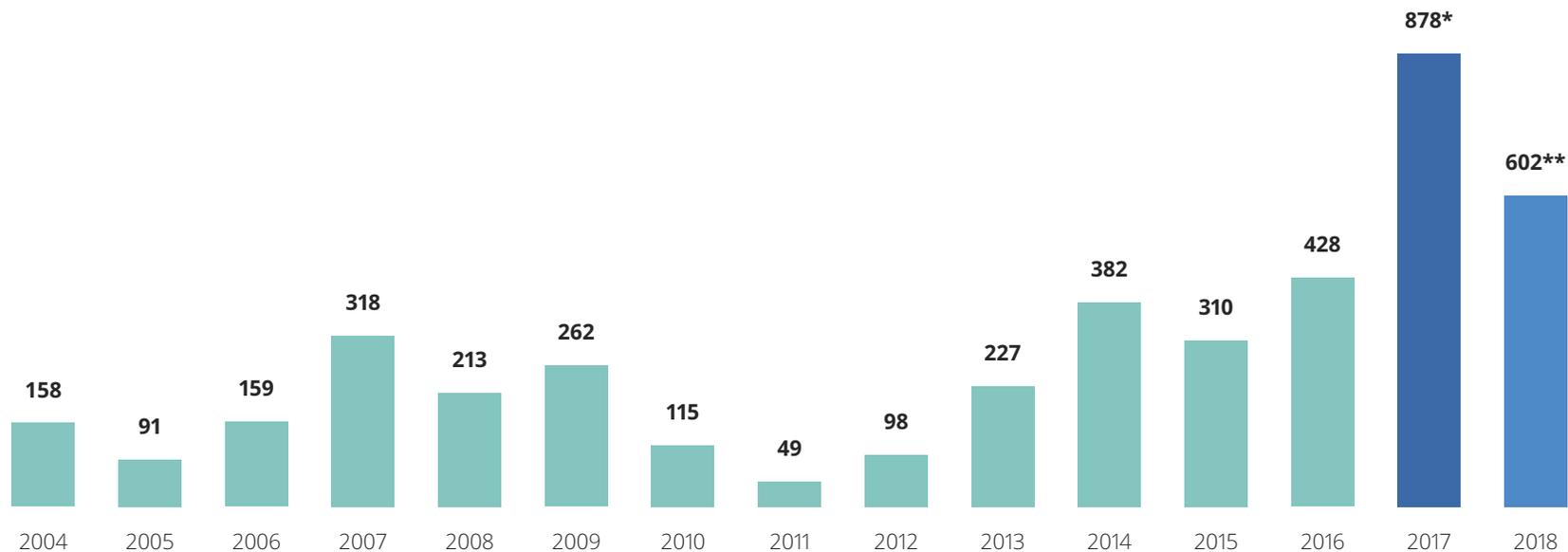
all destinations. They included beaches, Wi-Fi coverage expansion, business digitalization, technological processes and energy efficiency.

In line with the previously announced investment cycle of HRK 2 billion until 2020, Valamar Riviera Group is planning new large investments worth roughly HRK

705 million in 2018. The planned investments represent the continuation of Valamar Riviera's strategy to reposition the portfolio towards products and services with high added value.

With the planned completion of Valamar Girandella Resort 4*&5* in 2018, Rabac will be repositioned as

INVESTMENT CYCLE (capitalized investments, HRK mn)



* In the total amount of HRK 878 million, HRK 103 million refers to the 2017/2018 investment cycle.

** The planned investment cycle amounts to HRK 705 million, of which HRK 103 million has already been recorded as assets in preparation in 2017.

leading leisure destination for high-end guests. HRK 116 million have been earmarked for the opening of the first Kinderhotel in Valamar's portfolio – Valamar Girandella Maro Resort Hotel 5* in Rabac. Kinderhotels Europa is a marketing association that brings together high-quality premium family hotels under the Austrian "Kinderhotels" brand. Valamar Girandella Maro Resort Hotel 5* is a premium hotel offering premium accommodation (149 keys), with services and design tailored according to the needs of families with children of various age groups. The concept of the lobby, restaurant and pool complex as well as the interior design of the hotel rooms is centered around the idea of family holidays.

Nearly 30% of total investments will focus on Istra Camping Resort in Funtana, Camping Resort Lanterna in Poreč and two campsites on Krk Island, Ježevac and Zablaće.

The first phase of repositioning Istra Camping Resort as premium accommodation is planned for 2018. The investments include improvements in the municipal infrastructure, one part of the camping pitches and the construction of a new sanitary block.

The investments planned in Camping Resort Lanterna 4* will focus on improving accommodation and quality. In the forthcoming season, the resort will feature a new premium mobile home zone designed according to the "Maro" brand standards and two new swimming pools. "Maro" is a Valamar brand that is family-oriented and includes child-friendly services and facilities.



Moreover, the glamping zone will be completed, the sports zone will be renovated and will feature new facilities and services. The investments in Ježevac 4* will also include the expansion of the mobile home zone and two new swimming pools. The investments in Zablaće are focused on improving services and upgrading the campsite from 3* to 4* with new high-quality mobile homes, a new sanitary block and other amenities.

Investments in Dubrovnik focus on repositioning the Valamar Argosy 4* hotel: HRK 60 million have been earmarked to improve the quality of accommodation and develop new facilities and services for a high-end "adult-friendly" product.

Investment maintenance totals HRK 64 million. Plans include numerous other investments in improving the competitiveness and quality of guest amenities and products. Valamar is especially focused on further investments in increasing the capacity and quality of accommodation for seasonal employees, with nearly HRK 45 million earmarked for this purpose.

Imperial's investments planned for 2018 are HRK 72 million. New investments include the renovation and repositioning of Grand hotel Imperial 4* as "adults only" accommodation. Investments planned in the camping segment include the completion of the Premium Mobile Home zone in San Marino 3* and the expansion of the Premium Mobile Home zone in Padova III 3*.



SALES AND DISTRIBUTION STRATEGY

In 2017, for the second consecutive year, Valamar Riviera achieved a significant 31%¹ increase in revenues in direct sales, its most lucrative channel. Moreover, the direct channel's average daily rate grew by 13%².

Furthermore, in line with the strategy for distribution channel management, the share of the direct channel in the Group's total revenues was successfully increased from 41% to 43%. At group level, Valamar

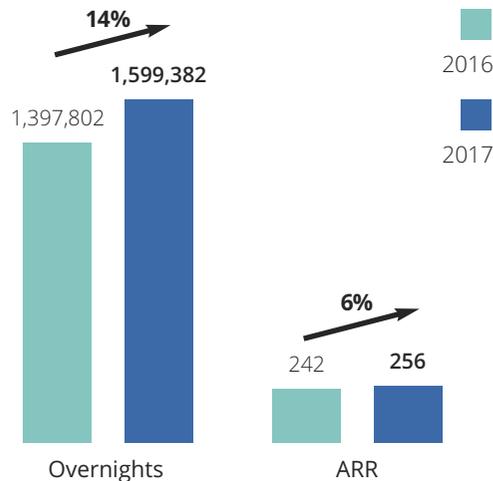
Riviera reported a 20%³ increase in overnights, while campsites and hotels reported an increase in overnights of 24%⁴ and 17%⁵ respectively, as compared to 2016.

Continual initiatives, aimed at increasing direct bookings and guest loyalty as well as strengthening strategic partnerships with targeted tour operators to prolong the season and expand the market, all resulted in a further growth in revenues in 2017.

Furthermore, in 2017 Valamar hosted a number of important business and destination events, such as Summer at Valamar, Dubrovnik Half Marathon, Aquaculture Europe Congress and CARNet Users Conference in Dubrovnik, as well as WinDays Conference, Poreč Open Air and Rabac Open Air festivals that were hosted by the Istrian destinations.

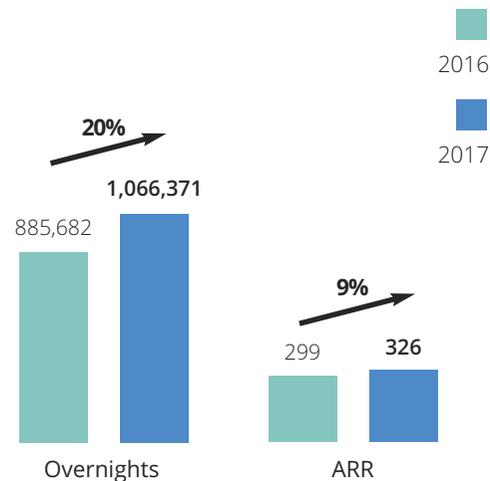
Continual ARR growth in the premium and upscale segments has validated our orientation towards

GROWTH IN AVERAGE RATE AND OVERNIGHTS- PREMIUM PROPERTIES*



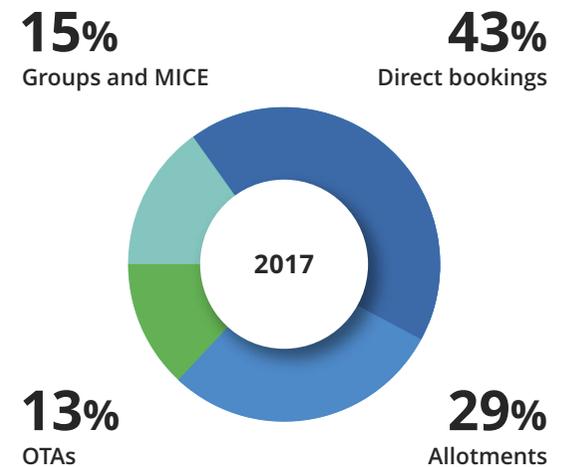
* Imperial Rab not included.

GROWTH IN AVERAGE RATE AND OVERNIGHTS- UPSCALE PROPERTIES*



* Imperial Rab not included.

DISTRIBUTION CHANNELS IN 2017
(by revenues)



2017

investments in high-end properties. The said ARR and revenue growth has also been accompanied by an increase in overnights, thus reaffirming the business growth stability across our products (hotels, resorts and campsites). Thanks to our 2017 investments, primarily in Valamar Girandola Resort and TUI Family Life Bellevue Resort, the average rate increase in premium and upscale properties was 6%⁶ and 9%⁷ respectively, with an increase in the number of overnights for the premium (14%) and upscale (27%) products⁷. Premium hotels and resorts reported the highest occupancy (48%).

Valamar Riviera's goal is to have one property working year-round in each destination. Thus, by additionally boosting preseason and postseason segments, three hotels, Valamar Diamant in Poreč, Valamar Sanfior in Rabac and Valamar Lacroma in Dubrovnik stayed open throughout 2017.

¹ Excluding the impact of destination Rab, the increase in direct channel revenue is 21%.

² Excluding the impact of destination Rab, the increase in direct channel's average daily rate is 14%.

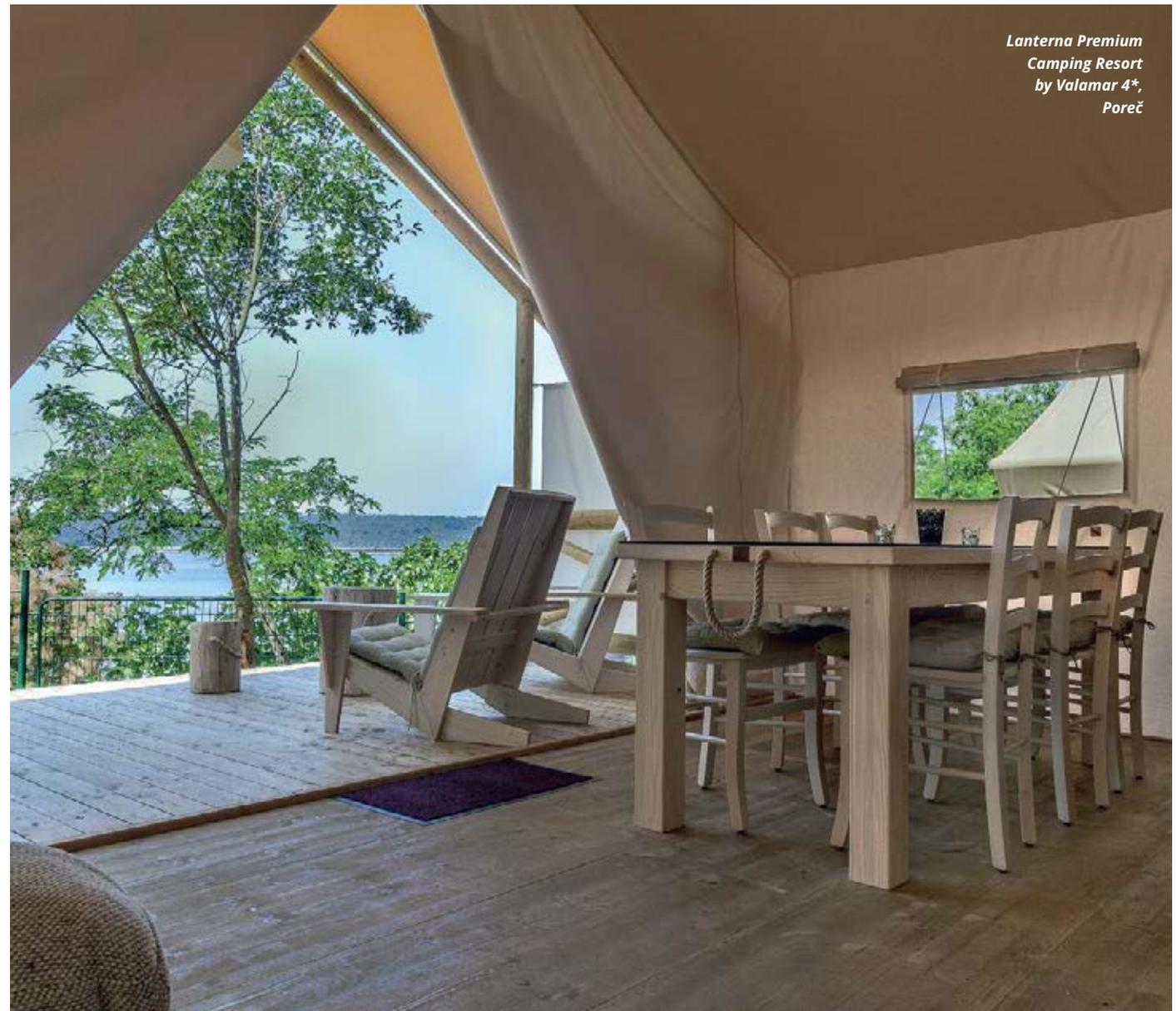
³ Excluding the impact of destination Rab, the increase in overnights at group level is 6%.

⁴ Excluding the impact of destination Rab, the increase in camping overnights is 8%.

⁵ Excluding the impact of destination Rab, the increase in overnights of hotels and apartments is 5%.

⁶ Excluding the impact of destination Rab, the increase in ARR of premium and upscale properties is 6% and 9% respectively.

⁷ Excluding the impact of destination Rab, the increase in overnights for premium and upscale products is 14% and 20% respectively.





SEGMENTATION AND SELECTION OF TARGET MARKETS

In 2017, Valamar Riviera was focused on positioning the portfolio to efficiently address the target groups.

Apart from optimal portfolio differentiation, it is also necessary to have a clear strategy for brands and service concepts, designed to meet the specific needs and desires of particular market segments. This will increase the market reach, improve the compatibility of the products and services with the specific market segments, increase guest loyalty and, ultimately, facilitate a considerable and sustainable growth of all the key performance indicators.

This strategy was best reflected in the development of Valamar Isabella Island Resort and Valamar Girandella Resort, where a special family offer was created, alongside Designed for Adults and V Level services and facilities.

As regards the camping segment of the portfolio, we have developed specific products for luxury camping such as the premium camping home village and glamping, which resulted in a 20% share of that particular segment, up by 2 percentage points over prior year results.



MANAGEMENT OF THE VALAMAR BRAND

For more than ten years, the Valamar brand has been the leading brand in Croatia's tourism. We wanted to maintain and advance this position by re-interpreting its core values according to the new market circumstances and new product reality.

The Valamar Hotels & Resorts brand was introduced in 2004 and very soon it became the first internationally recognized brand in modern Croatian tourism. Camping Adriatic by Valamar was introduced two years later. Over time, the brand architecture was supplemented and modified, adapting to the changes within the company, and in 2016, the process of redefining the existing brand strategy began. This strategic project is aimed at improving the efficiency and strength of the umbrella brand and the overall structure of the

corporate and service sub-brands, in order to harmonize the communication strategy at all levels with the company's ambitious development plans.

The project of defining the new brand strategy has been approached systematically, taking into consideration all the relevant internal and external factors, and with a focus on the key strategic initiatives. The brand strategy outlines a clear path and guidelines of the Valamar brand and the accompanying sub-brands, building the foundations for the company's further development. The brand strategy will thus enable us to increase the market reach, improve product and service compatibility with specific market segments, increase guest loyalty and, ultimately, increase the key business indicators.

KEY CHANGES:

- ▶ The umbrella brand will change and become a platform for corporate and commercial communication
- ▶ The key core values of the umbrella brand, which are linked to all the brands in the system, have been defined
- ▶ The existing Valamar brand architecture will move from a system with two main product brands to a system with five main product brands closely linked to Valamar's core culture and values
- ▶ The system of communication for the standardized Valamar signature programs has been defined, alongside their application to the compatible Valamar product brands
- ▶ Each property in the portfolio is linked to one of the product brands and has had specific positioning, USPs, target markets and sales channels defined specifically for it
- ▶ Valamar Collection and Valamar Collection Resorts are brands of strategic importance and are the closest to Valamar's core values; they include the best products in the portfolio
- ▶ Valamar Hotels & Resorts is a brand covering the largest portion of the company's capacities and includes both upscale and midscale properties; specific labels will be introduced through this brand, depending on the special characteristics of each product
- ▶ Sunny by Valamar is the economy brand that includes both midscale and economy portions of the portfolios
- ▶ Camping Adriatic by Valamar will be lifted to a higher level and be more strongly linked to the Valamar brand; additionally, it has been divided into three categories, using the same principle as for hotels and resorts – Premium Resorts, Resorts and Sunny
- ▶ The implementation of the new branding is expected to start in the second half of 2018



First internationally recognized brand in modern Croatian tourism

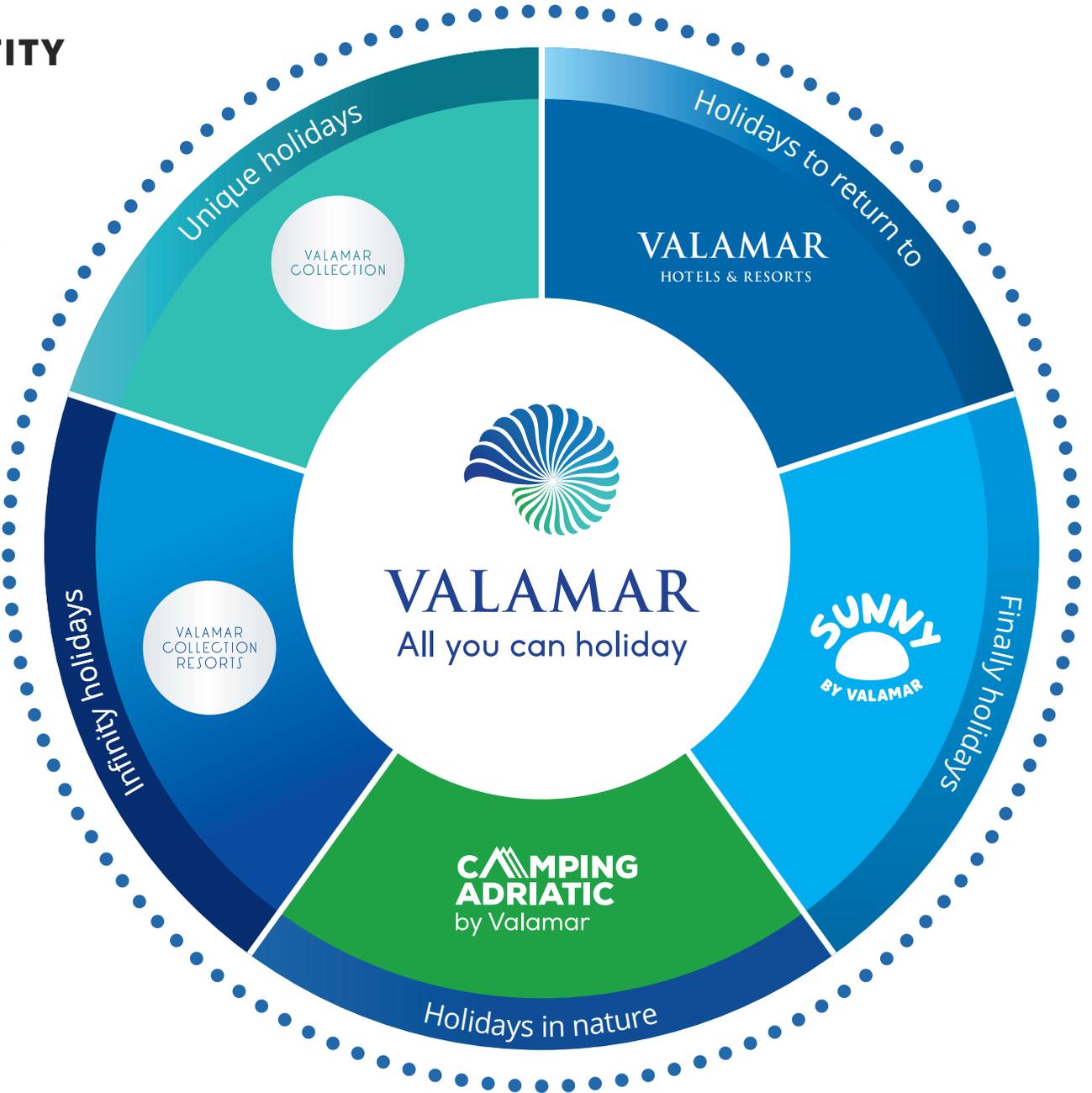


NEW BRAND IDENTITY

Besides changing the umbrella brand, which will become a platform for corporate and commercial communication, we have also defined its key core values, to which all the brands in the system are linked. The existing Valamar brand architecture will move from a system with two main product brands to a system with five main product brands closely linked to Valamar's core culture and values.

Valamar+ Club

The Valamar loyalty program connects all the product brands in the system. It contributes to the distinctiveness of the umbrella brand and creates added value for returning guests.



Y2018 PORTFOLIO OUTLOOK



VALAMAR
All you can holiday

**VALAMAR
COLLECTION**

Valamar Collection Imperial Hotel
Valamar Collection Dubrovnik President Hotel

**VALAMAR
COLLECTION
RESORTS**

Valamar Collection Isabella Island Resort
Valamar Collection Girandella Resort

STRATEGIC BRANDS

VALAMAR
HOTELS & RESORTS

Valamar Zagreb Hotel
Valamar Diamant Hotel & Residence
Valamar Crystal Hotel
Valamar Riviera Hotel & Suites
Valamar Tamaris Resort
Valamar Sanfior Hotel & Casa
Valamar Koralj Hotel
Valamar Zvonimir Hotel
Valamar Atrium Baška Residence
Valamar Villa Adria
Valamar Padova Hotel
Valamar Carolina Hotel & Villas
Valamar Lacroma Dubrovnik Hotel
Valamar Argosy Hotel
Valamar Club Dubrovnik Hotel

CORE BRAND



Rubin Sunny Hotel by Valamar
Pical Sunny Hotel by Valamar
Lanterna Sunny Resort by Valamar
Pinia Sunny Residence by Valamar
Miramar Sunny Hotel by Valamar
Allegro Sunny Hotel by Valamar
Marina Sunny Hotel by Valamar
Corinthia Baška Sunny Hotel by Valamar
San Marino Sunny Resort by Valamar
Eva Sunny Hotel & Residence by Valamar
Tirena Sunny Hotel by Valamar

FIGHTER BRAND



Lanterna Premium Camping Resort by Valamar
Krk Premium Camping Resort by Valamar
Ježevac Premium Camping Resort by Valamar



Orsera Camping Resort by Valamar
Marina Camping Resort by Valamar
Solaris Camping Resort by Valamar
Zablaće Camping Resort by Valamar
Bunculuka Camping Resort by Valamar
Padova Camping Resort by Valamar
San Marino Camping Resort by Valamar



Tunarica Sunny Camping by Valamar
Istra Sunny Camping by Valamar
Brioni Sunny Camping by Valamar
Škrila Sunny Camping by Valamar
Solitudo Sunny Camping by Valamar

**BRAND
PARTNERSHIPS**

TUI Family Life Bellevue Resort
COOEE Pinia Hotel by Valamar



VALAMAR ALL YOU CAN HOLIDAY

Vacation perfectionists.

Looking for active fun family vacation, a romantic trip for two with medieval towns and sunset dinners, luxurious holidays and pampering? Just want to relax on a beach or enjoy nature? Let ValamArtists give you a holiday to remember with our unique V Service culture and first-class hospitality.

Valamar – All You Can Holiday.



CORE VALUES OF THE UMBRELLA BRAND:

LEADERS IN HOLIDAY TOURISM

Valamar takes pride in creating perfect vacations and authentic experiences for our guests. Innovation and development of our destinations, resorts, hotels and campsites never stop, so each time you stay with us, you'll enjoy them more.

HOLIDAY JUST LIKE YOU IMAGINE IT

Five Valamar brands of hotels, resorts and campsites are all designed to meet the desires and needs of our guests with recognised Valamar quality. Find a vacation you want: fun with family, a beach getaway for two, relaxing holidays by the pool, in lavish luxury or pristine nature and have an All You Can Holiday.

V SERVICE CULTURE

Our employees, ValamArtists take pride in cherishing our unique V Service culture delivering unforgettable memories every day for every guest.

VALAMAR SIGNATURE PROGRAMS

Valamar signature programs like Maro Holiday for families, V Level for luxury experience, or Miramare restaurant for a perfect romantic dinner and many more are all designed in order to indulge even the most demanding guests.

AUTHENTIC DESTINATION EXPERIENCE

Partnering with holiday destinations enables us to deliver local values in an intimate, personalized way. Learn about the culture and the history from the locals. Take part in various events and go on enchanting excursions, trying local dishes and delicacies in their own time and pace, relying on Valamar Experience Concierges to provide fresh, timely information and help experience the best a destination has to offer.

FROM DREAMS TO PERFECT VACATIONS

Every journey starts with a dream. Let Valamar help lead your dreams to perfect vacations. From your very first call or e-mail our ValamArtists will do everything to make your holidays unforgettable. By joining our loyalty program you will be able to get even more. Numerous benefits and special offers tailored to your holiday preferences.



VALAMAR
All you can holiday

VALAMAR COLLECTION UNIQUE HOLIDAYS

Only the best and the most beautiful luxury hotels in our portfolio make it in the Valamar Collection.

Each hotel in the Valamar Collection has a unique concept designed to please even the most demanding guests. Their discerning palates will love Mediterranean centric gourmet experiences. With specific Valamar signature programs for each hotel and premium V Level services, we develop unique destination experiences for every Valamar Collection location, delivering unique holidays to each of our guests.

- ▶ CONTEMPORARY LUXURY
- ▶ TASTE THE MEDITERRANEAN
- ▶ EXCLUSIVE V LEVEL PROGRAM
- ▶ SIGNATURE VALAMAR PROGRAMS
- ▶ AUTHENTIC DESTINATION EXPERIENCE



VALAMAR COLLECTION RESORTS INFINITY HOLIDAYS

The Valamar Collection resorts offer the most luxurious holiday package by the sea.

Each resort caters for family, couple or luxury holidays through unique experiences for your particular holiday need. Should you desire to expand the selection, a Valamar Experience Concierge has the most recent destination-specific information and can suggest plenty of options for an All You Can Holiday experience. The Valamar Collection resorts boast a wide range of top quality services and programs. Meticulously maintained beaches and swimming pools, with paved and natural beaches and sun decks are a great starting point for a vacation. Add gastronomic delights from our exclusively Mediterranean themed restaurants and bars and complete your unique holiday experiences with V-services and Valamar signature programs like the exclusive V Level programs, Maro family, Stay Fit, V Sport and Valamar Loves Bike programs.

Explore the infinite possibilities of a Valamar Collection holiday experience.

- ▶ MODERN LUXURY FOR EVERY TASTE
- ▶ PERFECT BEACHES AND POOLS
- ▶ MARO HOLIDAY
- ▶ DESIGNED FOR ADULTS
- ▶ V LEVEL SIGNATURE PROGRAMS
- ▶ VARIETY OF RESTAURANTS AND BARS
- ▶ ACTIVE AND FUN VACATION
- ▶ AUTHENTIC DESTINATION EXPERIENCE



**VALAMAR HOTELS & RESORTS
HOLIDAYS TO RETURN TO**

Whether you are looking for a family vacation spot, a romantic weekend, or some fun on the beach with friends, Valamar Hotels & Resorts make for an ideal holiday location.

Seafront locations, well-kept beaches and pools, designated areas for children or adults, the abundance of activities and water sports all come together for an enjoyable holiday experience. Everything is taken care of for you. Kids can have fun days with Maro, Adults get to relax or get active with Valamar signature programs or services.

A range of Mediterranean specialties and a choice of local wines are served daily at our restaurants and bars. There are plenty of activities to choose from at every age. Evenings are for music, shows, dancing and all kinds of fun you'd want on your perfect holiday. Valamar Hotels & Resorts deliver holiday experiences you'll return to every year.

- ▶ HOTELS AND RESORTS FOR TRUE HOLIDAYS
- ▶ PERFECT BEACHES AND POOLS
- ▶ MARO OR ADULTS HOLIDAY
- ▶ TASTE THE MEDITERRANEAN
- ▶ ACTIVE AND FUN VACATION
- ▶ AUTHENTIC DESTINATION EXPERIENCE

VALAMAR
HOTELS & RESORTS



**SUNNY BY VALAMAR
FINALLY HOLIDAYS!**

Sunny by Valamar means simple holidays at heavenly locations. Something you've waited for a long time – now is the time for holidays.

Let ValamArtists take care of you and create lasting memories with every V Service they provide.

What more could you want out of a vacation, than a relaxing, authentic experience and a perfect seaside setting.

- ▶ BEACH HOLIDAYS
- ▶ SIMPLICITY DONE WELL
- ▶ AUTHENTIC DESTINATION EXPERIENCE



CAMPING ADRIATIC BY VALAMAR HOLIDAYS IN NATURE

The Camping Adriatic by Valamar brands has a lot to offer: from camping in the pristine nature to a luxury camping holiday with premium facilities and services.

Our campsites are relaxation oases surrounded by clean sea and well-kept beaches. Enjoy the carefree atmosphere created by loving care and unique V Services provided by ValamArtists.

CAMPING ADRIATIC BY VALAMAR PREMIUM RESORTS INFINITY CAMPING

Camping Adriatic by Valamar premium resorts offers first-class outdoor experiences by the sea surrounded by Mediterranean nature.

Every premium resort offers first-row seafront pitches, spacious camping homes for families or couples and luxurious glamping tents. You choose the accommodation, then let the Valamar Experience Concierge provide perfect destination experiences and memories. Enjoy all of the family amenities, playgrounds, beaches and swimming pools. Try all kinds of gourmet experiences. Take part in Valamar signature programs like Maro kids and family, Stay Fit, V Sport. Have an All You Can holiday. Camping Adriatic by Valamar premium resorts is an infinite camping experience.

- ▶ BEST CAMPING RESORTS
- ▶ WELL THOUGHT OUT FAMILY FUN
- ▶ THEME BEACHES AND POOLS FOR EVERY OCCASION
- ▶ RICH GOURMET OFFER
- ▶ ACTIVE AND FUN VACATION
- ▶ AUTHENTIC DESTINATION EXPERIENCE

CAMPING ADRIATIC PREMIUM RESORTS
by Valamar

CAMPING ADRIATIC BY VALAMAR RESORTS MORE THAN CAMPING

Camping Adriatic by Valamar Resorts offer authentic local camping vacations of the high level of comfort, with every facility and convenience built in.

Camping with the family, taking a romantic trip, spending the vacation with a group of friends or seeking an active holiday – our camping resorts have it all. Choose from a range of camping homes, seafront or inland pitches, theme beaches and pools, fun activities for all ages – everything is set for a camping holiday at our camping resorts.

- ▶ PREMIUM SEAFRONT LOCATIONS
- ▶ RELAXING ATMOSPHERE AND SUPERB SERVICE
- ▶ FUN AND ACTIVE VACATION
- ▶ AUTHENTIC DESTINATION EXPERIENCE

CAMPING ADRIATIC RESORTS
by Valamar

CAMPING ADRIATIC
by Valamar

CAMPING ADRIATIC BY VALAMAR SUNNY PURE CAMPING

Camping Adriatic by Valamar Sunny is an essence of a seaside holiday. Enjoy the unspoiled nature, the clear sky, the clean sea and revel in the simplicity.

Enjoy a perfect camping moment: a calm atmosphere, fantastic destination experiences, beautiful, relaxing beaches and nature around you. Let ValamArtists do their magic and provide perfect service for every day of your holiday.

- ▶ HOLIDAYS IN UNSPOILT NATURE
- ▶ SIMPLICITY DONE WELL
- ▶ AUTHENTIC DESTINATION EXPERIENCE

CAMPING ADRIATIC SUNNY
by Valamar



INCREASE IN DIRECT BOOKINGS AND GUEST LOYALTY

Valamar Riviera's loyalty program aims at providing added value for returning guests, and consequently increasing revenues and direct bookings. In 2017, the share of returning guests was 24%.

In 2017, the share of direct bookings in revenues was 43%. They were made through our direct distribution systems: call center, direct web bookings, mobile platform bookings and loyalty program.

We will continue developing our loyalty program to create more added value for our clients. Simultaneously, we will develop our web pages, e-marketing and technologies to reach a 50% share of direct bookings in revenues and increase the share of loyal guests to 30% by 2020. In 2017, the share of revenues from loyal guests in the total direct booking reached 50.8% in hotels and 25.2% in campsites.



STRATEGIC PARTNERSHIPS

Valamar continually works on establishing strategic partnerships. This effort has generated an increase in the number of guests from air travel markets, a more uniform segmentation of source markets, and season prolongation.

There are two segments that we have been building in particular – the specialist segment and the tour operating segment.

- ▶ We focus our specialist partners on the existing and new products, through which we generate growth, particularly in the pre-season and post-season period. The products on which we focus our activities are cycling, tennis, gastronomy, destination-enriching events and large-scale international conferences.
- ▶ In the tour operating segment, we find additional room for growth through new investment projects and focusing our partners in individual properties, thus enabling both product and service optimization and, eventually, greater efficiency. TUI Group is the world's largest tourism company, with a chain of strong tour operators, 1,500 agencies, six airlines with more than 150 airplanes, 300 hotels with over 214,000 beds, and 14 cruise ships. More than 20 million guests use their services annually.

In cooperation with the TUI Group, in 2017 we successfully completed the implementation and first contracted season of the Family Life Bellevue Resort, boasting the most complex TUI family concept (in terms of products) in Rabac. Family Life Bellevue Resort has

already welcomed the first 16,000 new guests from air travel markets in the UK and Scandinavia and is expected to see another 60,000 guests over the next two years.

DER Touristik is a tourism division belonging to the REWE group, among the leading global tourism groups and the second largest German tourism company, which provides services to around 8 million guests every year. In 2017, we completed the first successful contracted season with our strategic partner DER Touristik at the new Valamar Girandella Resort. The new, differentiated Adults Only and Family facilities at Valamar Girandella Resort have been successfully positioned, and we have already completed the preparations for the planned continuation and expansion of our cooperation with our partner at Valamar Girandella Maro Suites, the first 5* property in Rabac with exclusive amenities for children, which is expected to open for the 2018 season.

Focusing its promotional and sales activities through this project in Istria and Rabac, DER Touristik brought another 5,850 guests. In the next two years covered by the agreement, approx. 20,000 more guests are expected to travel to Rabac.

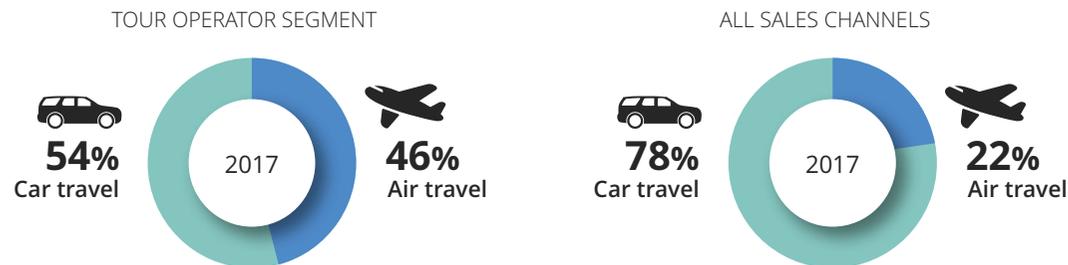
This cooperation has resulted in a major step forward in the repositioning of Rabac (from mostly 2*/3* to the prestigious 4* and 5*), as well as the introduction of new hotel concepts (TUI Family Life, Adults Only), thus improving Valamar's knowledge base, which is applicable to the entire chain of destination services.

Jetzholidays is UK's third largest tour operator and a sister company to Jet2.com, UK's fourth largest airline company. Each year, Jet2.com flies approximately 7 million passengers.

After completing the preparations for strengthening the partnership in 2017, a significant increase was reported

in terms of the number of occupied units in hotels and resorts. At destination level, Jetzholidays grew by 92% in Istria and by as much as 100% in Dubrovnik, in the period between 2013 and 2017. Due to the excellent geographical position of Istrian destinations (Poreč and Rabac) and their transport connection with the main source markets, the conventional manner of travelling to the destinations has been by car. Boosting air travel arrivals to Istria has been our strategic component through which we have opened new markets. A more intense cooperation with our strategic partners has resulted in a jump from 21% of air travel guests in 2016 to 33% in 2017 for destinations in Istria in the tour operator segment for hotels and resorts.

SHARE OF GUESTS BY MANNER OF ARRIVAL AT DESTINATION HOTELS AND RESORTS IN RABAC





NEW PROGRAMS AND OFFERINGS IN COLLABORATION WITH STRATEGIC PARTNERS AND DESTINATIONS TO PROLONG THE SEASON

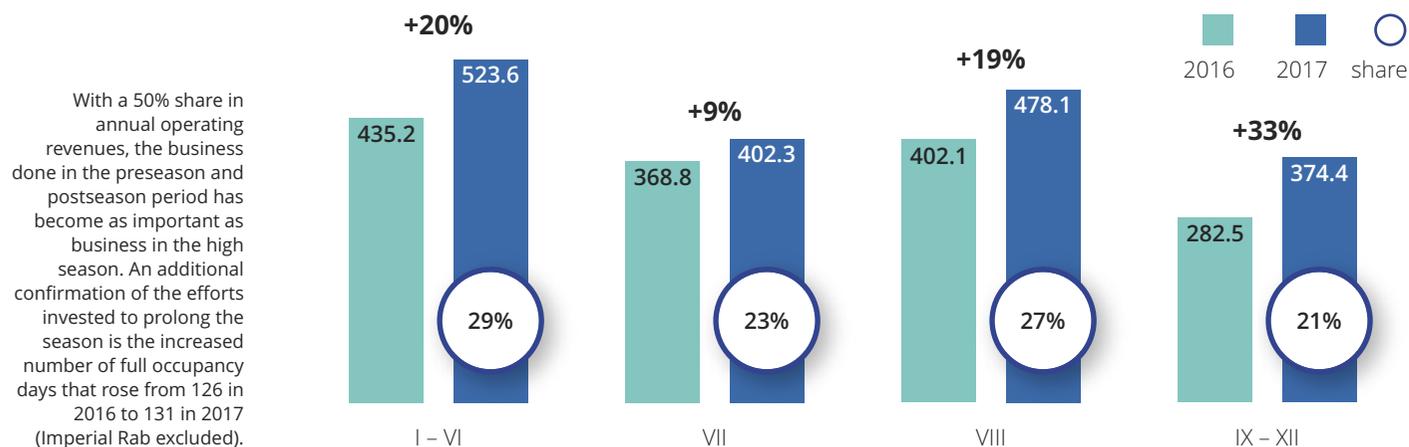
Close relations with strategic partners and destinations where Valamar Riviera operates, such as TUI and Der Touristik, JetzHolidays, tennis specialists Zischka and Wagner and ID Riva, contribute considerably to the development of the offering in destinations and season prolongation.

One of the key focuses is the expansion of strategic partnerships in order to prolong the season and attract new source markets. The 2017 event calendar that Valamar is involved in, either as organizer or sponsor, was richer than ever. The most notable events included Poreč Open Air festival with MTV Summerblast Music festival, Swatch Beach Volleyball

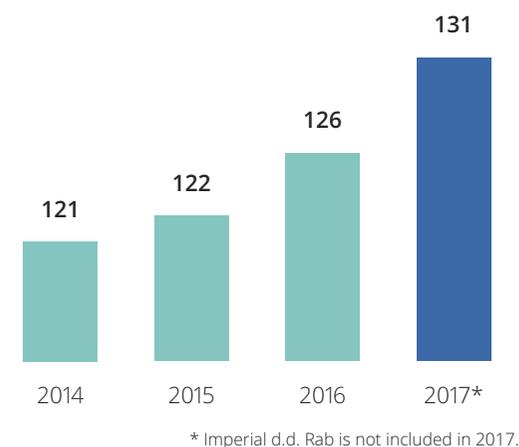
Major, Rabac Open Air festival, Summer at Valamar, Offshore World Challenge big game fishing competition with the Tunalicious Street Food festival, and the bike races Tour of Croatia and Mitas 4 Islands, among many others. Numerous events took place in either the preseason or the postseason period, which helped generate tourist arrivals in low-demand periods. The key to the events' successful realization was the synergy between towns, municipalities, tourist boards, hotel companies, catering businesses and other stakeholders of the destination tourism. Eventually, it all contributed considerably to our destinations being included among the most desirable destinations in Croatia.

Over the past years, Valamar's strategic focus has also been on the development of specific destination products and programs, particularly cycling and outdoor sports. Together with other key destination advantages and opportunities, including its gourmet offering, family-friendly amenities, and interesting trips, they constitute a number of attractive sales packages directed at specific guest segments in our key markets in the region. In 2017, special focus was put on Germany and Austria, where we carried out our promotion and realized sales through a special cooperation with tour operators and Valamar's direct channel.

2017/2016 OPERATING REVENUES (HRK mn)



FULL OCCUPANCY DAYS



OUR STRATEGIC PARTNERSHIPS

HOTELS AND RESORTS



SELECTED STRATEGIC DESTINATION EVENTS





GROWTH THROUGH ACQUISITIONS, MERGERS AND PARTNERSHIPS IN LEISURE DESTINATIONS



ACQUISITION OF HOTELI MAKARSKA d.d.

On 27 December 2017, Valamar Riviera submitted a binding offer to purchase 621,086 shares (55.48% stake) in Hoteli Makarska d.d. to the Croatian Centre for Restructuring and Sales (CERP) which announced the bid acceptance on 12 February 2018 on its website.

Valamar Riviera and Allianz ZB d.o.o., a mandatory pension fund management company, agreed on their joint activity towards Hoteli Makarska d.d. Valamar Riviera and AZ mandatory pension funds intend to make sizeable investments in the destination development of Makarska in order to improve tourism quality and target high-end guests while also creating new jobs in the interest of all the company's stakeholders and the local community. Valamar Riviera and AZ mandatory pension funds have thus continued implementing their successful investment model, through which they successfully acquired Imperial d.d. on the island of Rab back in 2016.



RESTRUCTURING HELIOS FAROS d.d.

On 20 July 2017, the Assembly of Bankruptcy Creditors of HELIOS FAROS d.d. (undergoing bankruptcy proceedings) decided to prepare a Bankruptcy Plan following the investment and recapitalization offer that had been jointly submitted on 15 May 2017 by Valamar Riviera and PBZ Croatia osiguranje d.d., a mandatory pension fund management company.

For several decades, Helios Faros d.d. was the leading tourism player on the island of Hvar but has been undergoing bankruptcy proceedings since February 2016. The company owns 2* and 3* properties with

1,465 beds at Arkada 2* and Lavanda 3* hotels, 2* apartments and Jurjevac campsite, even though 20% of the hotel capacities have been out of commercial use for some time.

The bid submitted by PBZ Croatia osiguranje d.d. and Valamar Riviera d.d. includes a restructuring plan and a five-year plan for investments in hospitality properties in the amount of HRK 650 million. The total renovation and construction of two high-end resorts containing around 700 keys would reposition Helios Faros d.d. portfolio as premium accommodation, thus turning Stari Grad into an attractive and distinctive destination.



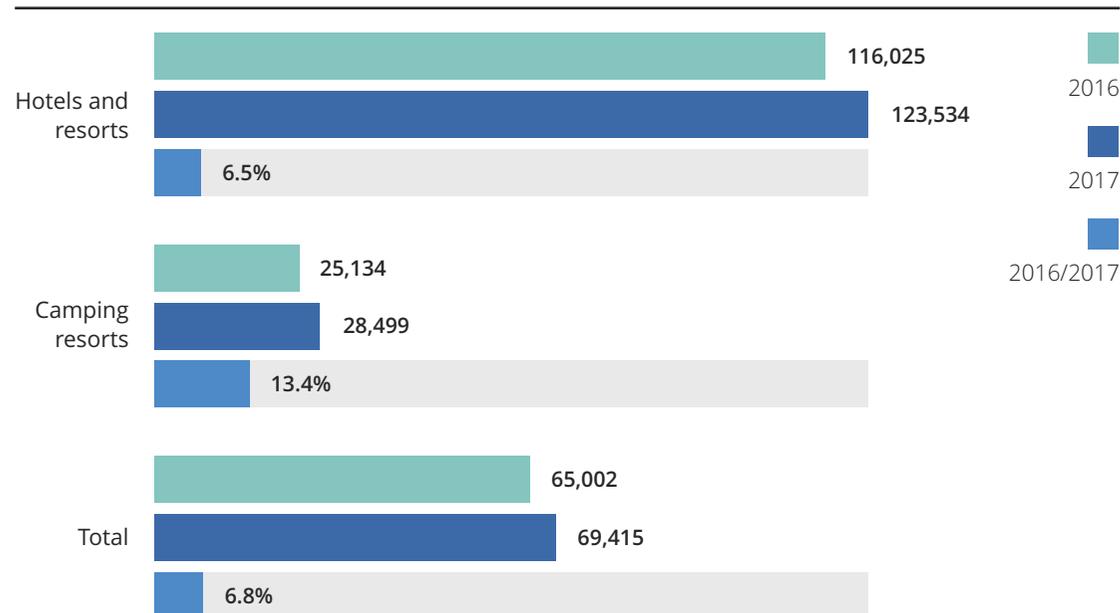
OPTIMIZATION OF PRICES, OCCUPANCY AND DISTRIBUTION TO INCREASE REVENUES

For years now, Valamar Riviera has focused on revenues. Several years ago, the company implemented the revenue management function and trained the necessary professionals.

Valamar defines excellence in revenue management as selling the right room to the right client, at the right moment, at the right price, through the

distribution channel with the best efficiency. The achieved continuous growth in revenues per available room over the last five years as well as the 6.8% increase in revenue per available room (RevPAR) in 2017 was largely the result of a 6.3% increase of the average room rate (as compared to 2016) with an efficient increase in overnights through the strategic choice of distribution channels.

REVPAR INCREASE BY PRODUCTS (HRK)





FOCUS ON OPERATING EFFICIENCY

Over the past years, significant efforts have been invested in the optimization of the cost structure and the modernization of Valamar's processes.

In 2017, we achieved the set strategic goals that included a double-digit average EBITDA growth and EBITDA margin reaching 35%. Since 2009, we have grown our EBITDA from HRK 119 million to HRK 606 million and reported a simultaneous operating

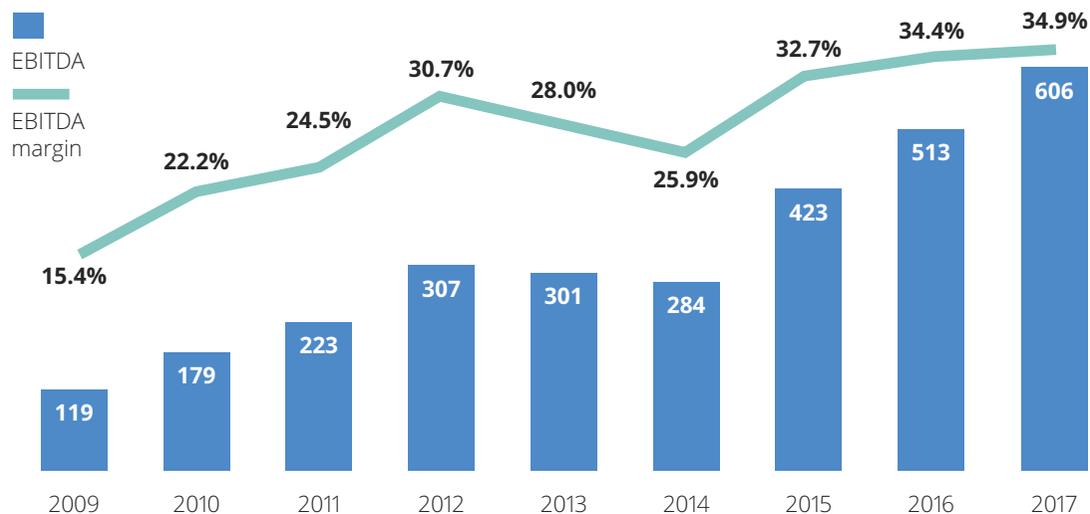
efficiency growth, as measured by the EBITDA margin going from 15.4% to 34.9% (adjusted: 35.0%).

The business model of operating a portfolio of properties at a destination helps centralize operational services such as laundry, horticulture, maintenance or energy management and increases efficiency. Furthermore, due to its size on the

Croatian market, the company is able to utilize economies of scale in its business operations and realize purchasing advantages.

A high standard of professionalism helps the company to efficiently implement the best practices across the organization. Valamar Riviera intends to continue using these advantages to reach its profitability targets.

OPERATING EFFICIENCY* (HRK, mn)



* The source of the financial data for the period until 2014 are the consolidated financial reports of Valamar grupa d.d., and for the period from 2014 onwards, the consolidated financial reports of Valamar Riviera d.d.



ACTIVE PARTICIPATION IN ASSOCIATIONS AND INSTITUTIONS TO DEVELOP AND PROMOTE TOURISM

As the leading tourism company, Valamar Riviera is an active member of a number of associations and institutions, through which it contributes to the development of destinations, standards and offering in order to develop tourism in Croatia.

Valamar considers its memberships in associations, in which it has a seat on the managing board, to be strategic, and participates in projects and various board activities, thus actively representing the interests of the profession. Valamar Riviera has its representatives in all the assemblies, tourist councils and/or supervisory boards of the various tourist boards:

- 1 Croatian National Tourist Board
- 2 Istria Tourist Board
- 3 Kvarner Tourist Board
- 4 Poreč Tourist Board
- 5 Vrsar Tourist Board
- 6 Funtana Tourist Board
- 7 Tar-Vabriga Tourist Board
- 8 Labin Tourist Board
- 9 Raša Tourist Board
- 10 Krk Tourist Board
- 11 Dubrovnik Tourist Board
- 12 Baška Tourist Board
- 13 Punat Tourist Board
- 14 Lopar Tourist Board
- 15 Rab Tourist Board

The company also has its representatives in the following associations:

- ▶ Croatian Employers' Association (HUP)
- ▶ Croatian Camping Union (KUH)
- ▶ Association of Employers in Croatian Hospitality (UPUH)
- ▶ Croatian Chamber of Economy (HGK) – including regional chambers in Pula and Dubrovnik
- ▶ Croatian Business Council for Sustainable Development (HRPSOR)
- ▶ Association of Croatian Travel Agencies (UHPA)
- ▶ Croatian Meeting Professionals Association (HUPKT)
- ▶ Alumni Association of The Faculty of Tourism and Hospitality Management
- ▶ Croatian Association of Corporate Treasurers (HUKR)
- ▶ Croatian Association of Financial Analysts (HUFA)



5.4 INNOVATION AND DIGITALIZATION

When considering the impact that our business has on our society, environment and community as a whole, we especially focus on developing innovations as one of the core guidelines for a sustainable business in tourism. As stated in one of our strategic initiatives, we want to be an innovative hotel company that leverages the opportunities provided by new technologies in order to fully meet and anticipate our guests' needs. Therefore, in 2017, we focused on the importance of the continual development of numerous innovation projects to adequately respond to the needs of our guests and the modern market.



CONTINUOUS INNOVATION GUARANTEEING A SUCCESSFUL BUSINESS IN THE LONG TERM

Constant changes in the leisure hospitality market dictate our constant alertness and awareness of new trends to maintain our position as a company that actively considers its future and modernization in the long term. Innovation in services and products is what gives Valamar a competitive edge.

We want to achieve our full innovation potential and create new ideas that are tailored to the needs of our guests and shareholders and aim at securing benefits for guests, shareholders, employees, suppliers and the community.

The innovative technologies and projects that we have already implemented at Valamar together with the numerous new ones that we are currently tailoring to our guests' and market needs, build added value in all segments of our business in the long term.

Today's guests do not want their expectations merely fulfilled but also exceeded. This can be achieved only by continually improving our products, services, processes and skills. The quality of a product in hospitality is primarily reflected in the quality of accommodation offered and shaped by innovative

products, services and solutions for guests. When creating new ideas, we focus on establishing a relationship of trust with our guests, because this is how we manage to quickly recognize what is necessary and required, but not clearly expressed.

At Valamar, we value team spirit and encourage creativity and different opinions to successfully meet the ever-growing need for innovative business solutions.

Valamar actively monitors and encourages the implementation of innovations at company level through the central project management office (PMO) that monitors and manages strategic interdepartmental projects.

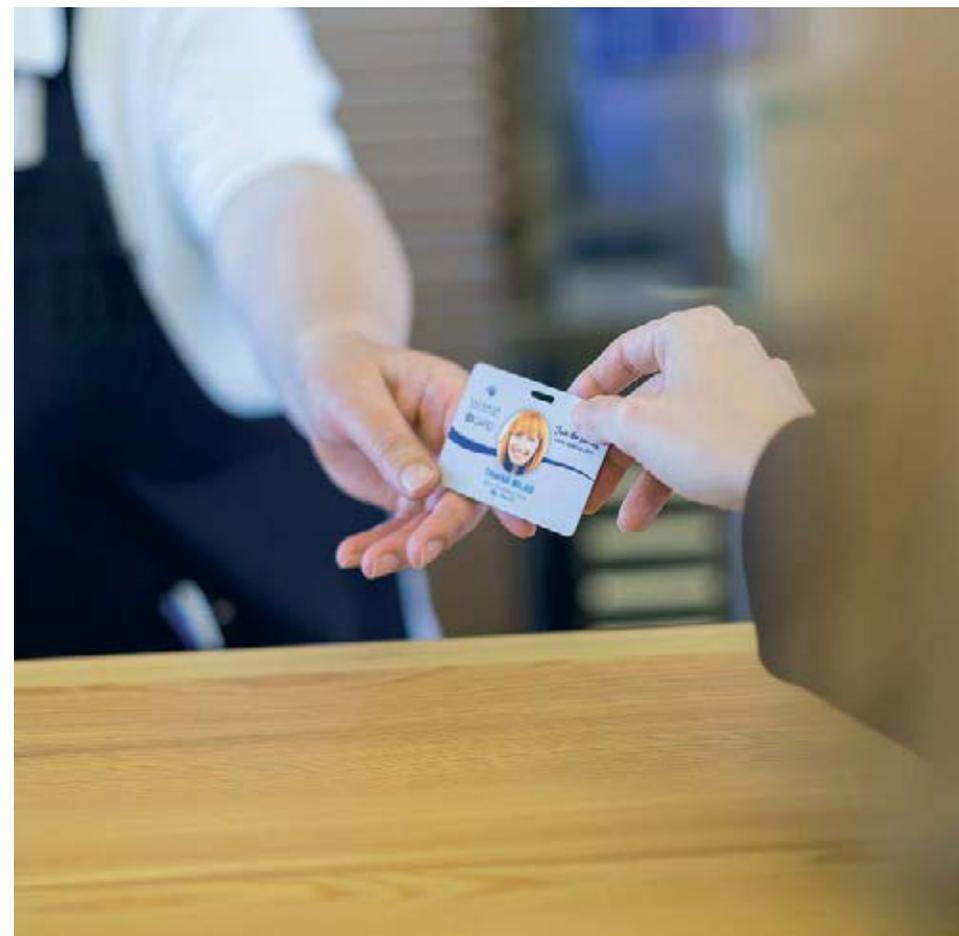
2017 saw a large number of innovation projects creating added value for all Valamar's initiatives such as the management of our own environmental impact and those related to the enriching of our destinations and the creation of unique service concepts in hospitality and care for our guests, employees and other key stakeholders.





POREČ BIKE SHARE

- ▶ Valamar invested over HRK 1 million in this modern automatic bike rental system that was realized in cooperation with the company Sustav javnih bicikala d.o.o.
- ▶ It is a unique service model that enriches destination services and enhances the quality of life as it provides a simple, fast and convenient transport form available to Poreč's residents and guests.
- ▶ The total number of bikes available at 5 points in 2017 was 70 (35 e-bikes and 35 conventional bikes).



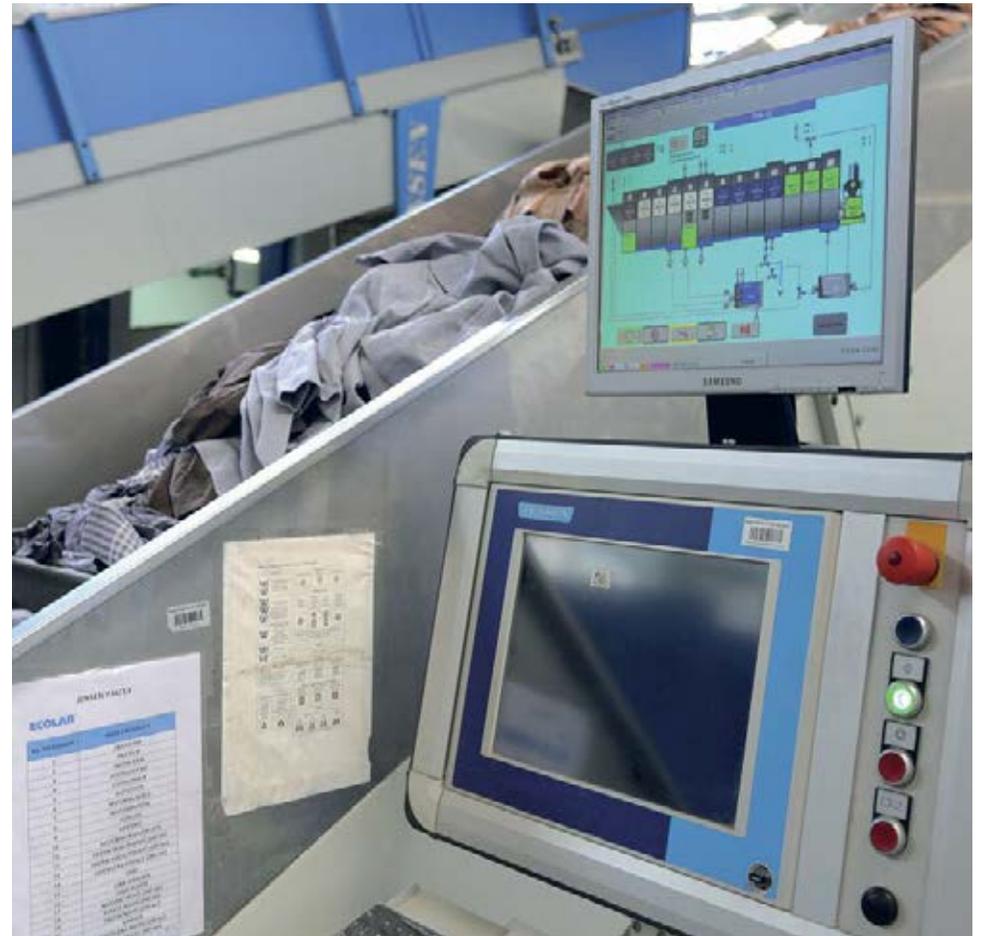
HAPPY PEOPLE

- ▶ Happy people is a project that includes the creation and implementation of ID cards for employees: a single RFID card enables the use of numerous benefits such as cashless payment, discounts for food and drinks at all Valamar destination outlets as well as simpler operating and accounting procedures
- ▶ In the second implementation phase, employees will be able to use their RFID cards for identification at properties' entrance gates and when using central printers.



PIAZZA

- ▶ A feature promoting new standards in the camping segment was introduced at Camping Resort Lanterna 4* in Poreč in 2017: Piazza is a unique and innovative concept featuring an attractive combination of restaurants, bars and shops where local producers and family farms offer a range of carefully selected products.
- ▶ Piazza is Valamar's innovative service concept that improves the camping experience of guests, but it also enables the inclusion of local products in tourism that we use to provide authentic guest experiences and contribute to the development of the local community.



MODERNIZATION OF THE CENTRAL LAUNDRY FACILITY IN POREČ

- ▶ The modernization of the facility included the introduction of top-range technology and the highest environmental standards in line with Valamar's policy of sustainable development and care for environmental protection.
- ▶ The new equipment increased the laundry capacity by 50% and improved the quality of washing.
- ▶ A transport system for the automatic collection, packing and marking of clean laundry was also introduced to automatize production and increase operating efficiency.



HAPPY DOG PREMIUM VILLAGE

- ▶ Happy Dog Premium Village is located at Camping Resort Lanterna and includes 18 mobile homes that were specially designed and equipped for pets and their owners on approx. 12,000 m² of grounds.
- ▶ This innovative concept received the Inova Camp Award 2017 from the Croatian Camping Union.



VALAMAR HOUSE

- ▶ Valamar House staff residence provides accommodation for employees in refurbished facilities and represents another step forward in Valamar's care for securing the best possible quality of life for its seasonal employees.
- ▶ In its new, modernly furnished facilities, Valamar secures lodging and board to seasonal employees coming to work at its destinations and the cost is borne by the employer.



DIGITALIZATION AT VALAMAR

The modern development of technology and digitalization produces numerous changes in the hotel industry, especially in the channels used by guests to research new destinations, the booking procedure and the travel experience. The company can respond to society's digital transformation by employing two approaches: a reactive approach includes the introduction of technologies and processes that will respond to guests' needs, while a proactive approach includes the introduction of unexpected innovations that will elevate guest experiences to a whole new level. At Valamar, we strive to meet the expectation of the modern guest in a timely and adequate way, primarily by integrating mobile technologies in hotel operation processes and through the increasingly popular digital interaction with guests while also maintaining the balance between personal contact and digital excellence.



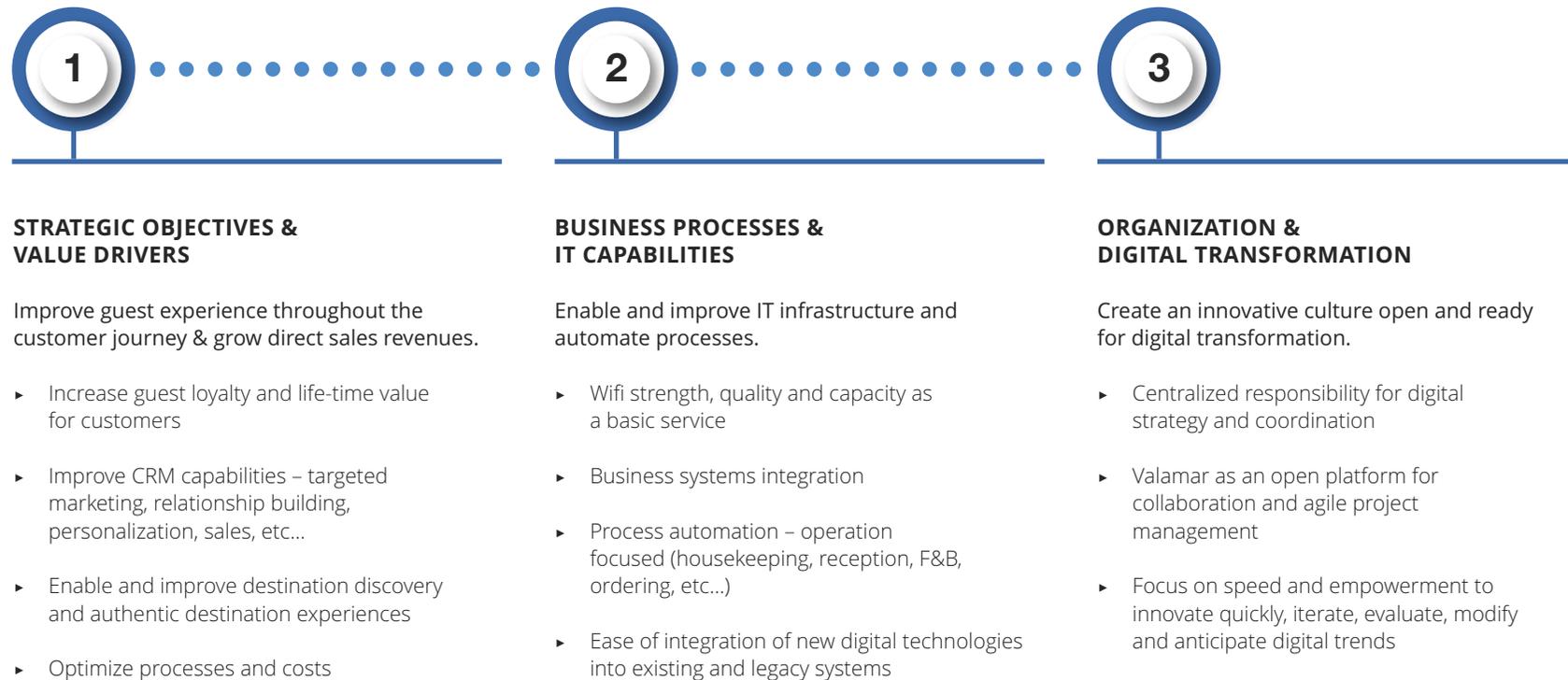
Digital times call for digital business solutions, quick information access and efficient contacts with guests. Digitalization and innovation are important at Valamar: thanks to them, we are able to be up to date with new trends, maintain our competitive edge, provide unforgettable guest experiences and be always one step ahead in meeting guests' expectations. The modern guest wants instant information access and this is what we want to provide using cutting-edge solutions. Thanks to the technology available, we are able to respond to guest inquiries in a short time and give our guests the opportunity to make independent choices and solve problems efficiently. The main framework for developing our digital projects is the focus on guest experience.

Valamar's digitalization roadmap is based on the importance of understanding what our guests need and creating unique experiences for our guests during their stay. Valamar started early with the introduction of numerous IT systems and the necessary infrastructure. All our properties are operating on Micros Fidelio Opera PMS (property management system). We continually invest in our websites and we also upgrade and personalize the digital experience of our guests during service provision. Our loyalty program and CRM databases are fully integrated with our PMS. All strategic digital projects are coordinated by the central project management organization (PMO).



OUR DIGITALIZATION ROADMAP

Valamar has identified the key strategic objectives, value drivers, business process, IT capabilities and organizational principles to guide our activities in the field of digitalization.





DIGITALIZATION PROJECTS IN 2017

There were 6 digitalization projects realized in 2017, with as many as 20 ongoing projects in 2018. The projects are either external (focused on guest experience) or internal (focused on the upgrade and digitalization of business processes).

MY VALAMAR MOBILE APPLICATION

- ▶ The aim of the project was to develop an application that will support the guest during the whole customer journey
- ▶ My Valamar app was implemented at Valamar Isabella Island Resort (June 2017), Valamar Girandella Resort and Valamar Dubrovnik President (September 2017). The implementation at ten more properties is planned by summer 2018.
- ▶ It includes numerous features such as: fast check-in, mobile key (guests can use their smartphones to unlock their room, common areas and elevators), interactive calendar of resort/destination events, live chat with the front office and concierge, overview of F&B orders (room service) etc.



PROJECT MANAGEMENT SOFTWARE

- ▶ Digitalization of the existing project management and reporting process
- ▶ The introduction of the Project Online program solution (based on the Microsoft platform and the Office 365 system and administered by the Project Management Office), the project base and related know-how became available to all users that now have a single point for researching the base of active and completed projects.
- ▶ Project Online is a solution that links and supports the Project Management Office and the Project Committee as well as all project leaders that had been previously trained to use this program solution.



UP!LIFTING MANAGEMENT – FACILITY

- ▶ It is a project that includes the digitalization of guests' comments during their stay.
- ▶ Up!Lifting Management aims at transforming all guest comments into positive guest experiences and unforgettable memories and includes all sorts of occasions such as birthdays, anniversaries, honeymoons and similar.
- ▶ Besides positive comments, the system also records guests' complaints in order to turn them into positive experiences. It can be used by department heads to monitor the course of the complaint-solving process and react in a timely manner.
- ▶ This digital system helps define priorities within operations based on guests' comments.



CASH LESS

- ▶ The aim of this project is to make payment at camping resorts easier for guests.
- ▶ The project was implemented in 2017 at Lanterna Premium Camping Resort (Aquapark). The Aquapark guests could pay for all the services via no-contact waterproof bracelets using RFID technology.
- ▶ The services covered by this option included F&B and sun loungers where guests could pay without using cash or credit cards.



*Lanterna Premium
Camping Resort by
Valamar 4*, Poreč*

5.5 DESTINATION DEVELOPMENT AND RESPONSIBILITY TO THE LOCAL COMMUNITY

We believe that a long-term sustainable development of hospitality and tourism is not possible without investing in the local community and adopting a systematic approach to environmental preservation. Corporate social responsibility guides all of Valamar Riviera's strategic initiatives. These principles represent a framework for Valamar Riviera's employee development and training, destination development, investments in the local community and care for those in need, a consistent approach to the preservation of the environment and the quality of the Adriatic Sea as well as corporate transparency and responsibility to our stakeholders, shareholders and the investment community.

The success of Valamar's hotels, resorts and campsites greatly depends on the further development of the destinations where the company operates. Thus, Valamar takes an active role in destination development through various strategic projects and long-term partnerships with local governments and public authorities, tourist boards, service and event providers, sports clubs and non-profit organizations. Consequently, Valamar is an active contributor to social development and is able to offer a more intensive and more authentic guest experience.

The value that Valamar Riviera places on social responsibility was confirmed by the "SJAJ" award for the overall visibility and distinctive presentation of socially responsible activities. The "SJAJ" Awarding Board for affirming socially responsible business and sustainability selected the ten best companies, including Valamar Riviera, as examples of good practice in this area among 203 companies included in the nationwide survey.

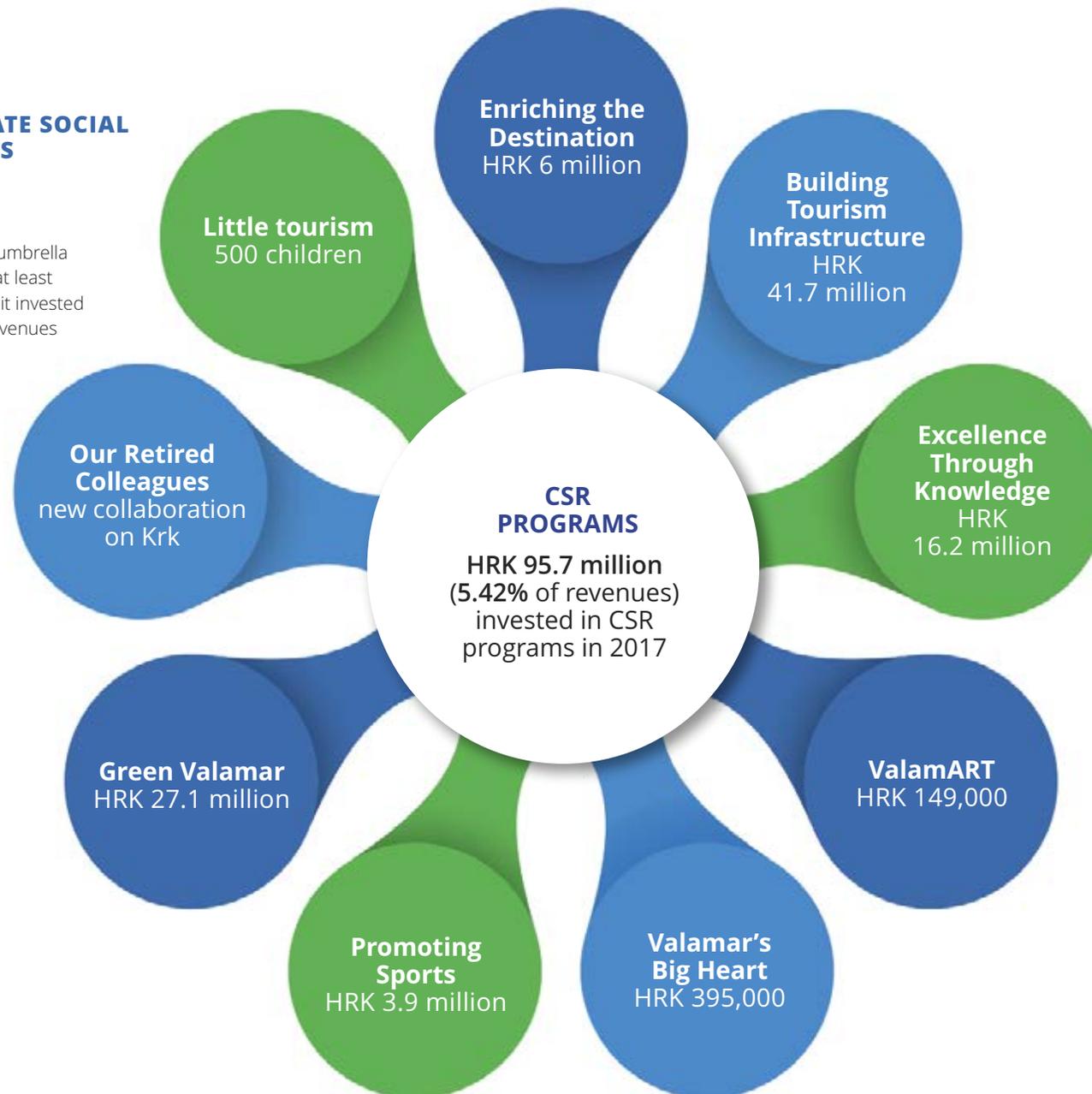


PRIDE OF CROATIA

Valamar Riviera is the first company to receive the Pride of Croatia Award, a prestigious recognition for charitable activities. The award winners are decided by public voting and Valamar Riviera was awarded for "One Thousand Days on the Adriatic Sea", a charitable project where Valamar provides free summer holidays for children without adequate parental care, children from low-income families, and children with special needs and health problems.

VALAMAR'S NINE CORPORATE SOCIAL RESPONSIBILITY PROGRAMS

Valamar Riviera has developed nine CSR umbrella programs and is committed to investing at least 2.5% of annual revenues in them. In 2017 it invested as much as 5.42% (HRK 95.7 million) of revenues or HRK 46.2 million more than in 2016.





ENRICHING THE DESTINATION

50
events

Over
630,000
guests, visitors
and participants

As Croatia's leading company in tourism, Valamar Riviera has a special responsibility to develop its destinations and act as a key stakeholder in the creation of destination events.

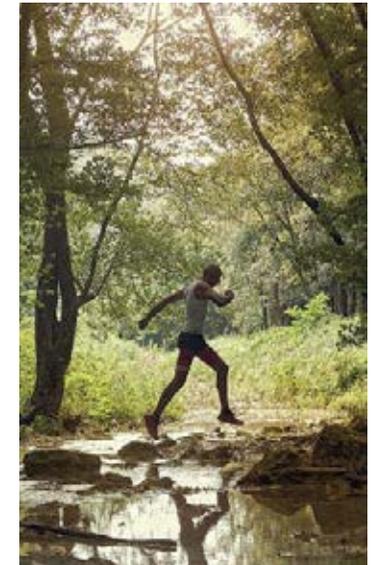
"Enriching the Destination" is a program that supports cultural, culinary, educational and entertainment events, projects and initiatives that improve the attractiveness and competitiveness of a destination, contribute to the prolongation of the tourist season, and cultivate the local communities' cultural identity and values.

More than HRK 6 million were invested in developing destination events in 2017.

Valamar continued supporting a large number of destination events in 2017, such as Offshore World Challenge, Tunalicious Street Food Festival, Wine Nights, Oktoberfest by Valamar and Poreč Dolphin in Poreč; the Rabac Carnival, the races Valamar Terra Magica and Valamar Trail, Summer at Valamar in Dubrovnik, Black Sheep Festival and Baška International Guitar Festival on Krk Island, Tilting at the Ring festival in Barban, Kvarner Shrimp Festival

in Rabac as well as numerous destination events in the Christmas/ New Year holiday period.

Destination development is one of Valamar's key strategic guidelines. Investments in enriching the destinations through the synergy of local communities and our company create new destination events and attractions. Besides supporting destination projects through partnerships, Valamar Riviera independently organizes projects that are enjoyed by numerous tourists and local residents.





*Baška,
Krk Island*



POREČ OPEN AIR AND RABAC OPEN AIR

Two large events initiated by Valamar were especially important in 2017: the second edition of Poreč Open Air Festival and the first edition of Rabac Open Air.

Poreč Open Air is the longest national festival with the most event-packed program. During the 59 program days in the period between 23 June and 16 September, the festival attracted over 60 thousand visitors from Croatia and abroad, or 20% more than in 2016. It included 20 varied entertainment programs at 16 different locations in Poreč, 130 performers and 119 events. Among others, the festival featured live music nights, film projections under the stars and theater shows. All the festival events were free for visitors.

Music events were particularly popular. The programs of Street Music and Special Events featured 135 hours of various music genres- from jazz to electronic music. The most popular event that attracted over 15,000 visitors was the two-day MTV Summerblast festival, chosen by the festival headliner Will Smith to start his long-awaited musical comeback. World Stage was also a popular program segment featuring top tribute bands (U2, Coldplay, Red Hot Chili Peppers, Queen and Bon Jovi) playing on Poreč's waterfront promenade.

The festival program has revitalized the town center of Poreč and in 2017 it expanded to include town parks and squares. The increasingly positive feedback received by Poreč Open Air confirmed again that the festival is an ideal platform to enrich a destination and improve its attractiveness. This was recognized in 2016 by the Tourist Board of Istria that awarded the prestigious Golden Goat to Poreč Open Air in the best festival category.

The festival originated from the collaboration between Valamar Riviera as event initiator and chief partner and MPG in charge of the organization. The festival was supported by our partners, the Town and Tourist Board of Poreč, as well as 14 sponsors.



POREČ OPEN AIR IN NUMBERS



130
performers



86 days
festival period



119
events



60,000
visitors



Valamar completely changed the destination profile of Rabac by opening two new resorts in June 2017. However, this investment (the largest one in Croatian tourism in the previous year) was complemented by Rabac Open Air, a festival originating from the successful Poreč Open Air formula and aimed at enriching the destination.

Following Valamar's initiative, Rabac Open Air was organized by the company MPG and supported by the Town of Labin and Labin Tourist Board as well as numerous sponsors headed by Valamar. The partnership with Labin Art Republic, another arts and culture festival, was also important for the organization of the festival and together they attracted 26 thousand visitors in 84 days. The 50 events included concerts, film projections, edutainment events for the youngest visitors, theater shows and attractive street performances.

The festival included 20 programs at 14 different locations and 183 performers, and significantly improved entertainment in Rabac, which was repositioned as one of the leading holiday destinations in Croatia after the opening of Valamar Girandella Resort and Family Life Bellevue Resort.



RABAC OPEN AIR IN NUMBERS



183
performers



84 days
festival period



50
events



26,000
visitors





SUMMER AT VALAMAR

For the first time in 2017, Valamar Riviera organized another festival similar to Poreč Open Air – Summer at Valamar in Dubrovnik.

The festival turned Babin kuk into a top entertainment destination for Dubrovnik's visitors and local residents. Summer at Valamar started in June with the Fair of Croatian Rural Products and Craft Beer Festival, organized in partnership with the Tourist Board of Dubrovnik. The visitors of the first Craft Beer festival in Dubrovnik were thrilled by the two free concerts of the famous Croatian bands Jinx and Psihomodo Pop that opened the entertainment-packed summer featuring various events and concerts that lasted until mid-September.

SUMMER AT VALAMAR IN NUMBERS



100 days
festival period



23 free
film projections



16 open-air
concerts



KEY DESTINATION EVENTS IN 2017

POREČ

4.3.	Poreč, Valamar Diamant	Poreč Trophy
9.3. – 12.3.	Poreč, Valamar Diamant	Istrian Spring
11.3. – 19.3.	Poreč, Valamar Diamant, Pical	Istrian Riviera
18.4. – 23.4.	Poreč, Valamar Tamaris	Tour of Croatia
25.4. – 28.4.	Poreč, Valamar Isabella, Valamar Diamant	Windays
28.4. – 2.5.	Poreč, Lanterna	Spring Break Collegium
6.5. – 13.5.	Poreč	Wine Nights
13.5. – 14.5.	Poreč, Lanterna	SUPER Surfers Challenge Poreč – Lanterna
24.5. – 28.5.	Poreč, Lanterna	Lighthouse Festival
25.5. – 28.5.	Poreč	Croatia Match Cup
23.6. – 21.9.	Poreč	Poreč Open Air
24.6. – 8.7.	Poreč, Lanterna	X-Jam
27.6. – 2.7.	Poreč	Beach Volleyball Major Series – Poreč Major
1.7. – 10.8.	Poreč	Artist on Vacation
25.8. – 26.8.	Poreč	MTV Summerblast
2.9.	Poreč	Poreč Dolphin
9.9. – 16.9.	Poreč	Art Colony
13.9. – 23.9.	Poreč	Offshore World Challenge & Tunalicious Street Food
22.9. – 30.9.	Poreč, Lanterna	Oktoberfest by Valamar
06.12. – 08.1.	Poreč	Advent Poreč & New Years Eve

RABAC & LABIN

20.5. – 21.5.	Labin	Labin Republic
8.6. – 31.8.	Rabac	Rabac Open Air
1.7. – 31.8.	Labin	Labin Art Republic
16.9. – 17.9.	Rabac, Valamar Sanfior	Valamar Terra Magica
30.9.	Rabac, Valamar Sanfior	Valamar Trail
21.12. – 23.12.	Labin	Christmas in Labin

PULA

31.8. – 4.9.	Puntizela, Brioni Camping	Dimensions Festival
6.9. – 11.9.	Puntizela, Brioni Camping	Outlook Festival

KRK ISLAND

18.4. – 23.4.	Baška	4 Islands
5.5. – 14.5.	Baška	Black Sheep Festival
19.5. – 21.5.	Krk	Krk Bike Story
17.8. – 20.8.	Baška	Baška International Guitar Festival
13.10. – 15.10.	Baška	Baška Outdoor Festival

RAB ISLAND

18.4. – 23.4.	Rab	4 Islands
13.6. – 17.6.	Lopar	Sand Sculpture Festival
15.6. – 18.6.	Grad Rab	Kantuni
23.6. – 25.6.	Lopar	Craft Beer Festival
20.7.	Lopar	Samba Festival
25.7. – 27.7.	Grad Rab	Rab Fair
11.8.	Lopar	Lopar Night
6.9. – 9.9.	Grad Rab	Rab Jazz Festival
1.12. – 08.1.	Grad Rab	Advent on Rab Island

DUBROVNIK

26.1. – 2.2.	Dubrovnik	Festa Dubrovnik
19.4. – 23.4.	Dubrovnik	Tomo Udovičić Memorial Water Polo Tournament
28.4. – 30.4.	Dubrovnik	Aklapela
29.4. – 30.4.	Dubrovnik	DU Motion
5.5. – 7.5.	Dubrovnik	Valamar Junior Open
1.6. – 21.6.	Dubrovnik	Sentimento Festival
8.6. – 15.9.	Dubrovnik	Summer at Valamar
24.6. – 5.7.	Dubrovnik	Midsummer Scene Festival
28.6. – 19.8.	Dubrovnik	Orsula Festival
10.7. – 25.8.	Dubrovnik	Dubrovnik Summer Festival
26.8. – 22.9.	Dubrovnik	Dubrovnik in Late Summer
19.10. – 22.10.	Dubrovnik	Good Food Festival
02.12. – 06.1.	Dubrovnik	Dubrovnik Winter Festival



BUILDING TOURISM INFRASTRUCTURE

The improvement of tourism infrastructure such as investments in beaches, access paths, walking and biking trails or playgrounds, directly contributes to the development of local communities and creates the prerequisites for a sustainable development of tourism operations in a broader social interest of all the destinations where Valamar Riviera operates.

Various tourism infrastructure projects of improvement and construction received HRK 41.7 million in investments.

The investment in two new resorts in Rabac was Valamar Riviera's largest investment in 2017, and it was accompanied by the improvement of the surrounding infrastructure. The investments resulted in 17 new restaurants and bars, 13 swimming pools with a surface area of nearly 2,500 m², Maro kids club, two entertainment centers, and numerous other facilities: wellness, indoor and outdoor fitness, bike center and other sport amenities. The investments included the improvement of beaches and promenades, and the landscape design of the whole area as well as the construction of large parking facilities.

These investments also include a new large children's playground at Valamar Girandella Resort. Last year Valamar Riviera focused especially on the opening of new, large playgrounds that were made according to the highest standards and featuring slides, swings, multifunctional climbing structures and other

equipment. The new playgrounds were inaugurated by local kindergarten groups and they can be found at several locations: Valamar Girandella Resort, Camping Resort Lanterna, Valamar Club Tamaris and "Ivo Lola Ribar" elementary school in Labin. Both local residents and guests are welcome to use the new playgrounds.

Poreč Bike Share is an automated bike rental system that was introduced in 2017. Moreover, a new feature promoting new standards in the Croatian tourism was introduced at Camping Resort Lanterna: Piazza is a unique and innovative concept featuring an attractive combination of restaurants, bars and shops where local producers and family farms offer a range of carefully selected products. Two attractive new restaurants, La Pentola and Craft Beer&Grill were opened in Borik resort. These new gourmet and entertainment centers are designed according to Valamar's distinctive style concept and top standards.



HRK 19.4 million

invested in the construction and outfitting of **children's playgrounds** and **sports grounds** in 2017



HRK 11.1 million

invested in the construction of **promenades, walking and biking trails,** and **access paths** in 2017



HRK 9.4 million

invested in **beach improvements** in 2017



*Lanterna Premium Camping
Resort by Valamar 4*, Poreč*



EXCELLENCE THROUGH KNOWLEDGE

Valamar Riviera invests in the vocational education of young people across the country. It is also the largest individual scholarship provider in Croatia's tourism and hospitality. In the school year 2016/2017 Valamar Riviera granted 217 scholarships to secondary school students mostly from the towns of Nova Gradiška and Požega. All secondary school ages were included in the scholarship program, and the number of students from the continental part and outside Valamar's destinations is traditionally higher.

A good collaboration was established with a vocational school from Nova Gradiška through the organization of a group traineeship for 20 students in Baška on Krk

Island. Furthermore, 17 students from a vocational school in Požega were included in a group traineeship organized for them in Poreč.

Moreover, Valamar hosted two international Erasmus+ projects. The first project was carried out in collaboration with a Hungarian secondary school from Kaposvár that partnered with Valamar on a cross-border mobility project that included a 9-week traineeship (work-based learning) for 45 students at Valamar. The second Erasmus+ project was carried out in collaboration with our partner school from Poreč whose guests from 5 EU countries visited Camping Resort Lanterna: 36 students and 9 teachers from Croatia, Austria, Germany, Norway, Romania and Turkey learned about work placement and career opportunities with the most desirable employer in Croatian tourism.

One segment of "Excellence Through Knowledge" is focused on the collaboration with educational institutions in order to promote the development of education, skills and knowledge. Consequently, Valamar invited numerous elementary and secondary

schools from Poreč, Dubrovnik and Krk to visit its properties. Nearly 90 eight-graders from two Labin elementary schools visited Valamar's hotels and learned about working in this dynamic sector. The Valamar Lacroma Dubrovnik welcomed a group of eight-graders from Lapad elementary school and senior year students from a vocational school in Dubrovnik. The senior year students of Dubrovnik's gymnasium had the opportunity to learn about career opportunities in hospitality while visiting the Valamar Dubrovnik President.

Furthermore, Valamar Riviera continued its cooperation with another foundation, "Znanje na djelu -Stiftung Wissen am Werk". Together they collaborated on a project called "Finding my opportunity-jobs in tourism and hospitality", aimed at familiarizing secondary school students with the possibilities of career development in tourism and hospitality. As part of this project, 45 secondary school students of vocational schools from Požega, Nova Gradiška and Osijek visited Valamar and had the opportunity to participate in specialized workshops.



HRK 12.6 million

invested in 2017 in the training and development of employees, including the **Valamar Academy** program



HRK 2.9 million

invested in 2017 in the promotion of vocations, scholarships and cooperation with educational institutions





VALAMART

In 2017 Valamar Riviera continued to support the creativity of Croatian and international artists, as well as numerous cultural initiatives and projects that have yielded numerous works of art. Valamar supported projects in arts and culture as well as attractive cultural events with HRK 149,000 in 2017.

The company continued supporting the Artist on Vacation project, which was set up for the fifth consecutive year with collector Marinko Sudac and the Institute for the Research of the Avant-Garde. Valamar's hotels hosted well-known avant-garde artists, and the project included exclusive exhibitions presenting some of the most important figures in European avant-garde art.

The conceptual artist Radomir Damjanović Damnjan, whose works are included in the collections of world-renowned museums such as

Pompidou Center, New York's MoMA and Guggenheim, as well as Vienna's MUMOK, held an exhibition at the Zuccato gallery in Poreč in June 2017.

Furthermore, for the 35th consecutive year, Valamar hosted the international Art Colony with the participation of six famous artists from Austria, France, Spain, Slovenia and Croatia. Among them was the Austrian artist Renate Krammer who is a member of numerous cultural projects and initiatives, such as the Museum Frauen Circus and Kunstverein Kärnten as well as Rafa López, professor at the Academy of Applied Arts in Seville and winner of numerous awards. The Art Colony in Poreč was started in 1983, and in the last 18 years the artistic director was Đanino Božić. The works that artists produced during their stay have become part of Valamar's collection. One part of the collection is used to elevate the interior at Valamar

hotels while simultaneously presenting one part of the contemporary artistic expression to our guests. In the second part of the Art Colony, the works of the participants are displayed during a group exhibition and presented in the exhibition catalogue. More than 200 artists have participated in the Art Colony thus far.

We also continued our cooperation with Poreč Open University and donated to support a large number of associations and institutions, such as Labin Art Republic.

In Dubrovnik, Valamar Riviera has established a good collaboration with a large number of events in culture, including the Dubrovnik Symphony Orchestra that is responsible for most of Dubrovnik's music events. Through this partnership Valamar supported the International music festival "Dubrovnik in Late Summer" that promotes Dubrovnik as a cultural destination throughout the year.

Valamar Riviera recognized early the cultural and social importance of "Sentimento", an international education and rehabilitation festival held in Dubrovnik that promotes the social integration and rehabilitation through music for persons with special needs.

Valamar Riviera is also a partner of the Dubrovnik Summer Festival, a cultural institution with the longest standing tradition in Croatia that, like Valamar's predecessor Rivijera Poreč, was established in the 1950s.



Art Colony

224 artists hosted so far

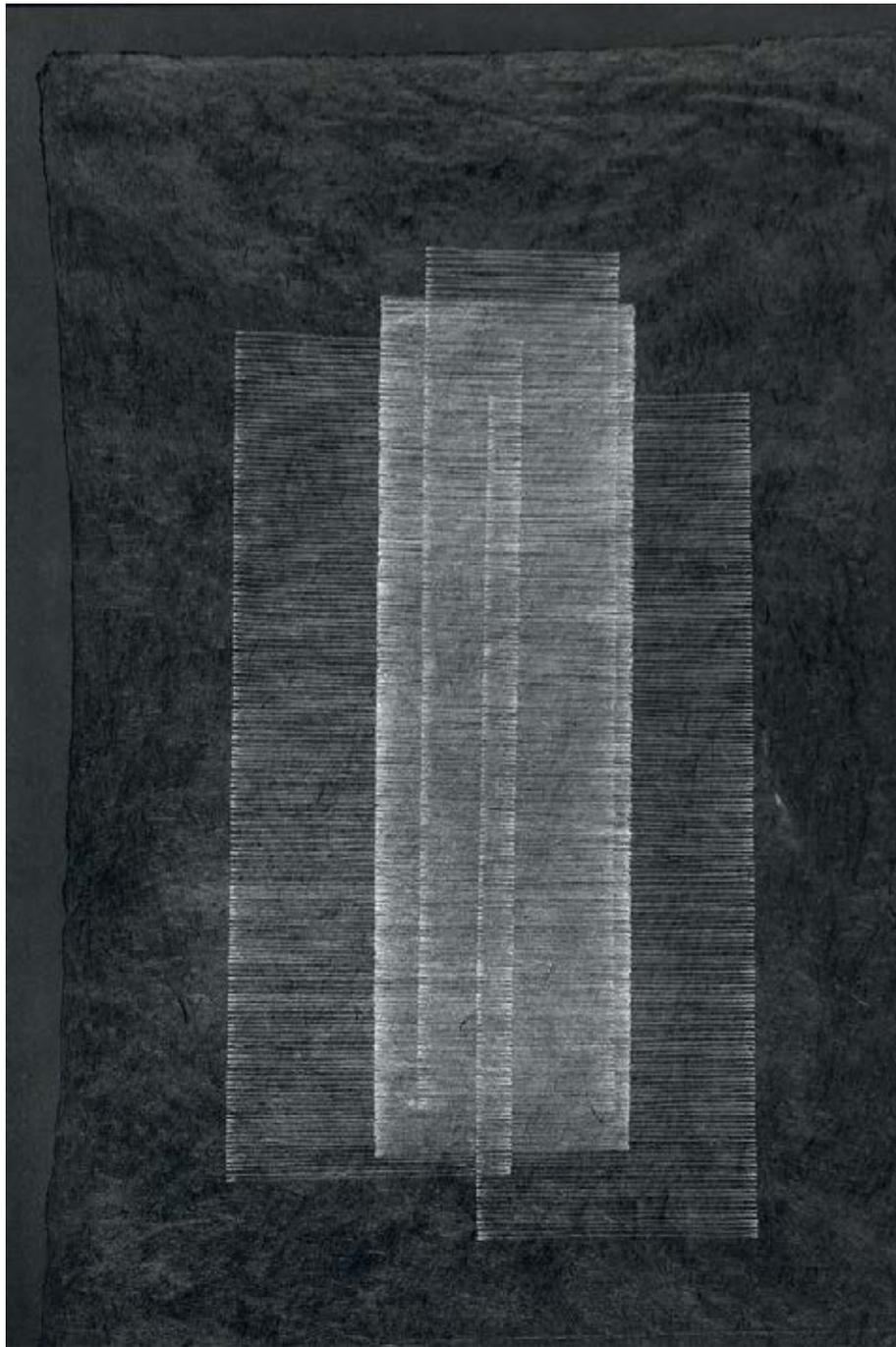


Artist on Vacation

65 artists hosted so far









PROMOTING SPORTS

Valamar Riviera directly organizes or sponsors a number of sports events that contribute to the development of its destination and the promotion of sports and active living. The company invested HRK 3.9 million in 2017 in sports events, with most of them taking place during the shoulder season. These events have boosted guest arrivals outside the main season for all Valamar's destinations.

The company is particularly focused on cycling, and was partner to a number of cycling events in Poreč and Rabac: Tour of Croatia, SportAktiv cycling camp, Croatian Cycling Forum and Valamar Terra Magica. It also supported two events on Krk Island: 4Islands MTB stage race and Krk Bike Story.

The world-famous stage race Tour of Croatia is one the biggest annual events in Croatia that attracts a large number of participants and great media attention. The race's fifth, penultimate stage started in Poreč in front of the Valamar Riviera Hotel. At the same time, the SPORTaktiv cycling camp was organized in partnership with the SPORTaktiv magazine, and the event's central venue was the Valamar Crystal Hotel.

Krk Bike Story, a three-day event that combined cycling and gastronomy for recreational cyclists, was also hosted by Valamar's properties. 4Islands MTB stage race is an attractive four-day event where participants crossed a 270 km trail located 5,000 m above sea level across four islands. Valamar Terra Magica attracted around 200 MTB thrill-seeking cyclists that competed on trails located near Rabac and Labin, while visitors could also enjoy watching exciting tricks at the MTB Trial show next to Valamar Girandella Resort.

Valamar Trail, another exciting race that took place in Rabac, attracted more than 600 participants. Top and recreational trail racers competed on two trails that were 52km and 13 km long. Valamar Trail in 2017 was also the host of the national trail running competition.

Valamar was also the partner of two sailing competitions – Croatia Match Cup and Offshore World Challenge in big game fishing in Poreč. Moreover, the Valamar Diamant Hotel hosted the members of 12 clubs from six countries that participated in two competitions – "Memorijal Darko Pupovac" handball tournament and "2nd Winter Cup" indoor football tournament. Besides supporting large sports events, Valamar Riviera also supported a large number of sports clubs in the local communities where it operates.

As part of the newly-opened Valamar Girandella Resort, Bike Center Rabac is a top cycling destination for professional and recreational cyclists and active families, where cyclists can find everything they need: Bike Skills park with training track, four single trails and two flow loop trails of various difficulty levels. Skills Park total trail length is 5 km and admission is free. The center features a bike shop and offers a wide range of services: rental, repair, transfer, storage and bike wash as well as cycling trips and tours for beginners and advanced cyclists. The investment in Bike Center Rabac is part of Valamar's destination strategy that focuses on cyclotourism and there are seven specialized bike-friendly hotels in Valamar's portfolio providing top standards and services to cyclists.







GREEN VALAMAR

This program includes energy efficiency projects and various environmental protection initiatives in the context of everyday operations as well as awareness-raising activities among guests, employees and the local community that stress the importance of preserving the Adriatic coast and sea.



Overall, HRK 27.1 million were invested in 2017 in projects included in this program. HRK 9.9 million were invested in energy efficiency projects and the ongoing purchase of electric vehicles.

We love the Adriatic Sea, a donation program that supports the active involvement of the local community in coastal and seabed cleanups, was carried out for the fourth consecutive year. The largest coast and seabed cleanup activities involved the Rabac association for underwater activities, Dubrovnik Diving club, Horizont Sailing Club from Poreč, Mladi Rudar Handball Club from Labin, and Funtana-Vrsar Volleyball Club.

Green Valamar also supports the destinations' voluntary firefighting units, where a number of our employees is also actively involved. The Labin-Rabac unit received a donation from Valamar Riviera for new equipment, while the Baška unit received a donation supporting the purchase of a new vehicle. Valamar Riviera also organized an educational visit for the children of Matija Vlačić elementary school

from Rabac (first to fourth grade) who were invited to meet the brave Labin-Rabac firefighters and learn about firefighting equipment and how firefighters prepare for interventions.

One of the most interesting projects is certainly Poreč Bike Share, the most advanced hotel system for bike rental in Croatia. It is located in front of the Valamar Riviera Hotel in Poreč and it represents a unique service model for both guests and residents, enabling the fastest and most convenient form of transport that also reduces the emission of harmful gases, noise pollution, congestions and parking problems. Cycling fans in Poreč can use 35 electric and 35 mechanical bikes at five stations where you can simply borrow a bike and return it afterwards.



HRK 27.1 million

total investment in Green Valamar in 2017



HRK 9.9 million

2017 investments in energy efficiency



HRK 11.2 million

2017 investments in horticulture



HRK 4.4 million

2017 investments in electric vehicles





OUR RETIRED COLLEAGUES

This program fosters long-term relations with retired employees, primarily as a gesture of gratitude for their years of service, but also with the intent to include former colleagues and exchange experiences that could contribute to Valamar's growth and development.

Valamar's pensioners were given the opportunity to participate in the Olympic games for pensioners in Poreč. We also continued our collaboration with the retired employees through their association Galija Poreč. Valamar supported the establishment of a pensioners' association on Krk Island that will gather the retired employees of today's Valamar Riviera and the former companies Zlatni otok d.d. and Hoteli Baška d.d.



**More than 100
retired colleagues**

involved in evening events,
excursions and similar



LITTLE TOURISM

This program is focused on organizing educational visits of local children during which they learn about hospitality in an age-appropriate and entertaining way. Children meet with staff members and learn about their jobs, responsibilities and places where they work. This program has been carried out for the second consecutive year.

During these educational visits, in 2017 we welcomed over 500 children who visited Valamar's hotels, resorts and campsites in Poreč, Rabac, Krk Island and Dubrovnik. Usually the staff members welcome the young guests and show them around and afterwards the children play at a Maro club. The visit ends with lunch and a present from the Valamar team.

Valamar also welcomed the children who participated in the summer camp organized by "Naša djeca" (an educational association from Poreč that also includes special needs children in their programs) and invited them to spend a day at Valamar Isabella Island Resort.

Last year Valamar Riviera opened several new playgrounds outfitted according to the highest standards and invited the children from local kindergartens to inaugurate the new investments. Both local residents and guest are welcome to use the new playgrounds. Moreover, Valamar Riviera supported a project through which the preschoolers of Dubrovnik's kindergarten "Palčica" learned about the importance of environmental preservation in a fun and creative way by making pencil cases and posters with recycled items.



More than 500 children
visited Valamar in 2017





VALAMAR'S BIG HEART

Valamar's Big Heart is a framework for the continual support of associations and valuable initiatives in the local community intended to help the most vulnerable social groups. Valamar carries out its own charity projects and also supports numerous other associations in the local community aimed at helping those in need. This program provided HRK 395,000 that were distributed through donations in 2017.

Valamar Riviera's most prominent charity project is "A Thousand Days on the Adriatic Sea". Through this initiative, Valamar provides free summer holidays for children without adequate parental care, children from low-income families, and children with special needs and health problems that would benefit from spending time at the seaside. Thirty-four associations nationwide applied in 2017 and Valamar Riviera wanted to include as many children as possible. Therefore, all the applicants were granted a certain number of days for their stay within the one thousand overnights with half board or full board included. Over the past four years, Valamar has donated a total of 4,000 free room and board overnights and more than 1,500 children and their accompanying carers from all parts of Croatia spend their summer holidays at Valamar. For most children, this was their first encounter with the sea, and their first summer holiday ever. The wider public recognized the value of this program and at the beginning of 2017, Valamar Riviera received the prestigious Pride of Croatia Award for this particular initiative where the award winners are elected by public choice for their charitable activities.

As part of a long standing collaboration, Valamar Riviera also supported the Liče Faraguna Center in Labin, an educational institution caring for special needs children. The Center received a HRK 40,000 donation in November 2017 to improve their teaching process and resources. The new IT equipment facilitated interactive learning and the teaching and therapeutic resources were adjusted to the children's needs. Most of the donation was covered by the Valamar's Big Heart fundraiser. Furthermore, last year Valamar's donation helped the Center in outfitting the playground with exercising equipment for children in wheelchairs. The children from Liče Faraguna Center also visited Camping Marina in Rabac.

Valamar Riviera supported a large number of institutions and associations such as the Association of Disabled Persons Poreč, Valsanta Charity Association Tar and INPROMO, an association from Labin that employs disabled persons and produces textile items for home and professional use. Valamar's donation helped INPROMO buy new equipment and secure the necessary training. Valamar also supported a number of health institutions at its destinations with donations to improve working conditions and the quality of life.



More than 1,500 children

have spent their summer holidays at Valamar in the past four years, with over 300 of them in 2017 only

For the second consecutive year, we organized the Valamar's Big Heart fundraiser, during which donation boxes were placed at reception desks at every hotel, resort and campsite, and we involved our guests and employees to participate in the fundraiser. The goal of the fundraiser is to direct the collected funds to the most vulnerable groups in the community.



5.6 COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY

Environmental awareness has become a principal factor in tourism as studies show that a growing number of tourists choose accommodation oriented towards environmental protection. Even the studies carried out by Valamar show that most of our guests notice and support an environmentally-friendly approach. As the leading tourism company in Croatia, Valamar Riviera has a special responsibility to systematically apply rigorous standards in environmental protection, a key resource in tourism.

Valamar Riviera is oriented towards achieving sustainability goals, i.e. a balance between economic progress, care for the environment in the broadest sense of the word, and social involvement in the local community. Regulatory compliance is just the first precondition; however, the green business that Valamar Riviera is aiming for implies a much wider, comprehensive and integral approach to environmental protection. This applies particularly to the prevention of pollution as the fundamental approach to managing environmental aspects, the rational use of resources, waste reduction and proper

waste disposal, and training staff to handle any potential incidents, as well as the implementation and certification of management systems. In this way, every aspect of environmental protection is approached proactively and comprehensively.

Valamar Riviera's properties have implemented the ISO 14001 Environmental Management System, ISO 9001 Quality Management System and ISO 50001 Energy Management System, as well as the Food Safety Management System (HACCP) based on Codex Alimentarius.



KEY ACHIEVEMENTS IN ENVIRONMENTAL PROTECTION AND SUSTAINABLE TOURISM

Valamar Riviera's 2017 achievements in the field of environmental protection and sustainable tourism are numerous.

- ▶ 100% of the properties within Valamar Riviera and Imperial Rab have introduced and are using the certified energy management system according to ISO 50001.
- ▶ 100% of electricity for Valamar Riviera's properties is secured from renewable sources; it is provided by the power company HEP's certified hydroelectric power plants as part of the ZelEn project. With the implementation of ZelEn and other energy management measures, 2017 saw a decrease of 0.23% per overnight in both direct and indirect greenhouse gas (GHG) emissions (Scope 1 and 2).
- ▶ In 2017, Valamar Riviera opened nine EV charging stations, following an investment of HRK 290,000. With that, the total number of the EV charging stations went up to eleven.
- ▶ The company is gradually switching to electric vehicles for the internal transportation of guests and goods in order to reduce the use of diesel fuel and other fossil fuels and decrease GHG emissions. The goal is to reduce the use of fossil-fueled cars in internal transportation as much as possible.
- ▶ The company continues to invest in the purchase of electric vehicles. In 2017, 32 new

electric vehicles, 16 electric scooters and 8 electric carts, worth HRK 3.65 million in total, were purchased. The total number of electric cars, scooters and carts is now 98.

- ▶ In 2017, as many as 20 Valamar Riviera hotels received or extended their Travelife Gold Award certificates, an international certification system promoting sustainability in the tourism sector.
- ▶ Eight of our hotels have received a special recognition for sustainability in the hotel industry,

the Sustainable Hotel Certificate: Hotel & Casa Valamar Sanfior 4*, Valamar Koralj 3*, Valamar Dubrovnik President 5*, Valamar Zagreb 4*, TUI Family Life Bellevue Resort 4*, Hotel Padova 4*, Hotel Carolina 4* and Grand Hotel Imperial 4*.

- ▶ Fourteen of our beaches hold the Blue Flag certification, an international symbol of quality for preserved environment, clean water and beaches, well-managed beaches and high-quality services.





- ▶ For the fourth consecutive year, we have successfully implemented the We Love the Adriatic Sea project as part of the Green Valamar umbrella program. In 2017, the focus was on cleaning up beaches and the seabed, in cooperation with a number of associations and locals; nearly HRK 80,000 were invested in the project.
- ▶ In 2017, the photovoltaic cells of the power plant located inside the Atrium Hotel in Baška generated around 33,658 kWh of electricity.
- ▶ We have completed the pilot project of building a photovoltaic power plant that will be used exclusively for the purposes of the Valamar Riviera HQ building in Poreč. The plan is to intensify investments in our own plants to convert solar energy into electrical energy.
- ▶ Over the past six years we have been working tirelessly on installing solar panels or photovoltaic cells; so far, 2,520 panels (around 5,040 m²) have been installed.
- ▶ Campsite Krk has a constructed wetland, which treats and recycles wastewater, and uses it for horticultural irrigation.
- ▶ As measured by keys, in 2017, 100% of the properties within Valamar Riviera and Imperial Rab had a certified energy management system according to ISO 50001; 100% of premium and upscale facilities within Imperial Rab had certified environmental management systems according to ISO 14001; while 75% of keys at hotels and resorts had the Travelife certificate, thus confirming the company's intention to conduct a sustainable management, in accordance with the highest international standards.



MODERNIZATION OF THE CENTRAL LAUNDRY FACILITY IN POREČ

By investing HRK 11 million in the complete renovation of the central laundry facility in Poreč, Valamar Riviera increased the facility's capacity by 50%, at the same time improving its efficiency and quality and applying the highest environmental protection standards.

Both sustainability and environmental protection are the basic propositions of Valamar's central laundry facility's operations. Apart from the ISO 9001 Quality Management System and the ISO 14001 Environmental Management System, the laundry facility has also implemented the ISO 50001 Energy Management System. It also boasts the latest washing technology and new generation of eco-friendly washing detergents. With earlier investments in 2016, a water treatment system worth HRK 3.5 million was installed at the facility, and for five years now, the laundry has been relying on gas as an eco-friendly energy source.

The facility does the laundry for Valamar's properties in Poreč and Rabac, as well as on the islands of Krk and Rab, and as much as 50% of its services are rendered to outside clients. Furthermore, its services are used by many major hotel companies, including Maistra, Laguna Novigrad, Jadran Crikvenica, Grand Hotel Adriatic Opatija, Njivice Hotel, Maslinica Hotel and, as of recently, Pula General Hospital.

The investments also enabled the installation of a new tunnel washer with a capacity of 2 tons of laundry per hour, as well as a new energy-efficient ironing line for larger pieces of laundry and a towel folding machine. To achieve production automatization and increase operating efficiency, a transport system for the automatic collecting, packaging and labeling of clean laundry has been installed as well. After the purifier was installed in Poreč, the discharge of wastewater into the sewer system was reduced by 75%, while the reuse of treated wastewater in the washing process resulted in a 36% water saving.



Water consumption before purifier installation (l/kg)	7.2
Water consumption after purifier installation (l/kg)	4.6
Water saving	36%
Total saving after purifier installation	HRK 318,000
Gas consumption before change in washing technology (m³/kg)	0.148
Gas consumption after change in washing technology (m³/kg)	0.140
Gas saving	5%
Total saving after change in washing technology	HRK 290,000
Reduction in the discharge of wastewater into the sewer system after purifier installation	75%

- ▶ Reduced load on the sewer system.
- ▶ The released water is processed and can be discharged into the sewer system.



6 million kilograms
 The laundry facility processes around six million kilograms of laundry a year using the most advanced technologies



PROTECTION OF THE SEA AND THE ENVIRONMENT



Valamar has always considered its environmental impact with long term in mind. As a result, the company applies the highest environmental protection standards in its management and investment practices, with the aim of maintaining a sustainable business.

The CSR umbrella program called Green Valamar includes environmental protection initiatives and projects which Valamar has been systematically working on.

Special attention is devoted to the GHG emission reduction, water consumption reduction, waste generation reduction, recycling, wastewater treatment and reuse for irrigation and in laundries, improvement of solar energy use, and purchase of environmentally friendly materials, particularly in relation to the company's key investments; educating guests, employees and local population about the importance of preserving the Adriatic Sea and the coast as well as the organization of beach and seabed cleanups.

In 2017, Valamar Riviera maintained its leading position in reducing GHG emissions. Its contribution to the fight against global warming comes mainly from the continued use of ZelEn, i.e. by contracting green electrical energy supply for the second year in a row. Furthermore, Valamar Riviera continues its activities related to the introduction of renewable energy sources.

2017 GREENHOUSE GAS EMISSIONS REPORT

In 2017, **Valamar Riviera** continued reporting lower direct and indirect Scope 1 and 2 CO₂ emissions, which started in earnest in 2016 with the introduction of ZelEn (use of electricity exclusively from renewable sources, and by gradually eliminating heating oil as an energy source and installing heat pumps).

In 2017, **Imperial Rab** reported an increase in direct and indirect Scope 1 and 2 CO₂ emissions compared

to 2016, reflecting the 2016 vs 2015 emissions situation. In 2018, Imperial Rab will use electricity from renewable sources, joining Valamar Riviera in the fight against global warming.

Due to the fact that in 2017 we revised the factors in the calculation of GHG emissions for electricity, we applied the same factors retroactively to earlier years to make the data comparable.

VALAMAR RIVIERA: GREENHOUSE GAS EMISSIONS IN 2015/2016/2017-COMPARISON

	(t)	kg/overnight	Change vs. previous year	
			(t)	kg/overnight
2015	20,333	4.29		
2016	6,516	1.27	↓ 67.96%	↓ 70.46%
2017	6,514	1.24	↓ 0.02%	↓ 2.40%

VALAMAR RIVIERA AND IMPERIAL RAB (CONSOLIDATED DATA): GREENHOUSE GAS EMISSIONS IN 2015/2016/2017-COMPARISON

	(t)	kg/overnight	Change vs. previous year	
			(t)	kg/overnight
2015	22,402	4.137		
2016	8,737	1.500	↓ 61.00%	↓ 63.74%
2017	8,960	1.497	↑ 2.55%	↓ 0.23%

RAISING ENVIRONMENTAL AWARENESS AMONG EMPLOYEES AND GUESTS

Valamar has been involving both its employees and its guests in various environmental protection projects.

The employees are regularly educated on how to behave and what to do to preserve the environment. There are notices for both employees

and guests in several key places across the facilities reminding them how they can contribute to environmental protection – from different ways to save water and energy, to ways to reduce chemical use and waste generation, and properly dispose of waste for the purpose of recycling.





ENERGY EFFICIENCY

As regards energy efficiency, the company is focused on reducing the consumption of fossil fuels (heating oil in particular), drinking water and electrical energy. In 2017, a total of HRK 9.9 million were invested in energy efficiency projects, and the planned savings in energy costs amount to HRK 1.1 million a year.

Valamar's initial investments in green technologies were made back in the 1980s: the company invested in the early thermal solar collectors at its campsites. Nowadays, there are around 2,520 thermal solar collectors across Valamar's properties, covering an area of 5,040 m².

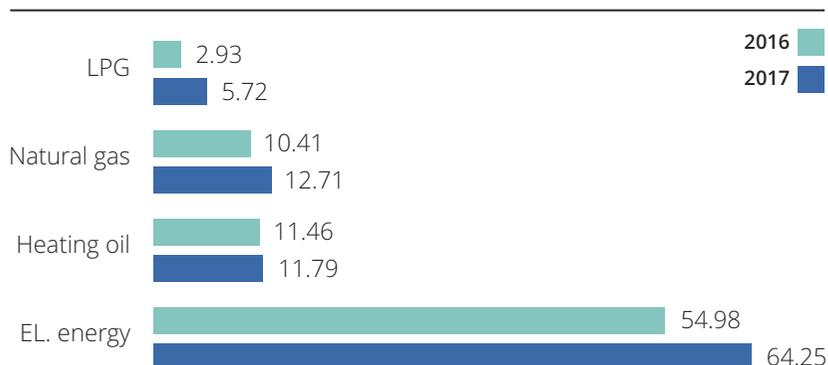
The environmental protection aspect is especially evident in Valamar's investment projects: the

company installs energy-saving appliances and replaces conventional light fixtures with highly efficient lighting solutions (LED lights), while solar energy and heat pumps are used to heat water in campsites and resorts.

Valamar also carries out regular energy audits with the aim of increasing energy efficiency. There is a number of applied measures for saving energy and water, and the most significant ones are as follows:

- ▶ we continually work on the implementation of systems for monitoring the consumption of electrical energy and water, as well as systems for managing the peak-load engaged electric power, and management systems for energy plants and lighting
- ▶ in line with planned investments, we are gradually introducing a system at our properties that enables better electricity consumption management (intelligent room)
- ▶ the company has adopted the Purchasing policy, according to which sustainability must be considered when purchasing goods and services for our operations
- ▶ we are continually working on centralizing the management of irrigation systems to optimize water use
- ▶ we are continually working on reducing the consumption of fossil fuels by using renewable energy sources (heat pumps, thermal solar collectors, photovoltaic collectors, biomass)

CONSUMPTION OF ENERGY PRODUCTS – COMPARISON BETWEEN 2016 and 2017 (GWh)



CONSUMPTION OF ENERGY PRODUCTS IN 2017*

	Consumption in unit of measurement	kWh	GWh	kWh/overnight
Electricity (kWh)	64,252,478	64,252,478	64.25	10.41
Heating oil (l)	1,178,797	11,787,966	11.78	1.91
Motor fuel (l)	299,538	2,965,429	2.97	0.48
Natural gas (kWh)	12,713,001	12,713,001	12.71	2.06
Propane butane (kg)	447,233	5,724,582	5.72	0.93
Total		97,443,456	97.44	15.79

* The increase in 2017 consumption was due to the acquisition of new properties that are included in 2017 results.

1 ENERGY CONSUMPTION, AS SHOWN BY THE FOLLOWING ITEMS:

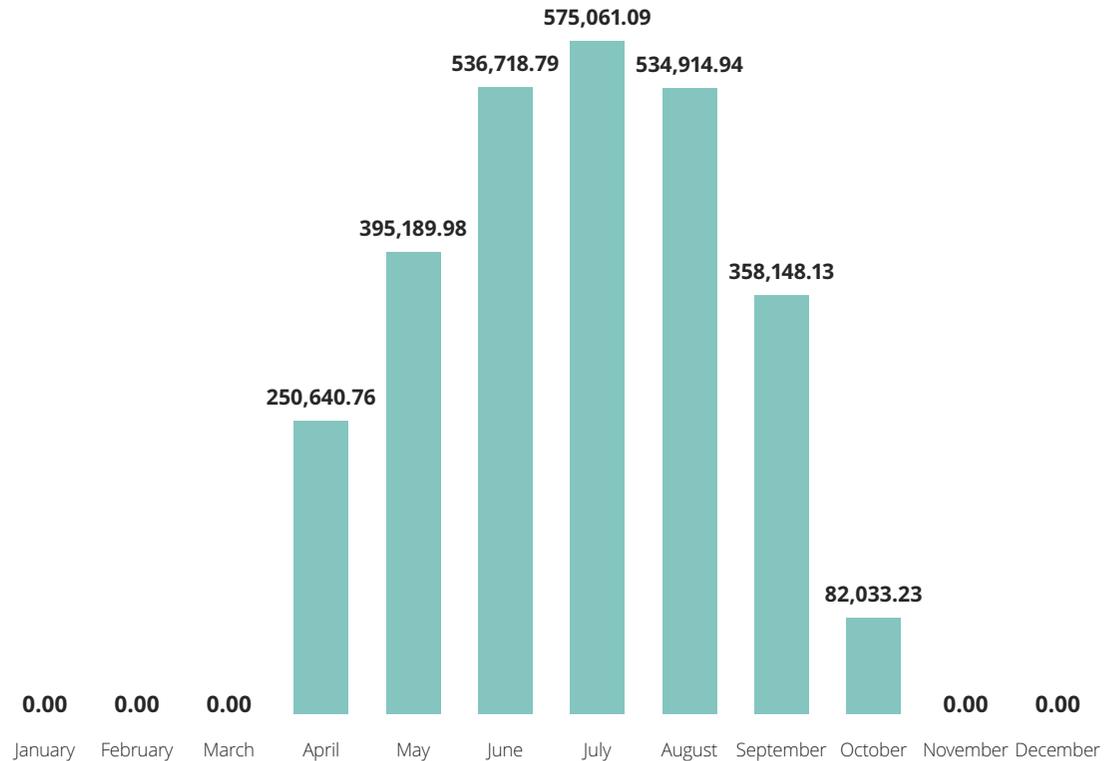
- a) **Total consumption of energy from unrenewable sources:**
In 2017, out of the total of 97,443,456 kWh of energy spent, 38,159,162 kWh came from non-renewable sources
- b) **Total consumption of energy from renewable sources:**
59,284,293 kWh (all electricity used by Valamar Riviera's properties comes from renewable sources)
- c) **Total consumption of electrical energy:**
64.252.478 kWh
- d) **Total consumption of energy in joules or their derived units:**
350,796,440 MJ

2 ENERGY INTENSITY, AS SHOWN BY THE FOLLOWING ITEMS:

- a) **energy intensity ratio (sum of all energy in kWh/overnight):**
15.79 kWh/overnight
- b) **types of energy included in the ratio:**
electricity, heating oil, motor fuel, natural gas and propane-butane

ENERGY SENT INTO THE SYSTEM FROM QSOL SOLAR COLLECTORS IN 2017 (kWh)

In 2017, more than 2,520 solar panels generated around 2.8 GWh of energy, which is the annual consumption of Sanfior PC and around 3% of the total energy consumption at the level of Valamar Riviera. In 2017, there were around 380 solar panels replaced or reinstalled (70 new ones, the rest are replacements), with a total area of 760 m².





WATER RECYCLING IN 2017

Total water consumption (m ³)	1,644,104
Amount of recycled water for irrigation (m ³)	3,109
Amount of recycled water – Poreč Laundry Facility (m ³)	25,391
% of used recycled water (out of total consumption)	1.73%

GROUNDWATER AND WATER FROM LOCAL OR OTHER WATER SUPPLY SYSTEMS

Groundwater supply system (m ³)	20,734
Local or other water supply systems (m ³)	1,623,370

WATER DISCHARGE

Public sewage system (m ³)	1,420,937
Sea (m ³)	58,757
Discharge of water to surrounding terrain (m ³)	8,436

- ▶ The total volume of wastewater is based on an estimate of delivered water, minus the percentage used for irrigation and watering of sports fields. There are no wastewater flow meters. Wastewater is tested 2-4 times a year for every profit center; tests are carried out by authorized laboratories (public health institutes). Before being discharged, all wastewater is treated: mechanically (FOG separators – all the hotels and campsites), biologically and mechanically (Poreč laundry facility) and biologically (Krk and Škrila campsites, Carolina and Eva resorts on the peninsula of Suha Punta on Rab Island).

WATER CONSUMPTION – COMPARISON BETWEEN 2016 AND 2017 (m³/overnight)



- * The specific water consumption increase is based on the increased consumption at the reconstructed facilities of Valamar Girandella Resort and Family Life Bellevue Resort.

WASTE MANAGEMENT

The company has adopted policies on quality and sustainable business operations, dedicating special attention to the reduction in waste generation and its adequate disposal.

TOTAL WEIGHT OF HAZARDOUS, NON-HAZARDOUS AND MIXED MUNICIPAL WASTE (t)*

	2016	2017 ¹
NON-HAZARDOUS		
Paper and cardboard	459	598
Glass	211	285
Plastic	160	255
Wood	478	469
Biodegradable waste	625	1,533
Used cooking oil	20	32
FOG separator waste	712	758
Metals	35	14
Bulky waste	139	306
Other non-hazardous waste	45	6
Non-hazardous waste total	2,884	4,256
HAZARDOUS WASTE		
Asbestos	-	22
Electrical and electronic waste	7	6
Contaminated packaging	5	9
Other hazardous waste	8	2
Hazardous waste total	19	39
MIXED MUNICIPAL WASTE	4,292²	5,117
TOTAL WASTE GENERATED	7,195	9,412

- * The total waste generated in 2016 was 7,195 t and in 2017 it was 9,412. The increase is the result of the introduced separate collection of biodegradable waste, disposal of mixed municipal waste from the construction sites of Valamar Girandella Resort and Family Life Bellevue Resort and increase in the number of overnights in 2017.

¹ The waste generated by Imperial Rab is included in 2017.

² In relation to the previously published 2016 values, quantities were modified due to a change in the method of calculation.

FOCUS IN THE FORTHCOMING PERIOD

Valamar Riviera plans to directly invest more than HRK 300,000 in energy efficiency projects during a three-year period.

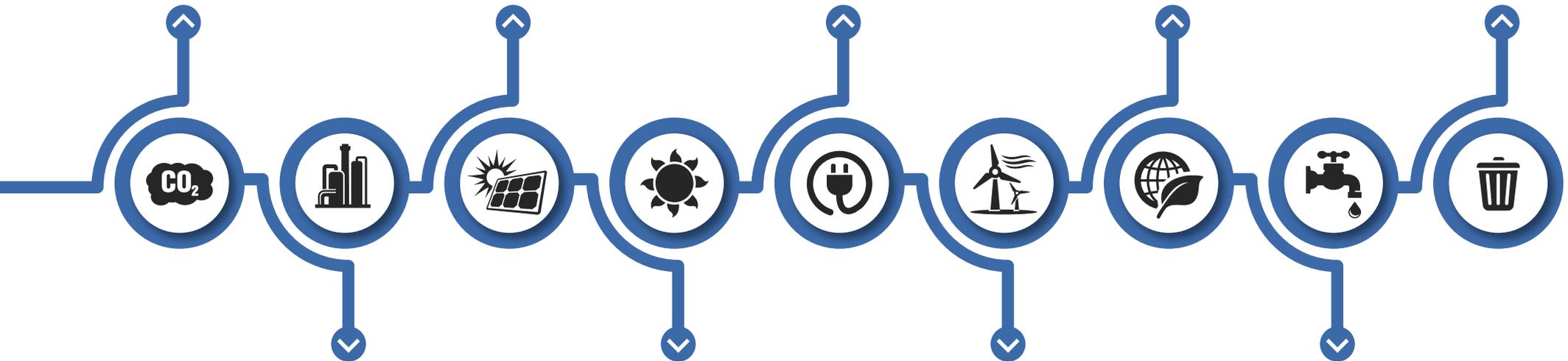
Continued work on projects aimed at reducing GHG emissions, drinking water consumption, waste generation, and at increasing recycling

In 2017, as part of a pilot project, a photovoltaic power plant for the headquarters of Valamar Riviera in Poreč was put into operation; the plan is to intensify investments in our own plants to convert solar energy into electrical energy

Reduction of the use of fossil-fueled cars for internal transportation

Improvement of communication towards guest, employees and the local community to raise awareness about environmental protection

Focus on increasing the selection of recyclable waste in order to reduce the quantity of mixed municipal waste



The goal is to reduce the heating oil consumption to under 5% of the total kilowatt-hours consumption over the course of five years by installing heat pumps, and in the long run, fully replace heating oil with environmentally friendly energy products

Investments in thermal solar collectors are planned to continue

Continued and significant increase in the share of consumed energy from renewable sources

Continued optimization of water consumption focusing on the usage of treated water in the technological process

6 INVESTOR RELATIONS

Quality and high transparency in business and financial communication with investors are at the core of our investor relations in promoting Valamar Riviera as the leading Croatian share and one of the leading tourism shares in the Mediterranean. In this way, we actively support liquidity, share value growth and the involvement of investors who can contribute to the further growth of Valamar Riviera's value for all stakeholders.

We strive to contribute directly to increasing the transparency of Valamar Riviera's business 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 as well as comprehensive, 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 Valamar Riviera's management, portfolio and shareholders' structure in October 2014, we created the leading share on the Croatian capital market, offering considerable exposure to the growing tourism sector.

On 17 November 2014, the General Assembly of Valamar Riviera decided to list Valamar Riviera's shares on the Official Market of the Zagreb Stock Exchange. The first day of trading was 17 December 2014.

The admission to the demanding official listing of the Zagreb Stock Exchange and increased transparency in business communication were aimed at attracting institutional investors who, until then, had limited access to the growing Croatian tourism sector. This approach was well grounded as

evidenced by the growing investors' interest (foreign investors in particular).

As Croatia's leading share and company with about 22 thousand shareholders, Valamar Riviera organized its second Investors Day on 8 June 2017. Management Board President Željko Kukurin and Management Board Member Marko Čižmek presented an update on the business operations, development and strategy to create new value for Valamar Riviera.

2017 Investors Day attracted nearly 40 funds, banks, analytics and brokerage firms, insurance companies and private investors. A tour of the two new resorts, Valamar Girandola Resort 4* & 5* and Bellevue Family Life Resort 4*, was organized for all the participants.

*Krk Premium
Camping Resort by
Valamar 5*, Krk*



In the period from 1 January 2017 to 31 December 2017, the highest recorded share price on the regulated market was HRK 48.60, while the lowest was HRK 34.68. In the reporting period, the Valamar Riviera share price increased by 24.6%, exceeding both CROBEX and CROBEX 10 indices trends, which fell by 7.5%, and 7.0%, respectively. With a regular trading turnover of HRK 1.3 million a day and free float of over 50%, Valamar Riviera's share is the most

liquid share on the Zagreb Stock Exchange. It is also among the top six shares by market capitalization. The recent HRK 5.2 billion market capitalization accounts for nearly 4% of the total market capitalization of shares traded on the Zagreb Stock Exchange. In addition to the Zagreb Stock Exchange indices, the share is also listed in the Vienna Stock Exchange indices (CROX and SETX) and SEE Link regional platform indices (SEELinX and SEELinX EWI).

Zagrebačka banka d.d. and Interkapital vrijednosni papiri d.o.o. are responsible for market making in ordinary Valamar Riviera shares listed on the Official Market of the Zagreb Stock Exchange. They provide support to Valamar Riviera's share turnover, which in the period under review was on average 23.6%.

PERFORMANCE OF VALAMAR RIVIERA'S SHARE, CROBEX AND CROBEX 10 INDICES



* Indexed according to the average share price for RIVP as at 2 Jan 2017.

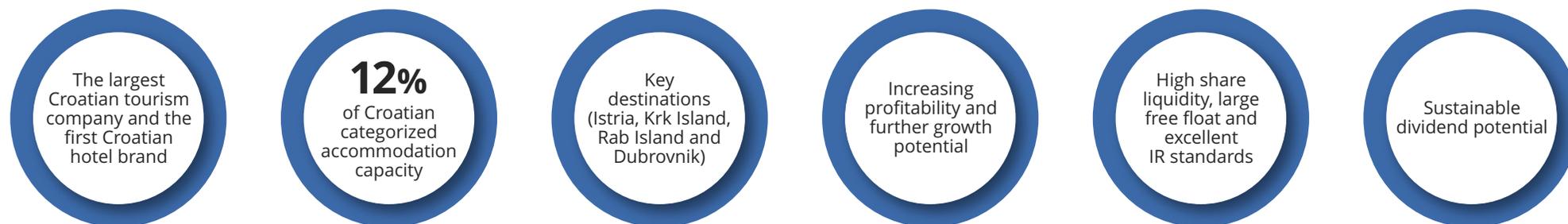
Valamar Riviera's share is the most monitored Croatian share by financial analysts. Analysts specify a target value for shares based on their assessments of future performance by applying various financial models such as discounted cash flow, peer group approach, precedents, etc. The key prerequisite for a good assessment of future performance is high transparency and the quality of business communication by the management.

Valamar Riviera's analyst coverage is provided by:

- 1) Alta invest d.d., Ljubljana
- 2) ERSTE bank d.d., Zagreb
- 3) Fima vrijednosnice bank d.o.o., Varaždin
- 4) Interkapital vrijednosni papiri d.o.o., Zagreb
- 5) Raiffeisenbank Austria d.d., Zagreb
- 6) UniCredit Group – Zagrebačka banka d.d., Zagreb.

INVESTMENT PROPOSITION

VALAMAR RIVIERA



CROATIAN TOURISM



AWARDS IN 2017

- ▶ Share of the Year by public choice for the sixth consecutive time
- ▶ Top Turnover Share Award given by the Zagreb Stock Exchange
- ▶ First place award for Best Investor Relations in Croatia given by "Poslovni dnevnik" and the Zagreb Stock Exchange

MEETINGS WITH INVESTORS IN 2017

More than 80 meetings were held in 2017 that included meetings held at US financial centers, the London Stock Exchange, the Zagreb and Ljubljana Stock Exchange conference, Wood&Co brokerage firm conferences in Bucharest, Belgrade and Prague, Auerbach Grayson in New York and Erste Group conference in Stegersbach.

Meeting locations:

- | | |
|------------------------|--------------------------|
| ▶ Zagreb, Croatia | ▶ Ljubljana, Slovenia |
| ▶ Poreč, Croatia | ▶ New York, USA |
| ▶ Rabac, Croatia | ▶ Miami, USA |
| ▶ London, UK | ▶ Chicago, USA |
| ▶ Stegersbach, Austria | ▶ Boston, USA |
| ▶ Belgrade, Serbia | ▶ Bucharest, Romania |
| ▶ Vienna, Austria | ▶ Prague, Czech Republic |
| ▶ Frankfurt, Germany | |

COMMUNICATION WITH SHAREHOLDERS AND THE INVESTMENT COMMUNITY IN 2017

Shareholders' General Assembly

Road shows and meetings with investors and shareholders

Investor Relations

Investors Day

Corporate website for shareholders and investors

Timely disclosure of information and materially significant facts

Participation in congresses, forums and investor events





*Valamar Collection
Girandella Resort
4*/5*, Rabac*

7 AWARDS AND RECOGNITIONS

Valamar's clearly defined mission, vision, strategy and investments to improve services and products as Croatia's leading company in tourism and hospitality were recognized by numerous awards in 2017.

Valamar's long-standing global success has been ensured by continual investments in destinations and properties, the improvement of existing and development of new and innovative concepts and features available to all guests and local communities. Valamar also invests in and cares for its employees. These efforts are recognized both by professionals and guests that each year award numerous recognitions and the highest possible ratings to Valamar hotels, resorts and camping resorts and no destination is left out.

Valamar was again among the most luxurious hotels in the world in 2017 after receiving several

Luxury Hotel Awards, the coveted accolades in the hotel industry that are awarded to the world's best hotels. The fact that not only professionals, but also guests can vote for hotels make these recognitions even more relevant, with 300,000 people voting in 2017.

Valamar's recognitions also include the World Travel Awards, regarded as the pinnacle of achievement for hotels worldwide and hailed as the Oscars of the travel industry by the Wall Street Journal. They confirm the top status of Valamar hotels in Croatia that operate according to the best standards in hospitality.

Valamar hotels are among the best 25 hotels in Croatia according to the users of Tripadvisor, the largest travel website in the world, and are now the proud holders of the 2017 Travelers' Choice Award for Hotels. Valamar Riviera is the only company in Croatian tourism to have four hotels included in this prestigious selection. Among 13 Croatian hotels, as many as four Valamar hotels received the best guest reviews accompanied by the "Loved by Guests" award. Moreover, Valamar camping resorts received special recognition by two leading European motoring clubs, the German ADAC and the Dutch ANWB – ADAC SUPER Platz and ANWB TOP 2017.

*Ježevac Premium
Camping Resort by
Valamar 4*, Krk*





2017 INTERNATIONAL AWARDS AND RECOGNITIONS

ANWB	ANWB Top 2017	Lanterna Premium Camping Resort by Valamar, Krk Premium Camping Resort by Valamar, Solaris Camping Resort by Valamar
ADAC	ADAC Superplatz 2017	Lanterna Premium Camping Resort by Valamar, Krk Premium Camping Resort by Valamar
Euromoney	Developer	Valamar Riviera d.d.
Travelife	Travelife GOLD Award	18 properties
TUI	TUI Environmental Champion 2017	Valamar Collection Dubrovnik President Hotel, Valamar Lacroma Dubrovnik Hotel, Valamar Koralj Hotel, Valamar Tamaris Resort, Valamar Sanfior Hotel & Casa
	Best wi-fi	TUI Family Life Bellevue Resort
	Best TUI Family Life hotel	TUI Family Life Bellevue Resort
	Best practice in TUI standards implementation	TUI Family Life Bellevue Resort
HolidayCheck	Recommended	Valamar Sanfior Hotel & Casa, Valamar Argosy Hotel
World Travel Awards	Croatia's Leading Business Hotel	Valamar Lacroma Dubrovnik Hotel
	Croatia's Leading Hotel	Valamar Lacroma Dubrovnik Hotel
	Croatia's Leading Resort	Valamar Collection Girandella Resort
	Croatia's Leading Boutique Hotel	Valamar Riviera Hotel & Suites
Hotels.com	Loved by guest 2017	Valamar Argosy Hotel, Valamar Sanfior Hotel & Casa, Valamar Collection Dubrovnik President Hotel, Valamar Lacroma Dubrovnik Hotel
Camping2be.com	Camping2be 2017 Award	Lanterna Premium Camping Resort by Valamar
Trip Advisor	Certificate of Excellence 2017	18 hotels
	Top 25 hotels in Croatia	Valamar Collection Isabella Island Resort, Valamar Riviera Hotel & Suites, Valamar Collection Dubrovnik President Hotel
IHAC	IHAC Award	Valamar Argosy Hotel, Tirena Sunny Hotel
World Luxury Hotel Awards	Luxury Beach Resort	Valamar Collection Dubrovnik President Hotel
	Luxury Romantic Hotel	Valamar Collection Dubrovnik President Hotel
	Luxury Island Resort	Valamar Collection Isabella Island Resort
	Luxury Collection Group 2017, Luxury Management Group 2017, Luxury Brand 2017	Valamar Hotels & Resorts
avtokamp.si	Large Istrian campsites, Croatian campsites with best mobile homes, Large Kvarner campsites	Lanterna Premium Camping Resort by Valamar, Ježevac Premium Camping Resort by Valamar
Leading Campings of Europe	Leading Campings of Europe	Lanterna Premium Camping Resort by Valamar, Krk Premium Camping Resort by Valamar
Greenovation	Green Mark	Lanterna Premium Camping Resort by Valamar
Village for all – V4A	International Quality Brand Hospitality for All	Zablaće Camping Resort by Valamar, Solaris Camping Resort by Valamar

2017 NATIONAL AWARDS AND RECOGNITIONS

Croatian Camping Union	Croatia's Best Campsite	Krk Premium Camping Resort by Valamar, Lanterna Premium Camping Resort by Valamar, Ježevac Premium Camping Resort by Valamar, Marina Camping Resort by Valamar, Bunculuka Camping Resort by Valamar, San Marino Camping Resort by Valamar, Zablaće Camping Resort by Valamar, Padova Camping Resort by Valamar, Orsera Camping Resort by Valamar, Solaris Camping Resort by Valamar, Istra Camping Resort by Valamar
	Village for All	Zablaće Camping Resort by Valamar and Solaris Camping Resort
	INOVACAMP 2016	Happy Dog Premium Village (Lanterna Premium Camping Resort by Valamar)
Association of Employers in Croatian Hospitality	Sustainable Hotel	Valamar Sanfior Hotel & Casa, Valamar Collection Dubrovnik President Hotel, Valamar Koralj Hotel, Valamar Zagreb Hotel, TUI Family Life Bellevue Resort
Dobra Hrvatska	Sjaj (Glow Award)	Valamar Riviera d.d.
Zagreb Stock Exchange & "Poslovni dnevnik"	Best Investor Relations	Valamar Riviera d.d.
Zagreb Stock Exchange	Share of the Year	Valamar Riviera d.d.
	Top Turnover Share	Valamar Riviera d.d.
Istrian Tourist Board	Zlatna koza (Golden Goat Award)	Željko Kukurin
"Večernji list" and "Poslovni dnevnik"	Businessperson of the Year	Željko Kukurin
Croatian Chamber of Economy	Best Campsite in Croatia	Lanterna Premium Camping Resort by Valamar
	Hotel Innovation of the Year	Valamar Collection Girandella Resort
	Best Congress Hotel	Valamar Lacroma Dubrovnik Hotel
	Best 4-star Hotel	Valamar Diamant Hotel & Residence
	Best family hotel	Valamar Collection Isabella Island Resort (1 st place), Valamar Tamaris Resort (3 rd place)
Croatian Chamber of Economy-County Chamber in Pula	Zlatna kuna (Golden Kuna Award)	Valamar Riviera d.d.
Kvarner Tourist Board	50th anniversary	Imperial d.d.



2017 CERTIFICATES AND STANDARDS

HACCP	Codex Alimentarius	Valamar Diamant Hotel & Residence, Valamar Crystal Hotel, Rubin Sunny Hotel, COOEE Pinia Hotel & Pinia Sunny Residence, Pical Sunny Hotel, Valamar Riviera Hotel & Suites, Valamar Tamaris Resort, Solaris Camping Resort by Valamar, Valamar Sanfior Hotel & Casa, Valamar Collection Girandella Resort, TUI Family Life Bellevue Resort, Valamar Koralj Hotel, Valamar Lacroma Dubrovnik Hotel, Valamar Collection Dubrovnik President Hotel, Valamar Zagreb Hotel, Valamar Collection Isabella Island Resort
ISO	ISO 14001	Valamar Diamant Hotel & Residence, Valamar Crystal Hotel, Rubin Sunny Hotel by Valamar, COOEE Pinia Hotel by Valamar & Pinia Sunny Residence by Valamar, Valamar Tamaris Resort, Valamar Riviera Hotel & Suites, Solaris Camping Resort by Valamar, Lanterna Premium Camping Resort by Valamar, Istra Camping Resort by Valamar, Orsera Camping Resort by Valamar, Valamar Sanfior Hotel & Casa, TUI Family Life Bellevue Resort, Valamar Koralj Hotel, Krk Premium Camping Resort by Valamar, Ježevac Premium Camping Resort by Valamar, Valamar Lacroma Dubrovnik Hotel, Valamar Collection Dubrovnik President Hotel, Solitudo Sunny Camping by Valamar, Valamar Zagreb Hotel, Valamar Argosy Hotel, Valamar Collection Isabella Island Resort, Marina Camping Resort by Valamar, Tirena Sunny Hotel by Valamar, Valamar Club Dubrovnik Hotel, Laundry Facility-North, Laundry Facility-South
	ISO 9001	Valamar Diamant Hotel & Residence, Valamar Crystal Hotel, Rubin Sunny Hotel by Valamar, COOEE Pinia Hotel by Valamar, Pinia Sunny Residence by Valamar, Valamar Tamaris Resort, Valamar Riviera Hotel & Suites, Valamar Sanfior Hotel & Casa, TUI Family Life Bellevue Resort, Allegro Sunny Hotel by Valamar, Miramar Sunny Hotel by Valamar, Valamar Koralj Hotel, Valamar Zagreb Hotel, Valamar Argosy Hotel, Valamar Lacroma Dubrovnik Hotel, Valamar Collection Dubrovnik President Hotel, Valamar Collection Isabella Island Resort, Marina Camping Resort by Valamar, Tirena Sunny Hotel by Valamar, Valamar Club Dubrovnik Hotel, Laundry Facility-North, Laundry Facility-South
	ISO 50001	All properties
FEE (Foundation for Environmental Educational)	Blue Flag	Brulo, Borik, Oliva, Galeb, Valeta, Istra, Vala, Crnika, Krk Premium Camping Resort by Valamar, Ježevac Premium Camping Resort by Valamar, Valamar Collection Dubrovnik President Hotel, Cava
Ministry of Tourism	"Q" Quality Label	Valamar Riviera Hotel & Suites
Healthy Meal Standard	Healthy Meal Standard	Valamar Diamant Hotel & Residence
European Vegetarian Union (Animal Friends Croatia)	V-label	All Valamar restaurants with buffet service



- 1 *Željko Kukurin receiving the Golden Goat Award for outstanding business results*
- 2 *Share of the Year Award for the sixth consecutive time*
- 3 *INOVACAMP 2017 Award*
- 4 *Željko Kukurin – Businessperson of the year*
- 5 *Valamar Riviera receives seven awards for hotels and campsites on "Days of Croatian tourism"*
- 6 *SJAJ Award for affirming corporate social responsibility and sustainability*
- 7 *TUI Family Life Award*
- 8 *Best Investor Relations Award*

8 CORPORATE GOVERNANCE

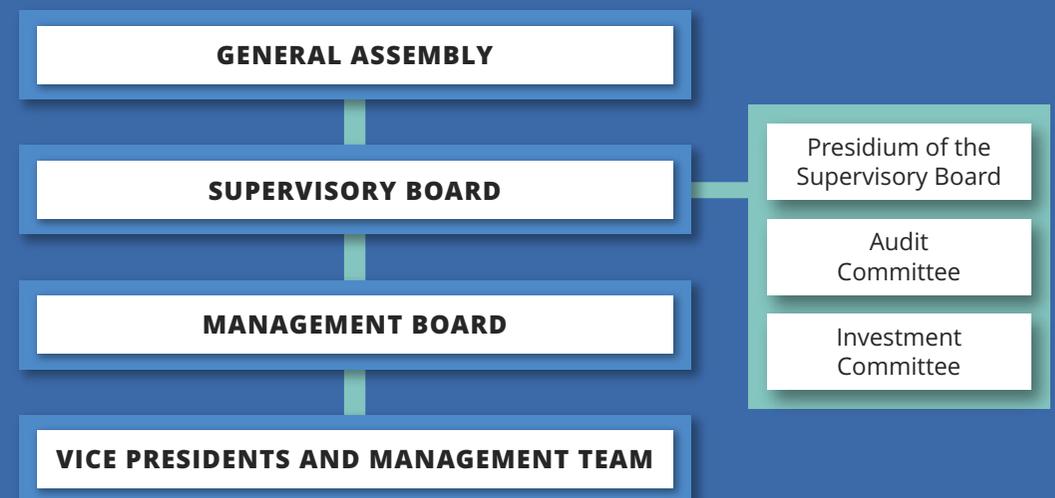


CORPORATE STRUCTURE

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

A well-defined and clear corporate structure is the foundation for the effective strategic and operational management of the company. The key governing bodies of Valamar Riviera d.d. are the General 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 relevant Croatian legislation, Company Statute and other corporate governance codes, regulations or prescribed procedures.





*Lobby at the new
Valamar Riviera
HQ building*



SUPERVISORY BOARD

The 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 that meet more often to manage

key strategic initiatives and support the Supervisory Board in the decision-making process.

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

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, operating and financial activities.

In addition, the President individually leads the following areas: hotel operations, marketing & sales, human resources, destination management, purchasing, investment and asset development, external affairs and public relations, quality management, internal audit and project management, controlling, legal and general affairs.

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

		Term of office until 6.7.2017. and as of 7.7.2017.		Supervisory Board	Presidium of the Supervisory Board	Audit Committee	Investment Committee
Gustav Wurmböck	Chairman	Until 6 July/ As of 7 July 2017	Proprietary	■	■		■
Franz Lanschützer	Deputy Chairman	Until 6 July/ As of 7 July 2017	Proprietary	■	■	■	■
Mladen Markoč	Deputy Chairman	Until 6 July/ As of 7 July 2017	Independent	■	■	■	
Georg Eltz Vukovarski	Member	Until 6 July/ As of 7 July 2017	Proprietary	■		■	■
Vicko Ferić	Member	Until 6 July/ As of 7 July 2017	Proprietary	■		■	■
Hans Turnovszky	Member	Until 6 July/ As of 7 July 2017	Independent	■			■
Mariza Jugovac	Member	Until 6 July 2017	Employee representative	■			
Valter Knapić	Member	As of 7 July 2017	Employee representative	■			
Dubravko Kušeta	exterior independent member					■	
Meetings held in 2017				14	9	4	3

SENIOR MANAGEMENT

The strategic corporate business functions are organized in 4 divisions that 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 works closely with the Management Board and relevant corporate functions through business committees that are focused on those strategic activities at 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**
(business expansion, loyalty and CRM, quality management & service excellence, corporate social responsibility)
- ▶ **Purchasing & Partnerships Committee**
(strategic partnerships and purchasing agreements)

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

CAPEX COMMITTEE

Željko Kukurin,
President of the Committee

Alen Benković,
Vice President of the Committee

David Poropat, Member

Davor Brenko, Member

Andrea Štifanić, Member

Sebastian Palma, Member

Tasks of the Committee:

- ▶ Preparing the concept, analyzing the cost-effectiveness, and assessing the risks of investing in certain projects,
- ▶ Outlining proposals for choosing projects and preparing the annual investment plan,
- ▶ Monitoring the investment process: planning, choosing contractors and materials, execution, pre-opening and post-opening,
- ▶ Analyzing the success of the investment.

BUSINESS EXPERIENCE COMMITTEE

Željko Kukurin,
President of the Committee

Ivana Budin Arhanić,
Vice President of the Committee

David Poropat, Member

Davor Brenko, Member

Alen Benković, Member

Miroslav Dinčić, Member

Tasks of the Committee:

- ▶ Analyzing the reports on quality and formulating proposals for improving the Valamar experience,
- ▶ Monitoring the CRM, managing the client database, loyalty and direct communication with the guests,
- ▶ Analyzing possible acquisitions, strategic partnerships and mergers, analyzing the cost-effectiveness and assessing the risks of acquisitions and/or partnerships or investments,
- ▶ Analyzing activities and monitoring the development of destination marketing and destination products,
- ▶ Analyzing other activities and projects of strategic importance for the company.

PURCHASING AND PARTNERSHIPS COMMITTEE

Željko Kukurin,
President of the Committee

David Poropat,
Vice President of the Committee

Dragan Vlahović, Member

Alen Benković, Member

Marko Čižmek, Member

Andrea Štifanić, Member

Tasks of the Committee:

- ▶ Preparing purchasing guidelines and policies,
- ▶ Analyzing tender results and selection of key suppliers,
- ▶ Analyzing the purchasing process and preparing improvement recommendations.

PROJECT COMMITTEE

Željko Kukurin,
President of the Committee

Marko Vusić,
Vice President of the Committee

Ivana Budin Arhanić, Member

Marko Čižmek, Member

David Poropat, Member

Davor Brenko, Member

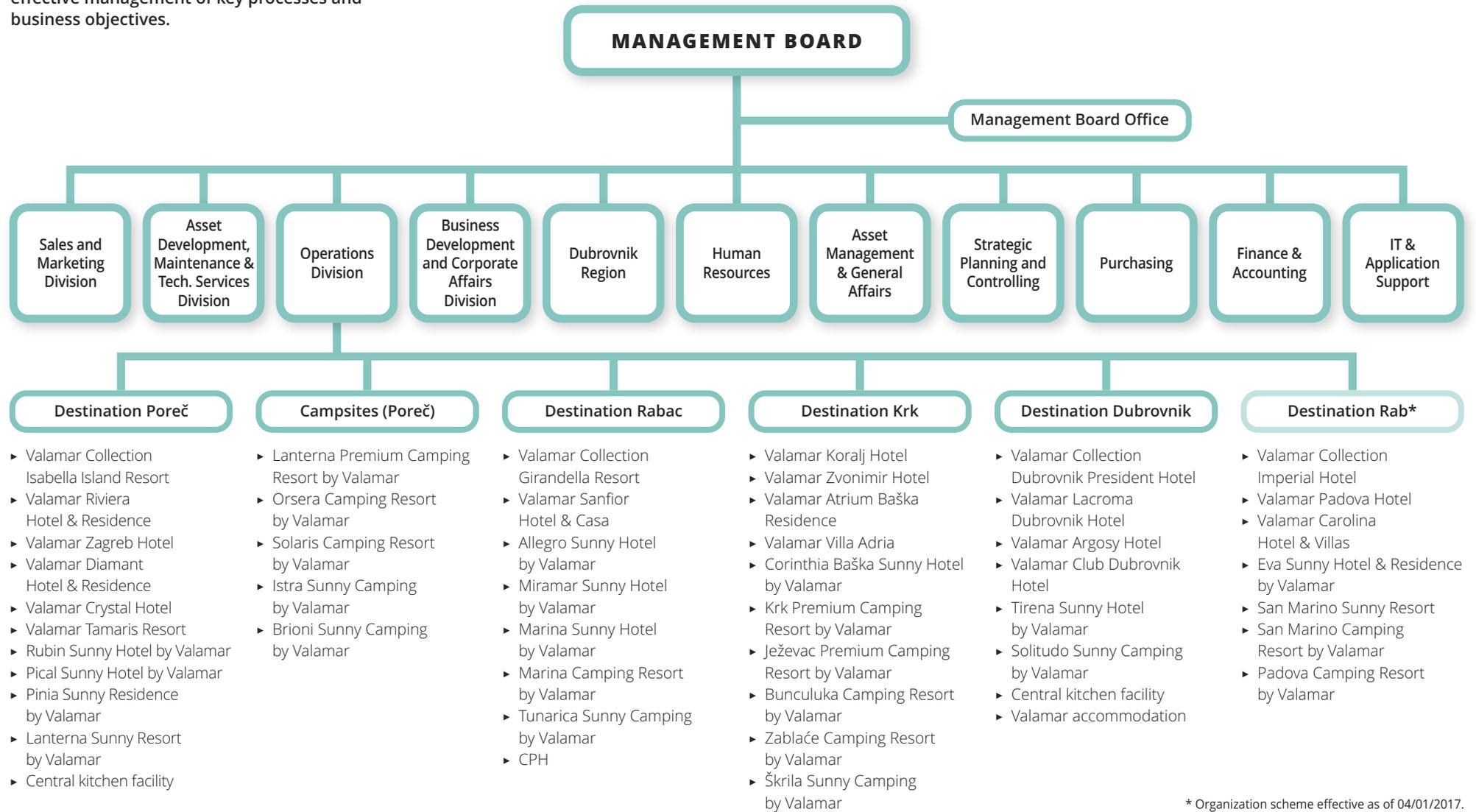
Alen Benković, Member

Tasks of the Committee:

- ▶ Analyzing and formulating proposals for selecting development projects that are of importance for the company,
- ▶ Outlining proposals for projects and necessary resources,
- ▶ Monitoring project implementation,
- ▶ Outlining proposals for project ending and monitoring of the results.

ORGANIZATIONAL STRUCTURE OF VALAMAR RIVIERA

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



* Organization scheme effective as of 04/01/2017.



MEMBERS OF THE SUPERVISORY BOARD



GUSTAV WURMBÖCK,
Supervisory Board Chairman

Gustav Wurmböck graduated from the Universities of Vienna and Innsbruck in Business and Finance. Before founding EPIC in 1991, Mr. Wurmböck has held various positions in prestigious companies such as IFC in Washington D.C. (International Finance Corporation – World Bank Group), DEG (Deutsche Investitions und Entwicklungsgesellschaft) in Cologne, Germany, and was head of the International Department of Länderbank in Vienna (today's Bank Austria).

Mr. Wurmböck is one of the co-founders and managing partners of EPIC in Vienna, which is one of the leading investment and advisory firms in CEE. At EPIC he has led many large privatization and corporate finance transactions in the areas of energy, telecommunications, brewing and the hotel industry. Mr. Wurmböck was also management board member at Valamar poslovni razvoj d.o.o. (2005 – 2011) and management board president at Valamar grupa d.d. (2005 – 2010). He has held several positions on the supervisory boards of Valamar Adria holding d.d., Valamar grupa d.d., Puntizela d.o.o., and Valamar turistički projekti d.o.o., while he continues to act as Chairman of the Supervisory Board of Valamar Riviera d.d.



FRANZ LANSCHÜTZER,
Supervisory Board Deputy Chairman

Franz Lanschützer received his MBA from the Vienna University of Economics and his PhD from the University of Budapest. He has gained extensive experience in the areas of corporate finance and asset management in Central and Eastern Europe. Mr. Lanschützer is a managing partner at EPIC Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H. from Vienna. For the last twenty five years, Mr. Lanschützer has been working in the field of mergers, acquisitions and corporate finance, as well as providing consulting services in Austria, the Czech Republic, Poland, Croatia, and some other countries of the former Yugoslavia. He has also set up and run investment privatization funds in the Czech Republic and Croatia.

Mr. Lanschützer held executive positions at major financial advisory and auditing companies such as Ernst&Young and Price Waterhouse before joining EPIC. He has also held executive positions at Valamar Group since 1999, including management board president at Valamar Grupa d.d. and has also been supervisory board member at Valamar Adria holding d.d. and Riviera Adria d.d. (currently Valamar Riviera d.d.). He was also management board member at Valamar poslovni razvoj d.o.o. (2005 – 2011) and Vela Kluda d.o.o. (1997 -2013). Mr. Lanschützer was management board president at Valamar Riviera d.d. in 2014 and 2015 and he has been Deputy Chairman of the Supervisory Board at Valamar Riviera d.d. since June 2015.



MLADEN MARKOČ,
Supervisory Board 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 1988 as legal apprentice with attorney Zvonimir Raić. He was corporate secretary at the pharmaceutical company PLIVA d.d. from 1990 to 1997, partner at the law firm Bogdanović, Dolički & Partners from 1997 to 2007, and management board member at ICF Grupa d.o.o. in 2008.

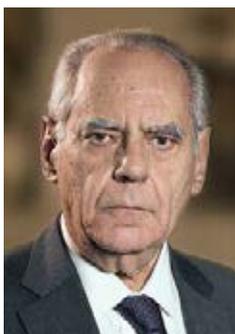
He served as attorney at the Mladen Markoč law office from 2010 to 2013 and has been working as an attorney at law for the joint law office of Mladen Markoč and Ivan-Krešimir Tomić since 2013. He is vice president of the Association of Business Lawyers of Zagreb. He was also supervisory board member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



GEORG ELTZ VUKOVARSKI,
Supervisory Board Member

Georg Eltz Vukovarski 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 management board member and marketing chief of a major Swiss corporation, as well as CEO of its Canadian subsidiary. He co-founded Valamar Adria holding (as PIF Dom fond d.d.) in 1998 and served as president of its management board before it was merged to Valamar Riviera d.d. in 2014.

In the years between, he served as president and member of management boards and supervisory boards of a number of affiliated companies. Currently, he is managing director of SATIS d.o.o. and of its parent company ELADCO Invest GmbH, as well as a member of Valamar Riviera's supervisory board. He has been a member of the management boards of both the German-Croatian Chamber of Industry & Commerce, and the Croatian-Austrian Chamber of Commerce. As co-founder of "Zaklada znanje na djelu – Stiftung Wissen am Werk" he is also a member of its supervisory board.



VICKO FERIĆ,
Supervisory Board Member

Vicko Ferić graduated from the Faculty of Economics and Business at the University of Zagreb in 1974. He started his professional career working for the Organic Petrochemical Company (currently Dioki d.d.), and then he joined INA d.d. where he held management positions in the finance department and later became assistant chief financial officer until 1998. By the end of 1998, he joined EPIC. From 2003 until 2005 he was appointed management board president of SN holding d.d. From 2005 until 2011 he was management board president at Valamar Adria holding d.d. (former Dom holding d.d.), as well as executive manager at EPIC Zagreb d.o.o.

From 2011 until 2014 he was management board member at Valamar Grupa d.d. He has also been involved in numerous important investment projects in the oil and tourism industries, the gasification process in Croatia, privatizations of Hrvatske telekomunikacije 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 in the operation of 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 supervisory board member or president and is also member of the Croatian Association of Certified Members of Supervisory and Management Boards. He is currently Member of the Supervisory Board at Končar – Elektroindustrija d.d. and Valamar Riviera d.d.



HANS DOMINIK TURNOVSZKY,
Supervisory Board 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 member of the management board and several committees at the Austrian Hotel Association. He currently serves as member of the Five-star Commission of the Austrian Federal Chamber of Commerce. He was Member of the Supervisory Board at Valamar Grupa d.d. and Valamar Adria holding d.d. and is currently Member of the Supervisory Board at Valamar Riviera d.d.



VALTER KNAPIĆ,
Supervisory Board Member

Valter Knapić graduated from an electrical engineering vocational school. He has been with Valamar Riviera since 1986 and has held various positions in the company. He currently serves as front office assistant manager. He has been a member of the Workers' council for the last 20 years. He has served as head delegate of the Tourism and Services Trade Union of Croatia (STUH) at Valamar Riviera d.d. since 2008, with a new term of office from 2016 to 2021. He has also been a member of the STUH Presidium since 2011, and has been re-elected for the new 2016-2021 term of office. Valter Knapić is also on the supervisory boards of two companies with registered office in Tar: Finida d.o.o. and Momperlon d.o.o., and is also councilman and member of the committee in charge of sales and/ or exchange of real estate for the allocation of public and other areas of the Municipality of Tar-Vabriga /Torre-Abrega.

MANAGEMENT BOARD



ŽELJKO KUKURIN,
President and CEO

Željko Kukurin was born in 1974 in Zagreb. He graduated in 1999 from the Faculty of Economics and Business in Zagreb where he received his Master of Science degree in Marketing in 2003. In 2010 he received his EMBA degree in International Management from the Bocconi University in Milan. In 2000 he began his career as an intern at Riviera Poreč, a member of Valamar Group. From 2003 to 2009, he held various managing positions in Valamar's Sales and Marketing, and he was responsible for a number of strategic projects within the group. From 2010 to 2014 he was management board president at Istraturist d.d., owned by Zaba Unicredit Group, and cooperated with Meliá Hotels International in managing the hospitality portfolio in Umag. After restructuring business operations and increasing enterprise value, in 2014 he participated in the EUR 120 million sale of the company.

In 2015, Mr. Kukurin joined Valamar Riviera again and was appointed President of the Management Board of Valamar Riviera's consolidated portfolio in June of the same year. As of 2015, several hotel companies have been acquired, a large investment cycle has been started, and various strategic partnerships have been established, while enterprise value and employment have significantly increased.

He also serves as Supervisory Board Chairman at Imperial d.d. Rab and holds numerous important positions in Croatian tourism; he is chairman of the Hospitality and Tourism branch of the Croatian Employers' Association and member of the Croatian National Tourist Board Council and the Istrian Tourist Board Council. In addition, he is involved in various national professional associations.



MARKO ČIŽMEK,
Management Board Member

Marko Čižmek graduated from the Faculty of Economics and Business in Zagreb. He has qualified as broker and investment advisor. He started his career in 1996 at the Croatian National Bank. He spent several years working in corporate finance at Investmentbank Austria and ICF. In the period from 2001 to 2004, he was management board member at EURO Invest, an investment fund management company.

Mr. Čižmek has held numerous managing positions at companies that have been merged to the present Valamar Riviera: he was management board member at Rabac d.d. (2004-2011), management board member at Dubrovnik-Babin kuk d.d. (2009-2013) and management board member at Valamar Adria holding d.d. (2008-2013), general manager at Epima d.o.o. (2008-2014), supervisory board member at Zlatni otok d.d. (2002-2011) and Rabac d.d. (1999-2011).

Mr. Čižmek started serving as Management Board Member at Valamar Riviera in 2011. He is also management board member at the Croatian Association of Financial Analysts and the Croatian Association of Corporate Treasurers.



DIVISION VICE PRESIDENTS AT VALAMAR RIVIERA



DAVOR BRENKO,
Vice President of Sales and Marketing

Davor Brenko graduated from the Faculty of Economics in Rijeka, and began his professional career in 2000 at Valamar hoteli i ljetovališta, in Sales and Marketing. In 2002 he became project manager for research into guest satisfaction and guest relations management, while in 2004 he was in charge of Direct Sales, which quickly became the strongest sales channel in Valamar. In 2009, Mr. Brenko was promoted to the position of Valamar's head of Direct Sales and Marketing, where he participated in the creation of a series of development projects resulting in improved sales, marketing and business growth.

At the beginning of 2010, he joined Istraturist Umag d.d., where he headed Business Development and implemented a series of successful projects in the field of strategic marketing and destination management, aimed at raising the quality and competitiveness of the company and its destination.

As of 2015, Davor Brenko has been Vice President of Sales and Marketing at Valamar Riviera d.d., where he has been in charge of corporate development and growth in this business segment, including numerous projects aiming at improving destination events and attractions, destination management and the attractiveness of Valamar's destinations.



DAVID POROPAT,
Vice President of Operations

David Poropat graduated in 1993 from the University of Rijeka's Hotel Management Faculty in Opatija. In 2007, he completed his postgraduate study at the Faculty of Tourism and Hotel Management in Opatija, where he successfully completed a doctoral course in 2013. He started his career in 1993 as Sales and Marketing intern at the former Jadran turist d.d. in Rovinj, where he continued his career in charge of the western market in Sales, and then as planner and analyst in the Controlling Department. From 1996 to 2002, he was the general manager of Sol Park, one of Jadran turist's hotels, managed at the time by the Spanish company Sol Meliá. In March 2002, he joined the former company Riviera Holding d.d. in Poreč as Head of Operations and until 2006 he was in charge of all Valamar's facilities. From 2007 to 2011, he was management board member at Valamar hoteli i ljetovališta d.o.o., and from 2012 to 2014 at Valamar poslovni razvoj d.o.o.

At year-end 2014, he became Vice President of Operations at Valamar Riviera d.d., the leading company in Croatian tourism. Mr. Poropat has also held various important positions in trade associations, and actively participated in dozens of business projects that particularly broadened his business experience. He has also written a number of scientific and professional papers.



**ALEN BENKOVIĆ,
Vice President of Asset Development,
Maintenance & Technical Services**

After graduating from the Faculty of Economics in Pula, Alen Benković began his career in 1999 as an intern at the former Riviera, where he held several important positions as assistant general manager at Funtana campsite, assistant general manager at Lanterna campsite and general manager at the Neptun Hotel – today's Valamar Riviera 4* in Poreč. He continued his career as the general manager of the Lanterna cluster, and then at the municipal company Parentium, which manages investments for the Town of Poreč. In 2011, he joined Istraturist in Umag, as head of Development, Facilities Maintenance and Technical Services.

In 2015, he joined Valamar Riviera d.d. as Vice President of Asset Development, Maintenance 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 with a degree in 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 Lura d.d. in Croatia where she led the acquisition and restructuring of Somboled d.d. into Lura group and held the position of vice president on Somboled d.d. Supervisory Board.

In 2007 she received her MBA from Harvard Business School and joined Valamar group where she was appointed as member on the management boards of Valamar grupa d.d., Valamar Adria holding d.d., and Valamar Riviera d.d.

As of June 2015, Ms Budin Arhanić holds the position of Vice President of Business Development and Corporate Affairs and is in charge of acquisitions and expansion, strategic development through digitalization and innovation, corporate social responsibility, service quality management, corporate communications and relations with industry associations and the public sector.



INTERNAL AUDITS AND CONTROLS WITHIN VALAMAR RIVIERA, PROJECT MANAGEMENT OFFICE

Valamar Riviera's Internal Audit and Control and the Audit Committee are focused on maintaining the highest standards of integrity and corporate governance practices in order to maintain excellence in its operations and promote confidence in its governance systems. The company conducts its business in an open, honest and ethical manner, recognizing the importance of protecting its entire human, financial, physical, informational, social, environmental and reputational assets.

Besides, the Project Management Office (PMO) supports the Project Committee and standardizes the reporting process and the management of the project portfolio. PMO supported the project organization at the company in 2017 through the permanent standardization of ongoing project reporting, with special focus on change management and process digitalization. The ongoing project monitoring and project management reporting system was completely

digitalized in 2017, accompanied by the Project Committee monthly meetings. PMO is in charge of three basic categories: projects, programs and portfolios, and they can be either strategic, operating or related to digitalization. The digital ongoing project reporting was determined by corresponding procedures and project managers received the necessary training and licenses to use the system.

There were about 60 projects at the company in 2017 that included various business segments, and they were mostly related to hotel operations, sales and marketing, human resources, finance, IT, etc.

The purpose of the Audit Committee is to assist the Supervisory Board in overseeing the:

- ▶ adequacy and integrity of the company's financial reporting processes and procedures,
- ▶ integrity of the company's financial statements,
- ▶ company's compliance with legal and regulatory requirements and the company's enterprise risk management program,
- ▶ proposed appointment of independent auditors and their qualifications, independence, work and retention, and the
- ▶ scope, approach, performance and results of the independent auditors and the company's internal audit function.

Valamar's Audit Committee is an independent, internal body that ensures that the internal controls are put in place and are appropriate for mitigating risks, the checking procedures are proper and efficient and that the established rules and procedures are carried out.

Independence is ensured by the organizational structure and the allocated reporting lines. The Audit Committee also proposes the appointment of Valamar's external auditor of financial reports (including the nature and scope of the audit), the auditor's independence and effectiveness, audit fees and the provision of non-audit services.

The Audit Committee meets four times per year or more frequently if circumstances dictate. The Committee will also hold separate periodical meetings with the Management Board, the internal and external auditors of financial reports to discuss matters that the Committee or the mentioned parties believe should be discussed privately. The Committee may invite observers, including independent advisers to attend its meetings from time to time, as it deems appropriate.

The Audit Committee keeps a record of its meetings in a suitable way. Internal Audit at Valamar Riviera includes various functions and competences.

The scope of the Internal Audit includes the following areas:

- ▶ regulations, processes and procedures,
- ▶ finance and operations,
- ▶ contracts with third parties,
- ▶ changes in the hotel management,
- ▶ regulatory compliance, and
- ▶ internal control system.

Internal Audit collaborates with Internal Control and performs ad hoc financial and material examinations, as well as examinations of processes and procedures



at properties. The Audit plan is based on the systematic assessment of key risks, followed by their separate quantification.

Although every audit project is unique, the audit process is similar for most engagements and usually consists of four stages:

- ▶ planning,
- ▶ audit work (initial interview, fieldwork, exit interview),
- ▶ audit report,
- ▶ follow-up review.

The internal audit plan of engagement is based on a documented risk assessment, conducted, at least, once a year. The Annual audit plan translates the company's strategic plan into audit assignments.

The internal audit process at Valamar Riviera is not completed by compiling, signing, and distributing the final internal audit report. Follow-up is a process where internal auditors evaluate the appropriateness, efficiency and timeliness of the actions taken by management through communicated findings and recommendations and therefore the cooperation between Internal Audit and the heads of organizational units is of utmost importance.

It is important to mention the synergy with Internal Control and joint efforts made in everyday work to prevent misconducts and wrongdoing within a field operation, small inventory management, cash transactions, tax compliance, bill issuance, etc.



RISK-BASED AUDIT PLANNING FRAMEWORK: 5 STAGES



KEY RISK TYPES AND CLASSIFICATION



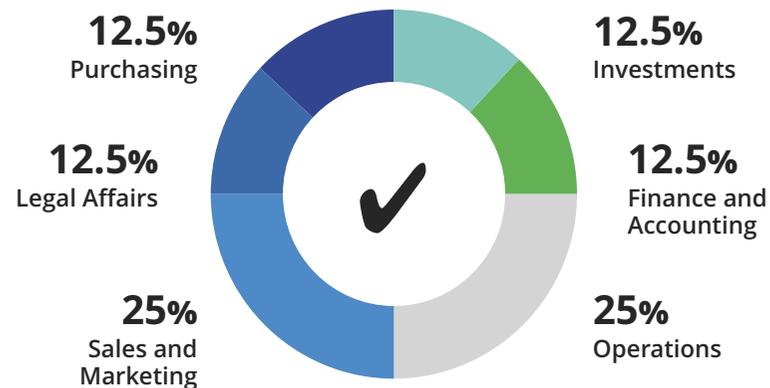
RISK CLASSIFICATION

HIGH (1- red):
 indicates significant risk; recommendations need to be executed in a short space of time, i.e. according to the Schedule of Measures

MEDIUM (2- yellow):
 indicates less significant risk; recommendations need to be executed according to priorities, i.e. according to the Schedule of Measures

LOW (3- green):
 indicates risk that is not significant; the risk impact reduces efficiency and prevents the conduct of business activities according to the best possible practice, i.e. Schedule of Measures

KEY AUDITED AREAS IN 2017



GENERAL DATA PROTECTION REGULATION

In 2017, PMO initiated a project regarding the harmonization of business operations with the General Data Protection Regulation, which defines the necessary measures for establishing the required compliance level. The regulation refers to personal data of private individuals in the European Union and determines what type of personal data can be stored and processed and in what way. The GDPR compliance project consist of two phases:

Phase 1: Evaluation of existing GDPR compliance level (2017)

Phase 2: Implementation of measures/initiatives regarding GDPR compliance (2018)

POLICY AND RULES

Internal audit activities are performed within organizations that vary in purpose, size, complexity, and structure and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, compliance with the International Professional Practice Framework is essential.

Key documents regulating the area of Internal Audit at Valamar are:

- ▶ Internal Audit Department Charter,
- ▶ Standards for Internal Auditing,
- ▶ Code of Ethics,
- ▶ Audit Committee Charter

The respect and ethical behavior of the members of the organization is the result of the application of the rules and standards adopted by the company, but also the manner in which these rules are interpreted and accepted in practice among the individuals and members of the organization.





RISKS FOR THE COMPANY AND GROUP

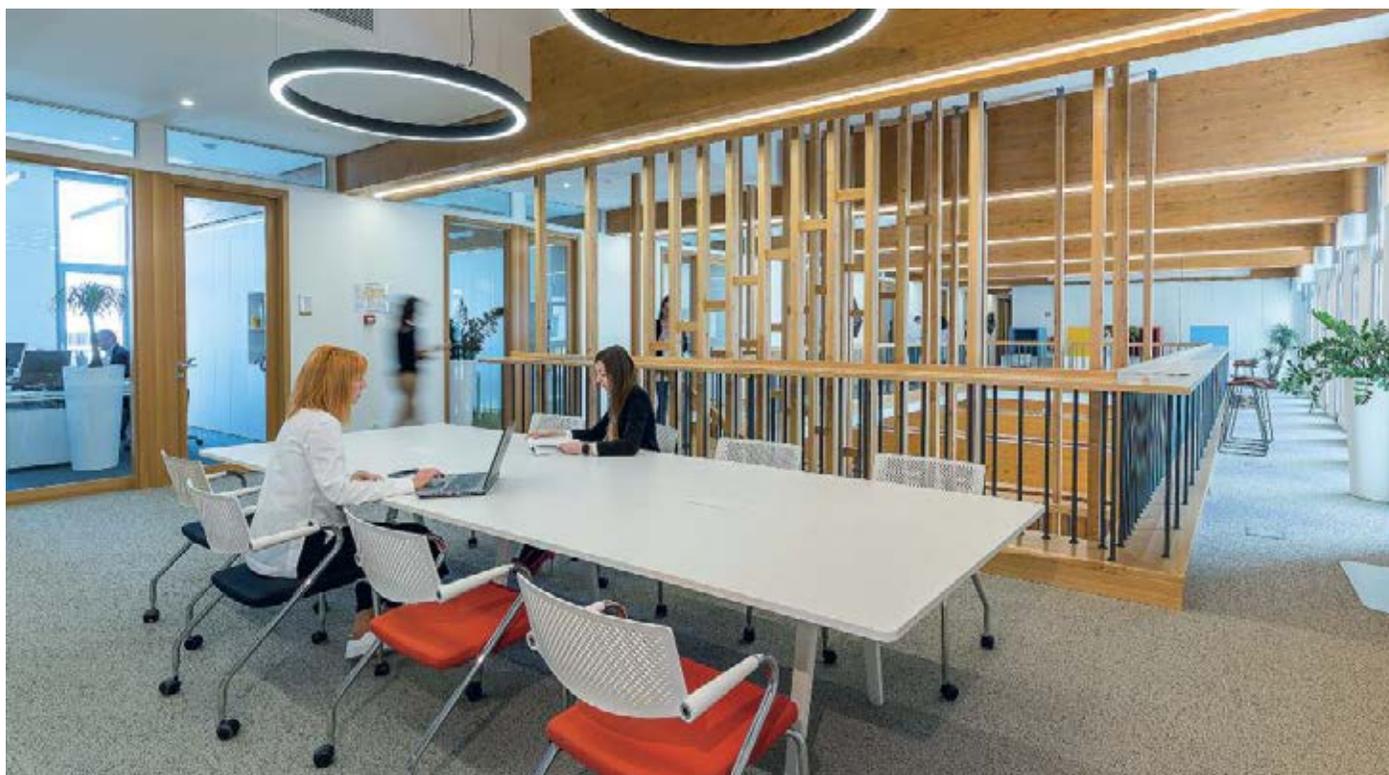
Tourism is a global industry, closely connected with the real and financial economy, geopolitical position and environmental sustainability. The way this industry functions as a whole will determine its future growth. Due to the industry's relevance and economic

and social impact, the Company and Group monitor and assess risks at micro and macro levels. Moreover, when defining the strategy, particular attention is given to short and medium-term risk impact in order to maintain business sustainability over time.

When monitoring and assessing risks the Company and Group use a proactive approach thus assessing the potential impact of each individual risk. The Company and Group consider risk management to be a key factor of differentiation among competitors. Risk management aims at creating sustainable value, thus offering reliability and security to numerous stakeholders.

The Audit Committee supports the Company in reviewing the effectiveness of Valamar's internal control and risk management systems, having oversight of the risk and control activities. In support of this, the Audit Committee regularly reviews the principal risks and the operation of the risk management systems, seeking assurance that the principal risks are being identified, assessed, prioritized, evaluated and appropriately managed and mitigated. The Committee's review is supported by the Internal Audit (IA) annual plan, which is discussed in June each year.

The Committee approves the nature and scope of the plan, and is responsible for reviewing and monitoring the activities, in line with the agreed plan, but always leaving a necessary space for ad hoc audit requests throughout a year, including product price and cost benchmarking, exercised each year.



THERE ARE FIVE KEY STEPS IN A RISK MANAGEMENT PROCESS



THE DIFFERENT TYPES OF RISKS FACING VALAMAR RIVIERA CAN BE CLASSIFIED INTO THE FOLLOWING GROUPS





FINANCIAL RISKS

In their day-to-day business activities, the Company and Group face a number of financial threats, especially:

- 1) Foreign exchange risk
- 2) Interest rate risk
- 3) Credit risk
- 4) Price risk
- 5) Liquidity risk
- 6) Share-related risks.

The Company and Group employ an active approach in interest and foreign exchange protection and risk mitigation, by employing available market instruments. Internal risk management goals and policies aim at protecting foreign currency inflows during seasonal activity and partial interest hedging of the principal loan amount.

1) FOREIGN EXCHANGE RISK

The Company and Group conduct their business operations across national borders and are exposed to foreign exchange risks. They mainly result from changes in the euro/ kuna exchange rate.

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. Most of our sales revenue generated abroad and long-term credit debt is denominated in euros. Hence, for the most part the Company and Group are naturally hedged from exchange rate risks. Since some liabilities are denominated in kunas, the Company and Group actively manage risks by using derivative instruments available on the financial market. The instruments are used according to operating assessments and expected market trends. In this way the assets, liabilities and cash flow are protected from the risk impact and unfavorable exchange rate trends.

2) INTEREST RATE RISK

Variable rate loans expose the Company and Group to cash flow interest rate risk.

Periodically, the Company and Group resort to derivative instruments in order to actively hedge cash flow and interest rate value by applying interest rate swaps. The economic effect of such swaps is the conversion of variable interest rate loans into fixed interest rate loans for a pre-committed hedged part of the loan principal.

The Company and Group have interest-bearing assets (cash assets and deposits) so their revenue and cash flow depend on changes in market interest rates. This becomes evident especially during the season when the Company and Group have significant cash surpluses at their disposal.

3) CREDIT RISK

Credit risk arises from cash assets, time deposits and receivables. In accordance with the Company and Group sales policy, business transactions are conducted only with customers with suitable credit history, i.e. by agreeing advances and deposits and (for individual customers) payments made through major credit card companies.

The Company and Group continuously strive to monitor their exposure towards other parties and their credit rating as well as obtain security instruments (bills of exchange, debentures) in order to reduce bad debt risks related to services provided.



4) PRICE RISK

The Company and Group hold securities and are exposed to equity price risk due to security price volatility.

The Company and Group are not an active participant in the market trade in terms of investing in equity and debt securities. However, with the HRK 291 million invested in buying a stake in Imperial d.d. Rab, the company is exposed to the said risk to a certain extent.

5) LIQUIDITY RISK

The Company and Group have a sound liquidity risk management. Sufficient funds for meeting liabilities are available at any given moment through adequate amounts from contracted credit lines and by ensuring credit line availability in the future.

Liquidity risk is managed by generating strong positive net operating cash flows, while capital investments are financed by credit lines. All the credit lines in 2017 were arranged with financial institutions. The repayment of the major credit lines coincides with periods of strong cash inflows from operations.

The Company and Group monitor the level of available funds through daily cash and debt reports. Long-term cash flow forecasts as well as annual (monthly) forecasts are based on the set budget. After meeting the needs of working capital management, the surplus is deposited in the treasury of the Company and Group. The funds are then invested in interest-bearing current accounts, time deposits, money market deposits and marketable securities. Only instruments with suitable maturities and sufficient liquidity are selected, according to the forecast needs for liquid funds.

6) SHARE-RELATED RISKS

The market value of shares is the riskiest asset class due to its volatility resulting from the volatile nature of the whole capital market, macroeconomic trends on markets where the Company and Group operate and discrepancies between the expectations of financial analysts and the actual results. Furthermore, other contributing factors are also changes in the dividend policy, various activities in the segment of consolidations, mergers, acquisitions and forming of strategic partnership, the instability of the business model of the Company and Group as well as the fluctuations in the financial results for the Company and Group.

In case any negative implications happen to be associated with these factors there is a considerable risk of market value drop that will in turn prevent investors from selling their shares at a fair market price.

OPERATIONAL RISKS

Operational risks are risks connected with direct or indirect losses that arise from inadequate or wrong internal or external processes within the Company and the Group.

They include the creation, analysis of information and financial reporting data and a potentially insufficient or inadequate internal and external information exchange. When implementing the system of operational risk management, the Company and Group focused on its continuity and complexity in relation to the size of the organization.

The benefits of its management are reflected in the i) defining and identifying the Company and Group risk profile in relation to the operational risk ii) identifying and managing the known operational risk occurrences that decreases the Company and Group costs and iii) data analysis which indicates the business trends for the Company and Group and trends in the domestic economy.

The Company and Group are aware of the reliability risk of IT business solutions and business cyber safety. Hence, they continually work on the upgrade, development and implementation of new technologies in everyday business operations.

A special focus is given to providing sufficient resources for the development and implementation of new technologies related to ICT, data protection, and the upgrade of the current business systems and the implementation of new modern business systems.



BUSINESS RISKS

The Company and Group are constantly exposed to risks threatening its competitiveness and future stability.

Since the Company and Group own real estate, this business model requires a large amount of capital in order to maintain high product and service standards. Various large capital investments in the upgrade of products and services can surpass budget expectations, thus delaying the end of construction works. In the meantime, town-planning regulations and fiscal policy may be changed. These risks can increase costs for the Company and Group, and have a negative impact on the cash flow and revenues. In the previous period, the Company and Group's business decisions improved their results and operating efficiency in the demanding Mediterranean market. These positive trends are expected to continue in the future through a prudent long-term strategic management.

Over 95% of Valamar Riviera's guests come from other countries and they are very careful when choosing their vacation destination. Stable macroeconomic indicators for the source-market countries are important decision-making factors especially those relating to exchange rates and the price of goods and services because they directly affect the guests' purchasing power. However small, the share of domestic guests is also important; it is a segment directly influenced by various other macroeconomic indicators: employment/unemployment rate, GDP rise/fall, industrial production and others. They all have a direct impact not only on the purchasing power of Croatian residents but they also determine whether they will choose to spend their holidays on the Adriatic.

When considering risks related to the tourism and hospitality industry, in previous years, the Croatian economy has been afflicted by the consequences of a

global financial crisis and economic standstill. In this period, the tourism and hospitality industry has been among the rare growing industries in Croatia. Moreover, the marked seasonality of this industry leads to insufficient use of the Company and Group's resources. After joining the European Union, the Croatian market became part of a large European market, while safety risks decreased after joining the NATO. The Croatian Tourism Development strategy until 2020 (a government document published in the Official Gazette no. 55/13) defines the kind of tourism Croatia wants and needs to develop using the country's comparative advantages and expertise in order to improve the competitiveness of Croatian tourism.

Maintaining the current tourism growth rates in the following years is of vital importance. It can be achieved by strategically developing tourism products and investing in the creation of additional values, which will help distinguish Croatian tourism from its competitors by emphasizing its uniqueness, appeal and quality.

Good management of human resources is vital for the future growth of the Company and Group. Risks related to shortages of specific skills, expertise and jobs are connected with the opening and expansion of the labor market. Valamar Riviera is one of the largest and most desirable employers in tourism. It continually invests in the training and development of human resources.

We determine the needs for new skills and expertise by following emerging global trends in tourism. In this way, we are able to respond to challenges effectively. Through a continual dialogue with our social partners, we have ensured a high level of workers' rights in terms of competitive salaries, motivation and reward systems, career development, employees' wellbeing and cooperation with educational institutions from all parts of Croatia.



GLOBAL RISKS

Despite improved security and political conditions, which have somewhat encouraged investments into tourism and hospitality, there are challenges that the Croatian tourism has to face, such as :

- ▶ Periods of global financial crisis which reduce the purchasing power of the travelling-prone population
- ▶ Security issues related to globally escalating terrorism threats
- ▶ Security and political instability in the immediate environment of the neighboring countries

Environmental risks can also have an adverse effect on the Company and Group's business results, primarily in terms of customer satisfaction with the whole experience while staying at one of Valamar's properties and this can affect the number of arrivals. The possible risks can include: sea pollution (caused by oil or chemical spillage), but also long-term water quality reduction and coast pollution due to inadequate waste disposal and waste water treatment as well as extensive use of agricultural fertilizers.

Other environmental conditions typical for climate changes such as long drought periods or long rainy periods can directly influence the guests' length of stay in the hotels and campsites as well as increasing the operating costs. A number of other natural disasters and calamities (earthquakes, fires, floods and rainstorms), air pollution caused by toxic gas emissions from industrial plants and vehicles, as well as excessive urbanization and the introduction of invasive species should also be taken into consideration.

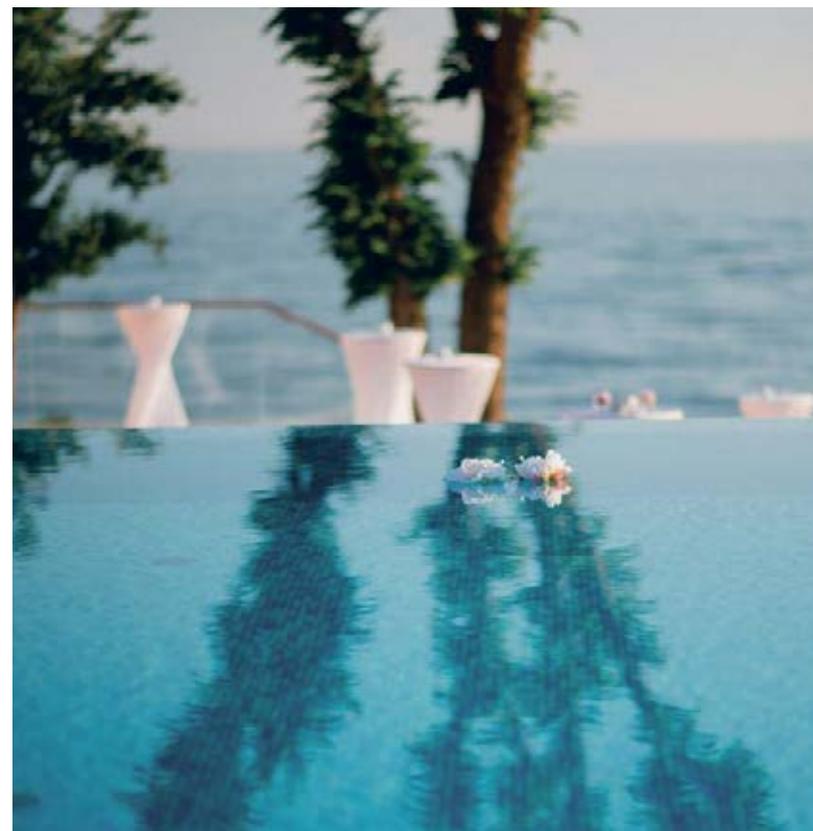
COMPLIANCE RISKS

Changes in tax laws and other regulations pose a very serious threat and represent a demanding segment in risk management because in this particular situation the possibilities for the Company and Group are limited. In previous years, there has been a number of important changes in tax and non-tax charging regulations, which have adversely affected the Company and Group profitability and reduced competitiveness in relation to the environment:

- ▶ In March 2012, the standard VAT rate grew from 23% to 25%; in January 2013, a new preferential 10% VAT rate was introduced only to be replaced within a year by a 13% VAT rate applicable to the tourism and hospitality industry (January 2014), while in January 2017 a new 25% VAT rate was introduced for F&B services.
- ▶ In May 2012, the health insurance employer contribution rate fell from 15% to 13%, and then it grew back to 15% in April 2014.
- ▶ Frequent increases in various fees and charges regarding water and electricity distribution etc.
- ▶ 2018 increase of the sojourn tax for the year 2018 that will range between HRK 2.5 and 8.0 per person and overnight stay, depending on the class of the tourist destination and period of use (August 2017)

Such frequent changes in laws regulating taxes and parafiscal charges often take place only after the business policy and budget for the next financial year have been approved and commercial terms and conditions with partners agreed. All this jeopardizes the Company and Group financial position and future investment plans as well as credibility towards shareholders.

The Company and Group are also threatened by changes in regulations governing concession fees for maritime domain and tourism land use, the latter still presenting unresolved legal issues. Given the nature of the Company and Group's business, the right to use parts of the maritime domain as well as land for tourism purposes is of vital importance for future growth, especially for campsite-related operations.





ETHICS AND INTEGRITY

Integrity and ethics are part of the corporate culture and the fundamental characteristic of everyday work and business management.

Creating a transparent environment for business management is the company's highest priority. The fundamental approach within Valamar Riviera's business operations includes protecting human rights and promoting fair employment conditions, safe working conditions, responsible environmental management and high ethical standards.

Valamar Riviera complies with the Zagreb Stock Exchange Corporate Governance Code to promote corporate governance culture and business transparency, as evidenced by the annual corporate governance survey. Valamar Riviera also complies with its own Code of Ethics that determines conduct guidelines for all employees as well as ethical principles and values to promote the common good and public interest, and regulates issues related to corruption prevention.

The fundamental principles of Valamar Riviera's business operations include ethical business, equal opportunities and conditions for all its employees, equality and protection of human rights, and fostering the culture of diversity. In all our business activities we are committed to implementing the United Nations' principles for business and human rights as well as the International Labor Organization's fundamental conventions. We are also determined to act in a way that will never have misuse of human rights as its consequence.

Basic human rights and their protection, including the protection of life, health, dignity and privacy, as well as the prevention of discrimination, have all been built into the existing legal employment regulations of the Republic of Croatia. Valamar Riviera complies to and implements them and they have also been integrated into the collective agreement that Valamar concluded with the trade unions active at the company. Valamar Riviera's basic values include responsibility and credibility towards

business partners, caring for employees, support for the community and commitment to environmental preservation.

Valamar Riviera was among the first companies to sign the Diversity Charter in October 2017. The event was organized by the Croatian Business Council for Sustainable Development. Valamar Riviera plans to adopt its Diversity policy in 2018.

Diversity is one of the basic values in modern society. With their diversity, skills, creativity and innovativity, female and male employees are the key to each organization's success in the long term. Diversity enables the achievement of one's full potential, and policies supporting workplace diversity and non-discrimination are the precondition for developing individual talents, creativity and innovations. The Diversity Charter is a document signed by enterprises and other organizations who commit to enforcing workplace diversity and non-discrimination policies.



RESPONSIBILITY FOR MAKING DECISIONS REGARDING VALAMAR RIVIERA'S ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACT

The members of the Management Board of Valamar Riviera and division vice presidents are responsible for making decisions regarding Valamar Riviera's economic, environmental and social impact. The Business Development and Corporate Affairs Division is tasked with the coordination of the umbrella CSR programs and their reporting.



*Ježevac Premium
Camping Resort by
Valamar 4*, Krk*



9 2017 BUSINESS RESULTS

This chapter contains the summary of 2017 consolidated financial results, as reported in our consolidated audited 2017 Annual Report that was published in February 2017.

According to Valamar Riviera's 2017 audited annual report, Croatia's largest tourism company achieved HRK 1.84 billion in total revenues or 17% more than in 2016. Revenue growth was mainly driven by a 20% increase in overnights and a 6.4% increase in the average rate. Adjusted EBITDA rose by 20% to HRK 623 million, operating efficiency

increased and adjusted EBITDA margin reached 35%. The market value of the Valamar Riviera share grew by 26% in the past year.

Valamar Collection
Girandella Resort
4*/5*, Rabac





RESULTS OF THE GROUP



KEY FINANCIAL INDICATORS ¹	2016	2017	2016/2017
Total revenues	1,579,499,901	1,842,036,109	16.6%
Sales revenues	1,454,867,739	1,755,286,721	20.6%
Board revenues (accommodation and board revenues) ²	1,174,716,569	1,447,866,807	23.3%
Operating costs ³	949,930,753	1,145,185,720	20.6%
EBITDA ⁴	512,583,688	606,042,467	18.2%
Extraordinary operations result and one-off items ⁵	-6,376,909	-16,566,528	-159.8%
Adjusted EBITDA ⁶	518,960,597	622,608,995	20.0%
EBIT	246,704,521	259,502,687	5.2%
Adjusted EBIT ⁶	253,081,430	276,069,214	9.1%
EBT	271,909,189	238,643,759	-12.2%
Net profit	342,313,778	245,087,385	-28.4%
EBT margin	18.3%	13.4%	-490 bp
EBITDA margin	34.4%	34.1%	-30 bp
Adjusted EBITDA margin ⁶	34.9%	35.0%	10 bp
	31/12/2016	31/12/2017	2016/2017
Net debt ⁷	1,398,102,734	1,772,353,634	26.8%
Net debt / Adjusted EBITDA	2.69	2.85	5.8%
Cash and cash equivalents	274,650,648	287,836,954	4.8%
Capital investments	428,440,048	877,743,649	104.9%
ROE ⁸	14.4%	9.7%	-470 bp
Adjusted ROCE ⁹	6.7%	6.4%	-30 bp
Market capitalization ¹⁰	4,295,057,872	5,420,289,760	26.2%
EV ¹¹	5,693,160,606	7,192,643,394	26.3%
EPS ¹²	2.76	1.96	-29.1%
DPS ¹³	0.60	0.80	33.3%
Key business indicators¹⁴	2016	2017	2016/2017
Number of accommodation units (capacity)	18,072	20,852	15.4%
Number of beds	48,524	56,662	16.8%
Full occupancy days	126	127	0.4%
Annual occupancy (%)	34%	35%	100 bp
Accommodation units sold	2,277,815	2,639,755	15.9%
Overnights	5,144,328	6,173,142	20.0%
ADR ¹⁵ (in HRK)	516	548	6.3%
RevPAR ¹⁶ (in HRK)	65,002	69,415	6.8%

TOTAL REVENUES

Total revenues were HRK 1,842.0 million in 2017, and their strong growth (+16.6% or +HRK 262.5 million) resulted from the following:

i) Sales revenues rose by 20.6% (+HRK 300.4 million) to HRK 1,755.3 million, mainly driven by board revenues (+23.3% or +HRK 273.2 million) and the revenues of other operating departments: leasing, sport, laundry, tourist agency, etc. (+HRK 16.8 million).

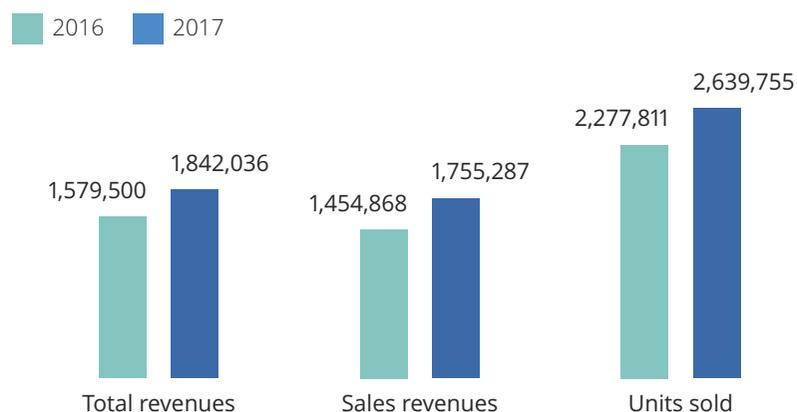
ADR rose by 6.4% to HRK 548, the total number of accommodation units sold was 2.639.755 (+15.9%) thanks to the active management of revenues, sales channels and marketing segments. Board revenues hit HRK 1.447,9 million (+HRK 273,2 million). All marketing segments grew in January and February, except for M.I.C.E.¹⁷. March saw smaller business volumes due to Easter holidays occurring in April. However, this was offset in April when all marketing segments received great feedback. May was affected by the later occurrence of holidays in the German and Austrian source market, and the positive effects were carried over into June. Apart from the holiday factor, June saw a strong demand for Valamar Riviera's portfolio products and services, thus driving an optimum price yield, especially in destination Poreč. The growth in board revenues in high season (July-September) was mainly driven by ADR increase. The direct sales channel presented the highest growth rates, especially in northern destinations, as focus was shifted from the less profitable OTA¹⁸ channel. Shoulder season (October-December) saw higher group and allotment numbers especially during holidays in the German and Austrian market, and an increase in the number of US guests in Dubrovnik. The market feedback during the

Christmas/ New Year period was as strong as usual. Domestic sales revenues rose by 26.1% over 2016 results to HRK 150.1 million and represented 8.1% of total revenues (7.5% in 2016). International sales revenues rose by HRK 269.4 million to HRK 1,605.2 million and represented 87.1% of total revenues (84.6% in 2016).

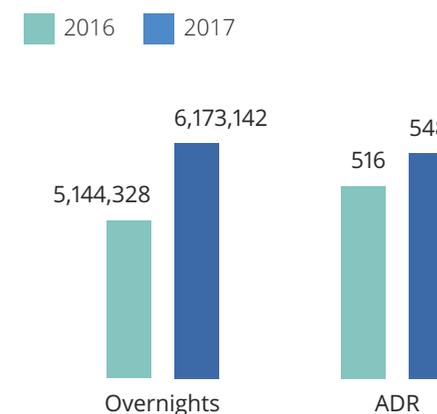
ii) **Financial income** fell by 30.0% (-HRK 27.2 million) to HRK 63.6 million due to the absence of 2016 one-time income effect driven by share portfolio sale.

iii) **The consolidation of Imperial** contributed to the Group's total revenues with 9 percentage points. Other operating and financial income represented 4.7% of total revenues (7.9% in 2016).

REVENUES (in HRK '000) AND ACCOMMODATION UNITS SOLD



OVERNIGHTS AND ADR (in HRK)



¹ Classified according to the Annual Financial Statement (TFI POD-RDG). EBIT, EBITDA and EBT and their adjusted values and respective margins 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 costs include material costs, staff costs, other costs, and other operating costs reduced by extraordinary expenses and one-off items.

⁴ EBITDA (earnings before interest, taxes, depreciation and amortization) is calculated as: operating income – total operating costs + depreciation and amortisation + value adjustments.

⁵ Adjustments were made for (i) extraordinary income (in the amount of HRK 11.0 million in 2017, and HRK 21.5 million in 2016), (ii) extraordinary expenses (in the amount of HRK 26.5 million in 2017, and HRK 23.6 million in 2016), and (iii) termination benefit costs (in the amount of HRK 1.0 million in 2017, and HRK 4.3 million in 2016).

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 + liabilities for loans, deposits and other – 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 2017 net of treasury shares amounts to 124,233,091, while per 31 December 2016 amounts to 124,170,508.

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 2017: 124,207,204. Weighted average number of shares as at 31 December 2016: 124,235,079.

¹³ DPS refers to dividends per share.

¹⁴ 2016 key business indicators of Valamar Riviera Group do not include data of Imperial.

¹⁵ Average daily rate is recorded on the basis of cumulative board revenues revenues (accommodation and board's food and beverage revenues).

¹⁶ Revenue per accommodation unit is recorded on the basis of cumulative board revenues (accommodation and board's food and beverage revenues).

¹⁷ Meetings, incentives, conferencing, exhibitions.

¹⁸ Online travel agencies.

→ TOTAL OPERATING EXPENSES OF VALAMAR RIVIERA GROUP¹⁹

(IN HRK)	2016	2017	2016/2017
Operating costs ²⁰	949,930,753	1,145,185,720	20.6%
Total operating expenses	1,241,906,080	1,518,893,175	22.3%
Material costs	450,374,430	519,753,525	15.4%
Staff costs	371,316,789	480,161,466	29.3%
Depreciation and amortisation	265,188,188	346,413,599	30.6%
Other costs	128,500,052	143,755,460	11.9%
Provisions and value adjustments	2,545,384	9,612,565	277.6%
Other operating expenses	23,981,236	19,196,560	-20.0%

→ TOTAL OPERATING EXPENSES

Total operating expenses grew by 22.3% (+HRK 277.0 million) to HRK 1,518.9 million. If Imperial's data are excluded for comparability's sake, total operating expenses grew by 11%. The breakdown of total operating expenses is the following:

i) Material costs represented 34.2% of total operating expenses (36.3% in 2016) and rose by 15.4% (+HRK 69.4 million) to HRK 519.8 million, mainly due to Imperial's consolidation and increased raw material costs (especially direct food and beverage costs, as well as costs of energy and water consumption) driven by larger business volumes.

ii) Staff costs represented 31.6% of total operating expenses (29.9% in 2016) and rose by 29.3% (+HRK 108.8 million) to HRK 480.2 million, mainly due to the efforts invested in securing competitive salaries, benefits and work conditions well as the hiring of construction site staff (to carry out the large investments) and resort staff (to ensure high service quality in the new Premium/ Upscale properties). In 2017 these efforts resulted in

Valamar guaranteeing a minimum monthly net salary of HRK 4,000, and an increase in the base salary and coefficients that resulted in a 19% increase in the volume of total salaries. Consequently, following an agreement with trade unions, the base salary for nearly two thousand Valamar employees increased (2% in June 2016, 2% in December 2016 and 1.5% in June 2017; and 0.5% increment for years of service as of 1 January 2017) as well as the Tariff coefficients (2.5%) for nearly 50 key and scarce occupations (maids, cleaners, chefs, waiters and other)

iii) Amortization cost represented 22.8% of total operating expenses (21.4% in 2016) and rose by 30.6% (+HRK 81.3 million) to HRK 346.4 million, mainly due to the consolidation of Imperial and the previous investments.

iv) Other costs represented 9.5% of total operating expenses (10.3% in 2016) and rose by 11.9% (+HRK 15.3 million) to HRK 143.8 million, mainly due to Imperial's consolidation.

v) Provisions and value adjustments

represented 0.6% of total operating expenses (0.2% in 2016) and rose by 277.6% (+HRK 7.1 million) to HRK 9.6 million, mainly due to Imperial's consolidation, provisions for litigations in progress and the value adjustment of non-core assets of Magične stijene d.o.o.

vi) Other operating expenses represented 1.3% of total operating expenses (1.9% in 2016) and fell by 20.0% (-HRK 4.8 million) to HRK 19.2 million due to operating expenses of previous years.

Operating costs²⁰

Operating costs rose by 20.6% to HRK 1,145.2 million mainly due to i) this year's consolidation of Imperial, ii) increased raw material costs driven by larger business volumes and iii) increased staff costs (as previously explained). If Imperial's consolidation is excluded for comparability's sake, operating costs grew by 12% and remained under control through active cost management.

EBITDA

Adjusted EBITDA²¹ jumped by 20.0% (+HRK 103.5 million) to HRK 622.6 million, as a result of the largest investments so far that were focused on improving competitiveness and the quality of services and products, the Imperial hotel group acquisition, active operating efficiency management and demand-driven optimization of distribution and prices. Imperial's consolidation carried 11 percentage points in the growth. Unadjusted EBITDA rose by 18.2% (+HRK 93.5 million) to HRK 606.0 million as a result of better performance. Please note that the strong growth in adjusted and unadjusted EBITDA is influenced by the 2017 negative impact of the lower seasonal EUR/HRK exchange rate and the VAT rate for hospitality services going from 13% to 25% as of 1 January 2017.

PROFIT

The Group's net profit fell by HRK 97.2 million to HRK 245.1 million in 2017 due to weaker financial results (-HRK 46.0 million; for details see next page) and lower tax revenue (-HRK 64.0 million) mainly due to the lower one-off recognition of deferred tax assets²². EBT margin fell by 490 basis points to 13% (18% in 2016).

FINANCIAL RESULT

The Group achieved a negative financial result of HRK 20.9 million in 2017 (in 2016 it achieved a positive financial result of HRK 25.2 million). The financial result decreased by HRK 46.1 million mainly due to a i) HRK 35.0 million decrease in income from share portfolio sale resulting from the absence of last year's one-off income effect, ii) HRK 5.0 million decrease in net forex gains related to long-term loans (in 2017 total forex gains were HRK 31.6 million, and total forex losses were HRK 25.5 million), and iii) the net effect of a HRK 6.3 million increase in financial expenses related to long-term loan interest.

Financial income

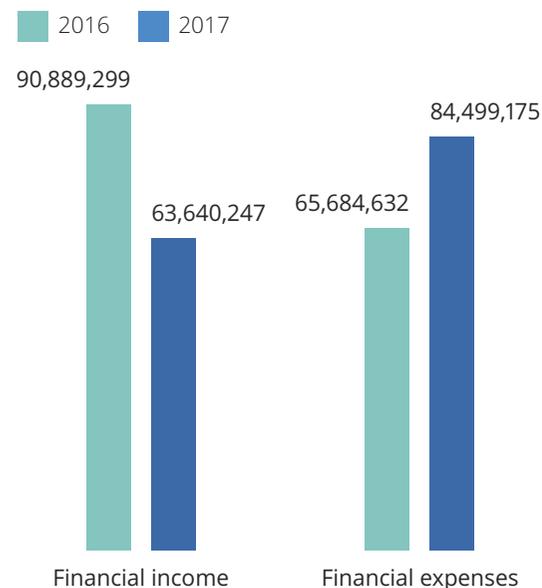
Financial income fell by HRK 27.2 million over 2016 results to HRK 63.6 million. The most significant decrease was reported in other financial income due to the aforesaid absence of the one-off income effect of HRK 35.0 million driven from 2016 share portfolio sale. Forex gains related to long-term loans increased by HRK 10.8 million to HRK 31.6 million. Financial income related to interest fell by HRK 3.6 million to HRK 0.7 million as a result of reduced free cash flow and lower interest rates in 2017 vs. 2016.

Financial expenses

Financial expenses rose by HRK 18.8 million over 2016 to HRK 84.5 million. Forex loss related to long-term loan rose by HRK 15.8 million to HRK 25.5 million. Financial expenses related to interest rose by HRK 6.3 million to HRK 40.1 million driven by higher financial leverage used for 2017 investments. Unrealized expenses from financial assets fell by HRK 1.5 million to HRK 6.8 million, driven by higher interest rates that had a positive impact on IRS fair value.

FINANCIAL INCOME AND EXPENSES

(in HRK)



¹⁹ Classified according to the Annual Financial Statement (TFI POD-RDG).

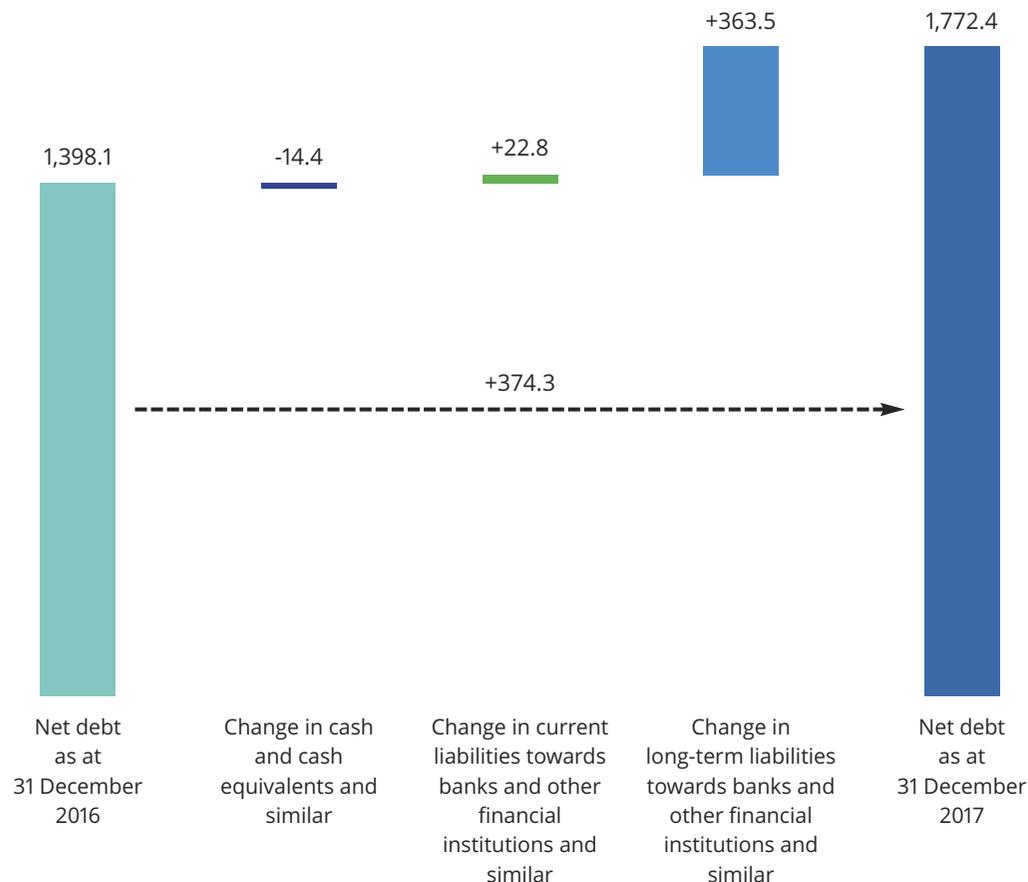
²⁰ Operating costs include material costs, staff costs, other costs, and other operating costs reduced by extraordinary expenses and one-off items.

²¹ Adjustments were made for (i) extraordinary income (in the amount of HRK 11.0 million in 2017, and HRK 21.5 million in 2016), (ii) extraordinary expenses (in the amount of HRK 26.5 million in 2017, and HRK 23.6 million in 2016), and (iii) termination benefit costs (in the amount of HRK 1.0 million in 2017, and HRK 4.3 million in 2016).

²² In 2017 deferred tax assets was recognized mainly due to tax incentives prescribed by the Act on Investment Promotion and Investment Improvement which amounted to HRK 54.1 million, in respective to HRK 124.7 million in 2016.



NET DEBT²³ (in HRK million)



ASSETS AND LIABILITIES

As at 31 December 2017 the total value of the Group's assets increased by 11.9% vs 31 December 2016 and totaled HRK 4,996.6 million.

Total share capital and reserves grew by 6.0% to HRK 2,516.2 million as a result of i) HRK 243.6 million of realized profit in 2017 vs HRK 342.3 million of realized profit as at 31 December 2016 and ii) HRK 263.1 million of retained profit vs HRK 36.6 million of retained profit in 2016.

Total long-term liabilities rose from HRK 1,556.1 million to HRK 1,915.7 million due to loans contracted to finance this year's investments.

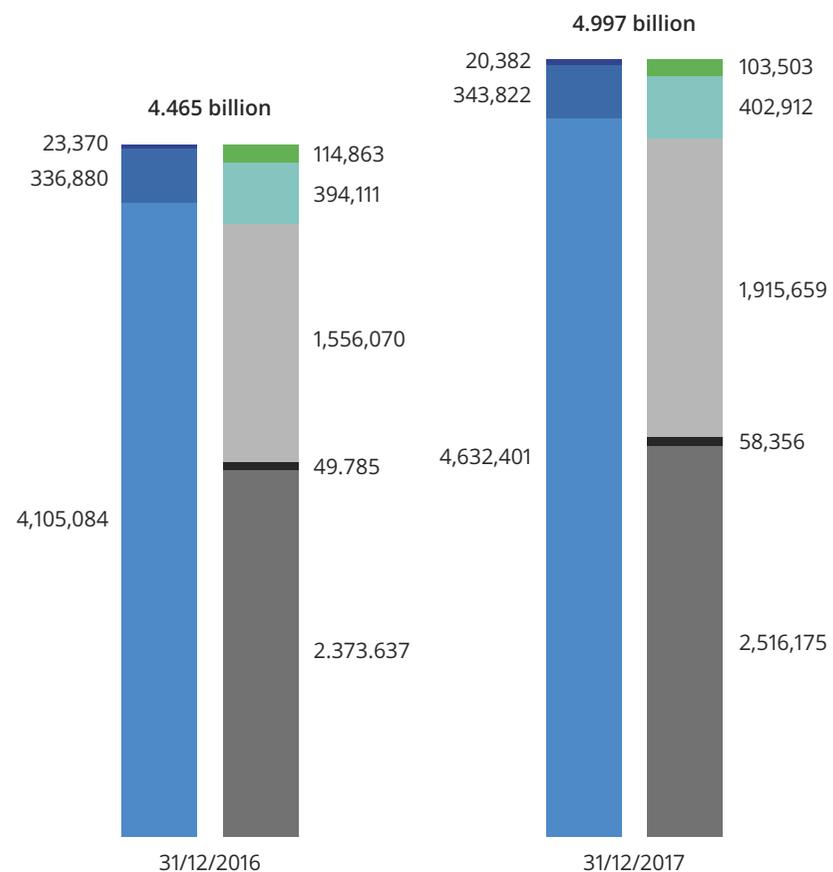
Total short-term liabilities were HRK 402.9 million and rose by 2.2% vs 31 December 2016 as a result of i) lower trade payables (down by HRK 21.9 million) given the smaller range of 2017/18 investments, ii) the current repayment of 2018 long-term debt (up by HRK 22.8 million), iii) higher liabilities related to advance payments from customers (up by HRK 8.0 million), and iv) liabilities related to employees (up by HRK 1.8 million due to a larger consolidation scope and the increased number of employees vs 31 December 2016).

Cash and cash equivalents were HRK 287.8 million as at 31 December 2017 and rose by 4.8%, indicating a further strong cash potential from business activities. Together with external financing, they are able to secure a smooth continuation of future investments and potential acquisitions.

²³ 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.

ASSETS AND LIABILITIES

(in HRK '000)



PROFITABILITY INDICATORS OF VALAMAR RIVIERA GROUP

	2016	2017	2017/2016
EBITDA margin	34.4%	34.1%	-30 bp
Adjusted EBITDA margin	34.9%	35.0%	10 bp
EBIT margin	16.6%	14.6%	-200 bp
Adjusted EBIT margin	17.0%	15.5%	-150 bp
EBT margin	19.3%	13.4%	-590 bp
Net profit margin	23.0%	13.8%	-920 bp
ROA	7.7%	4.9%	-280 bp
ROE	14.4%	9.7%	-470 bp
Adjusted ROCE	6.7%	6.4%	-30 bp

VALUATION OF VALAMAR RIVIERA GROUP

	31/12/2016	31/12/2017	2017/2016
Average share price per (in HRK)	34.59	43.63	26.1%
Market capitalization (in HRK)	4,295,057,872	5,420,289,760	26.2%
EV (in HRK)	5,693,160,606	7,192,643,394	26.3%
EPS (in HRK)	2.76	1.96	-29.0%
DPS (in HRK)	0.60	0.80	33.3%
EV / Sales revenues	3.9x	4.1x	5.1%
EV / EBITDA	11.1x	11.9x	6.9%
EV / Adjusted EBITDA	11.0x	11.6x	5.0%
EV / EBIT	23.1x	27.7x	20.0%
EV / Adjusted EBIT	22.5x	26.1x	15.8%



KEY OPERATING INDICATORS OF VALAMAR RIVIERA GROUP PER SEGMENTS²⁴

HOTELS AND RESORTS

Board revenues of hotels and resorts rose by 20.6% (+HRK 189.9 million) to HRK 1,109.6 million. Their growth was driven by the strong demand for the new Premium and Upscale properties, the Imperial hotel group acquisition, demand-driven optimization of the marketing mix and prices and the successful realization of group stays (leisure and events). Please note that the growth was partly due to the performance of the hotels and resorts on Rab Island. If excluded, the total board revenues of hotels and resorts grew by 10%.

Premium hotels and resorts

Premium hotels and resorts reported HRK 276.8 million in board revenues that were up by 23.2% (+HRK 52.1 million) driven by ADR (HRK 1,257, +12.4%) and 220,226 accommodation units sold (+9.6%). The properties that influenced most of the growth were the newly-opened Valamar Girandella Resort 4*&5* that achieved an 80% growth in board revenues with fewer operating days, and Valamar Isabella Island Resort 4*&5* that reported strong growth in direct sales and 15% ADR growth. Last year's Daimler AG – Mercedes-Benz M.I.C.E. event did not take place, but this was compensated by allotments and growth in all other sales channels, ADR optimization and M.I.C.E. events in the shoulder season at Valamar Dubrovnik President 5* and Valamar Lacroma 4*.

Upscale hotels and resorts

Upscale hotels and resorts reported HRK 315.4 million in board revenues that were up by 41.7%

(+HRK 92.8 million) driven by ADR (HRK 1,009, +2.5%) and 312,618 accommodation units sold (+38.3%). The properties that influenced most of the growth were i) the new Bellevue Family Life Resort 4* (with fewer operating days, this Upscale property achieved a near 65% growth in board revenues) and ii) this year's consolidation of the hotels and resorts on Rab Island with their 10% contribution to board revenues. The strong growth reported by Valamar Zagreb 4* was driven by ADR increase in peak season and larger business volumes in the shoulder season, especially through allotments and groups. Valamar Hotel & Casa Sanfior 4* reported strong growth mainly due to a very good group placement in the shoulder season and excellent direct sales results. The Tamaris Resort reported board revenue growth mainly driven by two events, "X-Jam Croatia" and "Lighthouse Festival Croatia". Valamar Argosy 4* reported board revenue growth driven by the allotment and group sales channels.

Midscale hotels and resorts

Midscale hotels and resorts reported HRK 382.7 million in board revenues that were up by 13.2% (+HRK 44.7 million) driven by ADR (HRK 672, -1.4%) and 569,159 accommodation units sold (+14.8%). In 2017 the Midscale segment was negatively affected by Bellevue Family Life Resort 4* going from Midscale to Upscale. However, this was offset by the positive effect of this year's consolidation of Imperial Midscale hotels and resorts (18% contribution to board revenues). All Midscale hotels and resorts

reported growth, with most of the comparable growth generated by the hotels: i) Valamar Diamant 4*, Valamar Crystal 4* and Valamar Rubin 3* (successful replacement of OTA sales with direct sales), ii) Miramar 3* and Allegro 3* (increase in allotments and direct sales in peak season and groups in the post season period), iii) Corinthia 3* (more operating days, successful group placement in the preseason period and excellent individual sales in peak season) and iv) Valamar Club Dubrovnik 3* (sales channel optimization with focus on the allotment and group channels).

Economy hotels and resorts

Economy hotels and resorts reported HRK 134.7 million in board revenues that were up by 0.2% (+HRK 0.2 million), driven by ADR (HRK 385, -6.1%) and 729,489 accommodation units sold (+0.6%). The Economy segment was negatively affected by the newly-renovated Valamar Girandella Resort 4*&5* going from Economy to Premium. However, this was offset by the positive effect of this year's consolidation of destination Rab (carrying 9% of the growth) and other comparable segment growth. Most of it was generated by i) Lanterna Apartments 2* (increased demand, "X-Jam Croatia" and „Lighthouse Festival Croatia“), ii) Tirena 3* (excellent allotment and group channel results).

²⁴ According to the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry). Business operations of Imperial's properties on the Island of Rab are not included in 2016, but are included in 2017. Puntizela – Pula business is included in destination Poreč. A detailed comparison of the new portfolio segmentation can be found on page 20.

HOTELS AND RESORTS	TOTAL			PREMIUM			UPSCALE			MIDSCALE			ECONOMY		
	2016	2017	2016/ 2017	2016	2017	2016/ 2017	2016	2017	2016/ 2017	2016	2017	2016/ 2017	2016	2017	2016/ 2017
Number of accommodation units	7,927	8,982	13.3%	1,037	1,269	22.4%	1,422	1,980	39.2%	3,112	3,493	12.2%	2,356	2,240	-4.9%
Full occupancy days	158	162	2.5%	194	174	-10.5%	159	158	-0.7%	159	163	2.3%	139	156	12.2%
Annual occupancy rate (%)	43%	44%	2.7%	53%	48%	-10.2%	43%	43%	-0.4%	44%	45%	2.6%	38%	43%	12.5%
Accommodation units sold	1,250,791	1,452,014	16.1%	201,003	220,226	9.6%	226,086	312,618	38.3%	495,689	569,159	14.8%	328,013	350,011	6.7%
Overnights	2,668,550	3,115,692	16.8%	386,163	463,667	20.1%	500,925	729,117	45.6%	1,056,601	1,193,419	12.9%	724,861	729,489	0.6%
ADR ¹⁵	735	764	3.9%	1,118	1,257	12.4%	984	1,009	2.5%	682	672	-1.4%	410	385	-6.1%
Board revenues (in HRK)	919,726,790	1,109,581,848	20.6%	224,678,769	276,758,965	23.2%	222,521,004	315,357,057	41.7%	338,024,283	382,724,084	13.2%	134,502,733	134,741,742	0.2%
RevPAR ¹⁶ (in HRK)	116,025	123,534	6.5%	216,662	218,092	0.7%	156,485	159,271	1.8%	108,620	109,569	0.9%	57,089	60,153	5.4%
Adjusted EBITDA ²⁵ (in HRK)	560,211,649	643,485,966	14.9%	144,730,691	170,535,626	17.8%	138,900,914	212,065,021	52.7%	195,987,797	195,305,919	-0.3%	80,592,247	65,579,399	-18.6%

²⁵ When calculating adjusted EBITDA, internal allocation of revenues and expenses as well as inter-segment revenues and expenses are excluded from the calculation. Adjusted EBITDA of other segments amounts to HRK -270.0 million in 2017, i.e. HRK -229.6 million in 2016. Other segments include business of central operations, laundry, sport, central kitchen, strategic rentals, etc.



CAMPING RESORTS

Camping resorts reported high board revenues totaling HRK 338.3 million. Campsites reported strong overall performance due to increased demand for this year's investments in campsites, especially mobile homes. ADR optimization for mobile homes, more overnights and this year's consolidation of Imperial camping resorts resulted in a strong 32.7% growth in board revenues (+HRK 83.3 million). This year's consolidation of Rab camping resorts affected board revenues by 15%.

Premium camping resorts

Premium camping resorts reported HRK 133.4 million in board revenues that were up by 445.5% (+HRK 108.9 million) driven by ADR (HRK 343, -5.0%) and 388,757 accommodation units sold (+474.3%). The Premium segment was positively affected by Camping Resort Lanterna 4* going from Upscale to Premium. Camping

Resort Lanterna 4* reported an 18% growth in board revenues due to the great feedback received by marketing activities related to the placement of this year's investments in new products and amenities. The rest of the growth was mainly driven by the excellent performance of Camping Resort Krk 5*.

Upscale camping resorts

Upscale camping resorts reported HRK 53.2 million in board revenues that were down by 59.5% as a result of Camping Resort Lanterna 4* going from Upscale to Premium. Excluding 2016 performance of Camping Resort Lanterna 4*, the Upscale segment reported a strong 25.3% growth in board revenues. Camping Marina 4* and Ježevac 4* reported high growth in board revenues thanks to the investments in new mobile homes. Better results at Camping Bunculuka 4* were driven by ADR increase.

Midscale camping resorts

All Midscale campsites reported growth in board revenues that totaled HRK 120.5 million. Board revenues rose by 73.0% (+HRK 50.8 million) driven by ADR (HRK 252, +20.4%) and 479,060 accommodation units sold (+43.6%). Most of the growth was driven by the consolidation of Rab campsites. The remaining 18% in the growth was generated by the following campsites: i) Stara Baška 3* and Zablaće 3* (investments in new mobile homes), and ii) Solaris 3*, Orsera 3* and Solitudo 3* (increased business volumes).

Economy camping resorts

Economy campsites reported HRK 31.2 million in board revenues that were up by 5.4% (+HRK 1.6 million) driven by ADR (HRK 206, +8.9%) and 151,660 accommodation units sold (-3.2%). These results were positively influenced by investments in Camping Brioni 2* and stronger performance reported by Istra 2* and Tunarica 2*.

CAMPING RESORTS	TOTAL			PREMIUM			UPSCALE			MIDSCALE			ECONOMY		
	2016	2017	2016/ 2017	2016	2017	2016/ 2017	2016	2017	2016/ 2017	2016	2017	2016/ 2017	2016	2017	2016/ 2017
Number of accommodation units	10,145	11,870	17.0%	511	3,466	578.3%	4,437	1,434	-67.7%	3,387	5,150	52.1%	1,810	1,820	0.5%
Full occupancy days	101	100	-1.2%	132	112	-15.3%	106	117	11.0%	98	93	-5.5%	87	83	-3.7%
Annual occupancy rate (%)	28%	27%	-0.9%	36%	31%	-15.1%	29%	32%	11.3%	27%	25%	-5.3%	24%	23%	-3.5%
Accommodation units sold	1,027,020	1,187,741	15.6%	67,694	388,757	474.3%	469,121	168,264	-64.1%	333,531	479,060	43.6%	156,674	151,660	-3.2%
Overnights	2,475,778	3,057,450	23.5%	197,491	1,135,715	475.1%	1,198,905	398,631	-66.8%	721,187	1,153,982	60.0%	358,195	369,122	3.1%
ADR ¹⁵	248	285	14.7%	361	343	-5.0%	280	316	13.0%	209	252	20.4%	189	206	8.9%
Board revenues (in HRK)	254,989,779	338,284,959	32.7%	24,448,224	133,352,887	445.5%	131,206,913	53,156,811	-59.5%	69,686,153	120,533,212	73.0%	29,648,489	31,242,049	5.4%
RevPAR ¹⁶ (in HRK)	25,134	28,499	13.4%	47,844	38,475	-19.6%	29,571	37,069	25.4%	20,575	23,405	13.8%	16,380	17,166	4.8%
Adjusted EBITDA ²⁵ (in HRK)	188,350,077	249,094,437	32.3%	17,245,497	101,669,058	489.5%	102,671,633	41,528,065	-59.6%	46,834,312	86,505,421	84.7%	21,598,635	19,391,893	-10.2%

KEY OPERATING INDICATORS OF VALAMAR RIVIERA GROUP PER DESTINATIONS²⁴

DESTINATIONS

Destination Poreč

Destination Poreč reported HRK 624.8 million in board revenues that were up by 8.8% (+HRK 50.7 million) driven by ADR (HRK 487, +4.8%) and 1,282,228 accommodation units sold (+3.8%). The properties that influenced most of the board revenues growth were Valamar Isabella Island Resort 4* & 5*, Apartments Lanterna 2*, Camping Resort Lanterna 4*, Valamar Zagreb 4*, Valamar Diamant 4*, Valamar Crystal 4* and Valamar Rubin 3*.

Destination Rabac

Board revenues were HRK 195.9 million, driven by ADR (HRK 635, +18.1%) and 308,369 accommodation units sold (+9.4%). The 18.1% growth in board revenues (+HRK 44.4 million) was mainly due to a strong demand for Valamar Girandella Resort 4* & 5*

and Bellevue Family Life Resort 4* that were repositioned after a series of investments, as well as the following properties: Hotel & Casa Valamar Sanfior 4*, Allegro hotel 3*, Miramar hotel 3* and Camping Marina 4*.

Krk Island

Board revenues were HRK 195.1 million, driven by ADR (HRK 432, +12.3%) and 451,987 accommodation units sold (+3.8%). The campsites on Krk Island (especially Ježevac 4* and Zablaće 3*) and Corinthia hotel 3* were the main contributors to total growth.

Rab Island

This year's consolidation of hotels and resorts and camping resorts on Rab Island contributed with HRK 131.8 million. Destination Rab reported a 14% increase in board revenues over 2016 results.

Destination Dubrovnik

Destination Dubrovnik reported HRK 300.2 million in board revenues that were mainly driven by ADR going up by 4.3% to HRK 901. "Global Training Experience by Daimler AG – Mercedes-Benz" M.I.C.E. event was not held in 2017, destination Dubrovnik generated HRK 18.5 million more in board revenues.

DESTINATIONS	POREČ			RABAC			KRK ISLAND			RAB ISLAND			DUBROVNIK		
	2016	2017	2016/ 2017	2016	2017	2016/ 2017	2016	2017	2016/ 2017	2016	2017	2016/ 2017	2016	2017	2016/ 2017
Number of accommodation units	10,632	10,584	-0.5%	2,065	1,971	-4.6%	3,414	3,577	4.8%	/	2,759	/	1,961	1,961	0.0%
Full occupancy days	116	121	4.3%	136	156	14.7%	128	126	-0.9%	/	96	/	166	170	2.2%
Annual occupancy rate (%)	32%	33%	4.6%	37%	43%	15.0%	35%	35%	-0.6%	/	26%	/	45%	47%	2.4%
Accommodation units sold	1,234,693	1,282,228	3.8%	281,750	308,369	9.4%	435,348	451,987	3.8%	/	264,114	/	326,020	333,057	2.2%
Overnights	2,881,737	3,075,877	6.7%	642,552	673,169	4.8%	1,010,914	1,063,850	5.2%	/	716,510	/	609,125	643,736	5.7%
ADR ¹⁵	465	487	4.8%	538	635	18.1%	384	432	12.3%	/	499	/	864	901	4.3%
Board revenues (in HRK)	574,077,286	624,793,941	8.8%	151,518,687	195,916,080	29.3%	167,341,883	195,074,956	16.6%	/	131,842,656	/	281,778,713	300,239,175	6.6%
RevPAR ¹⁶ (in HRK)	53,995	59,032	9.3%	73,375	99,399	35.5%	49,016	54,536	11.3%	/	47,786	/	143,691	153,105	6.6%
Adjusted EBITDA ²⁵ (in HRK)	368,687,622	393,293,569	6.7%	85,462,089	95,161,189	11.3%	109,627,842	129,928,462	18.5%	/	80,715,171	/	184,784,174	193,482,014	4.7%



OPINION OF THE MANAGEMENT BOARD COMMITTEE OF THE CROATIAN BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT ON THE 2017 CSR REPORT OF VALAMAR RIVIERA

The Management Board Committee of the Croatian Business Council for Sustainable Development has reviewed the latest, 2017 integrated report by Valamar Riviera d.d., featuring a CSR report. Valamar produced the report on sustainability matters following the Global Reporting Initiative G4 guidelines (core option). These matters have been integrated into a far more comprehensive annual report by Valamar, which covers not only sustainability-related matters but also information related to business operations and financial results.

Valamar Riviera is Croatia's leading tourism company. Even at first glance, it is easy to notice the company's orientation towards investments in the development of business operations, portfolio properties and service quality, which Valamar seems to be fully committed to. The data stated in the report show that, last year, Valamar invested nearly half of its revenues in development, which, it should be stressed, encompasses not only properties, but also sizeable funds invested in destination development and employee training.

The selection of material topics by Valamar suggests that special attention was paid to environmental and employee-related topics, alongside service quality and economic impact. These are the most important non-financial topics and have been classified and developed using the company's strategic initiatives.

The company's relationship with its employees is one of the two most significant non-financial topics and accounts for a major part of this report. Quite detailed employee-related data, including high retention rate, investments in education and improvement of the seasonal employees' accommodation, show that the company is very much oriented towards its workforce satisfaction and quality. The average number of training hours per employee amounts to a rather high number of 21 hours. Moreover, employee satisfaction is boosted by their salaries, which are higher than the average salaries in Croatia and significantly higher than the average salaries in this particular sector. Furthermore, employee motivation is additionally strengthened with the help of a carefully developed reward system, which provides the best employees with opportunities to stand out and, more importantly, values proactivity and commitment to work. Also, special attention is paid to the education of managers, 70 percent of whom have completed the Valamar Academy program.

It is also important to point out that Valamar is one of the signatories of Croatia's Diversity Charter, whereby the company has declared and committed to workplace diversity and equal opportunities.

Valamar shares its considerable success with its community, as evidenced by its large donation program comprising nine themed programs. Accordingly, special attention is devoted to investments in destination development in locations where the company operates, which is an excellent example of strategic donations.

A sizable portion of investments has been dedicated to managing the company's environmental impact as well. Last year, Valamar renovated its laundry facility in Poreč. It also holds the ZelEn certificate, proving that the electricity provided by the power company HEP comes from sustainable sources, and that the company is systematically working on raising the guests' awareness and providing them with detailed instructions on how to contribute to preserving the resources while staying at Valamar's hotels. The company also invests in bicycle rental networks, thus encouraging guests to use the most environmentally friendly mode of transportation, at the same time providing them with opportunities to have and enjoy new experiences.

Nearly 3 percent of the total electrical energy consumed by Valamar in 2017 came from the solar collectors that the company systematically invests in. A solar power station installed on the HQ building in Poreč was put into operation – it is a photovoltaic power plant pilot project whose energy is used by the building, and the plan to intensify investments in the company's own solar power manufacturing facilities confirms Valamar's focus on continued sizeable investments in the development of



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

sustainable energy sources. Furthermore, the company's strategic goal is to completely abandon heating oil, while simultaneously developing an electrically powered internal transportation network. It is expected that all these strategic goals will result in a continued increase in the share of renewable sources in Valamar's total energy consumption.

Valamar's great responsibility for influencing sustainability and contributing to reaching the global sustainable development goals lies in the fact that it is the largest tourism company in Croatia, which in a way puts it at the forefront. Therefore, it is extremely important to see that investments in environmental protection, energy efficiency, and development of services and products with reduced resource consumption represent a vital segment in Valamar's strategy. If we add to that their great responsibility for employee satisfaction and their continued development, it is clear that we are talking about a responsible company.

We can thus conclude that the integrated report before us presents a comprehensive and rather impressive picture of Valamar's business operations over the past year and provides a full overview of not only the material impacts from the perspective of sustainability but also the way Valamar approaches their management.

Management Board Committee of the Croatian Business Council for Sustainable Development





GRI INDEX

Aspect	GRI description	Page no.
G4-1	Statement from the CEO	4, 5, 6, 7
G4-2	Key impacts, risks and opportunities	41, 42, 43, 44, 46, 47, 48, 49, 50, 51, 52, 86, 87, 88, 89, 90, 91, 112, 113, 114, 115, 153, 174, 175, 176, 178, 179, 180, 181, 182, 183
G4-3	Name of the organization	12
G4-4	Primary brands, products and/or services	12, 14, 15, 46, 47, 48, 49, 50, 51, 52, 92, 93, 94, 95, 96, 97, 98, 99
G4-5	Location of the organization's headquarters	14
G4-6	Number of countries where the organization operates	12, 14, 15
G4-7	Nature of ownership and legal form	162
G4-8	Markets served	12, 15
G4-9	Scale of the organization	14, 15
G4-10	Total number of employees by employment type, employment contract and region	64, 68
G4-11	Percentage of total employees covered by collective bargaining agreements	72
G4-12	The organization's supply chain	100, 101, 102, 103
G4-13	Significant changes during the reporting period	104, 149
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	58, 59, 60, 63, 160
G4-16	Memberships of associations	107
Identified Material Aspects and Boundaries		
G4-17	Entities included in the organization's financial statements	10
G4-18	Process for defining the report content	10
G4-19	List of the material aspects	36, 37
G4-20	Material aspects within the organization	36, 37, 38
Stakeholder Engagement		
G4-24	List of stakeholder groups engaged by the organization	30, 32, 33
G4-25	Identification and selection of stakeholders with whom to engage	30, 32, 33
G4-26	Approach to stakeholder engagement	30, 32, 33

Aspect	GRI description	Page no.
Report Profile		
G4-28	Reporting period	10
G4-29	Date of most recent previous report	10
G4-30	Reporting cycle	10
G4-31	Contact point for questions regarding the report	10
G4-32	GRI Content Index	200, 201, 202, 203
G4-33	External assurance for the report	10
Governance Structure and Composition		
G4-34	Governance structure of the organization	80, 164, 165, 166
Ethics and Integrity		
G4-56	Values, principles, standards and norms of behavior	41, 42, 43, 162, 177, 184
CATEGORY: ECONOMIC		
Economic Performance		
G4-EC1	Direct economic value generated and distributed	32, 34, 35
G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	183
G4-EC9	Proportion of spending on local suppliers at significant locations of operation	32
CATEGORY: ENVIRONMENTAL		
INDICATORS OF ENVIRONMENTAL IMPACT		
Energy		
G4-EN3	Energy consumption within the organization	142, 146, 147
G4-EN5	Energy intensity	146, 147
Emissions		
G4-EN19	Reduction of greenhouse gas (GHG) emissions	134, 135, 141, 142, 143, 144, 145

Aspect	GRI description	Page no.
Effluents and Waste		
G4-EN22	Total water discharge by quality and destination	148
G4-EN23	Total weight of waste by type and disposal method	148
Overall		
G4-EN31	Total environmental protection expenditures and investments by type	141, 142
CATEGORY: SOCIAL		
LABOR PRACTICES AND DECENT WORK		
Employment		
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	65
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	66
Labor/Management Relations		
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	74
Training and Education		
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees	66, 76, 77, 78, 79, 84, 85, 126
G4-LA11	Percentage of employees receiving regular performance and career development reviews	73, 81
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	166, 167, 168, 169, 170, 171, 172, 173
Equal Remuneration for Women and Men		
G4-LA13	Ratio of basic salary and remuneration of women and men by employee category, by significant locations of operation	72
SOCIETY		
Local Communities		
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	126, 134, 135, 137, 138

Aspect	GRI description	Page no.
PRODUCT RESPONSIBILITY		
Customer Health and Safety		
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	59, 141, 142, 160
Product and Service Labeling		
G4-PR5	Results of surveys measuring customer satisfaction	53, 54, 56, 57
Marketing Communications		
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes	58, 60



DISCLAIMER

The 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. The 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 the strategic goals. In addition, 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 prevailing circumstances.

Risks and uncertainties include, but are not limited to the ones described in the part "Company and Group Risks". 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 source 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, developments and events in the capital markets of the Republic of Croatia and in the source markets of Valamar Riviera;
- ▶ Spending and disposable income of guests, as well as guests' preferences, trust in and satisfaction with Valamar Riviera's products and services;
- ▶ Trends in the number of overnights, bookings, and average daily rates of accommodation in Valamar Riviera's properties;
- ▶ Trends of the Croatian kuna exchange rate in relation to world currencies (primarily euro), changes in market interest rates and the price of equity securities, and other financial risks to which Valamar Riviera is exposed;

- ▶ Labor 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 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, subcontractors, permits and permissions, weather, prices of goods and services in the course of realizing investments in Valamar's portfolio;
- ▶ Changes of tax and other regulations and laws, trade restrictions, and rates of customs duty;
- ▶ Adverse climatic events and environmental risks.

The strategic goals presented herein are not an outright recommendation to buy, hold or sell Valamar Riviera's shares.