



VALAMAR
All you can holiday



2018

INTEGRATED ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY



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.



2018

INTEGRATED ANNUAL REPORT AND CORPORATE SOCIAL RESPONSIBILITY

VALAMAR RIVIERA d.d.



MESSAGE FROM THE CHAIRMAN



GUSTAV WURMBÖCK,
Supervisory Board
Chairman

The year 2018 was exceptional for Valamar in many ways – we achieved again double-digit business growth in revenues and EBITDA, we invested over HRK 700 million in the further development of our products and portfolio and completed all our projects in time and within our budget. We grew through acquisitions in Croatia and made the first step in cross-border expansion with the purchase of our first hotel in Obertauern, Austria. We also launched a new brand strategy and continued developing numerous high-level service concepts to create further value and increase the experience and satisfaction of our guests.

Valamar received more than fifty awards honoring the excellence of its products and services in the last year. The company received the valuable CSR Index Award given by the Croatian Business Council for Sustainable Development and the Croatian Chamber of Economy for the socially responsible policies of diversity and human rights protection. Furthermore, Valamar Riviera received the Top Turnover Share Award 2018 from the Zagreb Stock Exchange and was voted as share of the year by the public for the seventh consecutive time. We also received another award for investor relations given by Poslovni dnevnik and the Zagreb Stock Exchange. All these achievements reconfirm Valamar's leading status in tourism and hospitality in the year of the company's 65th anniversary.

In a continuous effort to manage our business in a sustainable way, Valamar Riviera is herewith presenting for the fourth consecutive year its integrated business report by using GRI Standards as general guidelines.

Corporate social responsibility is a core value at Valamar Riviera and we are very much aware of our responsibility as the largest tourism company in Croatia. Therefore, we present numerous projects and activities focused on safeguarding natural resources and reducing our environmental impact, destination development and our contribution to communities where we operate, as well as those that are fostering partnerships with all our stakeholders. It also provides a summary of our investments in improving working conditions and employee development, which is a key success factor in our future growth and development.

Valamar carefully considers its impact on the local communities, environment and society and has developed nine umbrella programs in the field of corporate social responsibility, committing to invest annually at least 2.5% of revenues in responsible business practices. We almost doubled this amount in 2018 and invested as much as 4.9% or HRK 101 million in our CSR programs.

I would like to thank the entire management team and all our employees for these

outstanding achievements and emphasize the appreciation for their hard work and efforts. I am very grateful for their smile and outstanding service which resulted in a very high guest satisfaction and numerous awards for our company. We are proud that Valamar was recognized as the best employer in Croatian tourism in 2018 and we will maintain our focus on investments in our employees – this has been and will always be a key priority, as important as investments in hotels and campsites.

As Supervisory Board Chairman, I am therefore pleased to present to you our 2018 Integrated Report.

A handwritten signature in blue ink, consisting of a stylized 'J' followed by a series of loops and a final upward stroke.



MESSAGE FROM THE CEO



ŽELJKO KUKURIN,
Management Board
President and CEO

In the year 2018 the company celebrated 65 years of commitment and success in developing hospitality and Valamar's destinations and this is something that makes us very proud. The history of our company dates back to 1953 when Riviera was established and started operating in Poreč and on Sveti Nikola Island. With some two hundred beds and only twenty people employed, it grew to become the largest company in Croatian tourism. Today, Valamar can welcome around 58,000 guests daily in 34 hotels and resorts and 15 camping resorts. In 2018, we employed over 6,700 people in 7 destinations. Besides being the largest tourism company, Valamar is also among the ten largest companies by market capitalization in Croatia, the top investor in Croatian tourism, a major exporter and an important partner for the Croatian economy.

Despite last year's slowdown in high season demand in Croatia, Valamar achieved double-digit growth in results. Valamar Riviera's total revenues in 2018 were HRK 2.05 billion or 11% more than prior year results. We reported 6.5 million overnights or 4.6% more compared to the same prior year period, while the average rate grew by 5%. Compared to 2017, operating profit increased by 13% to HRK 703 million. The growth achieved was mainly driven by our successful investments in product development and portfolio expansion as well as the balancing of operating efficiency, payroll increase and improving employee working conditions.

Valamar was recognized as the best employer in tourism and the only tourism company among Croatia's TOP 20 employers according to independent market research. We increased salaries by 11% and guaranteed a minimum net pay of HRK 5,000 – 7,500 in 2018. We have invested HRK 60 million in accommodation for seasonal workers and improved other working conditions for our employees. We will continue investing in our employees as they are at the core of our service excellence.

Valamar has invested over HRK 5 billion in Croatian tourism so far, including our investments in the 2019 tourist season worth HRK 793 million as a continuation of Valamar's investment strategy to reposition the portfolio towards premium products and services. We started our investments in the first 5-star campsite in Istria and Valamar Collection Marea Suites 5* Hotel in Poreč, and we also initiated a large investment cycle on Rab Island to grow our business further.

The hospitality company Imperial d.d. acquired by Valamar and AZ fund in 2016 performed successfully in 2018. The process of Imperial's operating stabilization was carried out in 2017, followed by investments worth HRK 72 million in 2018 to open the first Collection hotel on Rab – Valamar Collection Imperial Hotel 4*. Moreover, the largest investment cycle on Rab Island was announced for 2019 (HRK 140 million).

In 2018, Valamar completed the acquisition of the Croatian hospitality company Hoteli Makarska d.d. in partnership with AZ funds, and took over the operations in Makarska. This was followed by the acquisition of a hotel in Obertauern, Austria – our first step in international expansion. We renovated Valamar Obertauern Hotel in record time, took over the operations and opened the hotel in December 2018 – the historical beginning of our alpine operations.

The year 2018 was marked by another significant event for our company – we launched the company's new brand strategy, products and service concepts that will be a framework for our business development in the forthcoming period. Valamar now has 5 product brands under one umbrella brand concept named "All you can holiday" to create the perfect holiday for each guest. Our portfolio now features the following brands: Valamar Collection and Collection Resort representing modern luxury, Valamar Hotels & Resorts as the main brand for hotels and resorts (differentiated as Maro Family or Designed for Adults), Sunny by Valamar as economy brand and Camping Adriatic by Valamar for camping resorts and holidays in nature.

An outstanding year is behind us – we achieved double-digit business growth for the fourth consecutive year, set a solid foundation for our future growth and delivered a suitable dividend on capital invested for our shareholders.

However, we are aware that success cannot be measured only by financial results and that our status makes our role in corporate social responsibility even greater. We want to exemplify that growth and development go hand in hand with social responsibility and this integrated report presents our achievements in this area and show where we want to contribute even more.

In the forthcoming period we will increase our focus on human resource management, business digitalization and the further development of Valamar products and service concepts.

Together with our employees, we want to grow further and set a good example for the community through our responsible and sustainable investments in employees, quality, products and destinations.





TABLE OF CONTENTS

1	ABOUT THIS INTEGRATED REPORT	10
2	ABOUT VALAMAR RIVIERA	12
	Valamar Riviera Celebrating its 65 th Anniversary	16
	Valamar Timeline	18
	Valamar Riviera's Business Model	20
	Asset Management and Long-Term Assets Owned	21
3	THE HOSPITALITY INDUSTRY	24
4	ENGAGEMENT OF KEY STAKEHOLDERS AND MATERIAL ASPECTS	36
	Valamar Riviera's Contribution to Economic Development in 2018	40
	Identification of Material Aspects and Boundaries	42
5	VALAMAR'S CORPORATE STRATEGY	44
	Vision, Mission and Core Values	45
	Strategic Goals 2016-2020	46
	5.1 FOCUS ON THE GUEST	48
	5.2 EMPLOYEES AND ORGANIZATION	70
	5.3 GROWTH STRATEGY	96
	5.4 INNOVATION AND DIGITALIZATION	116
	5.5 DESTINATION DEVELOPMENT AND RESPONSIBILITY TO THE LOCAL COMMUNITY	122
	5.6 COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY	144

6	INVESTOR RELATIONS	154
7	AWARDS AND RECOGNITIONS	160
	International Awards and Recognitions in 2018	162
	National Awards and Recognitions in 2018	163
	Certificates and Standards in 2018	164
8	CORPORATE GOVERNANCE	166
	Corporate Structure	166
	Organizational Structure of Valamar Riviera	171
	Members of the Supervisory Board	172
	Management Board	175
	Division Vice Presidents at Valamar Riviera	176
	Internal Audits and Controls Within Valamar Riviera	178
	Risks of the Company and Group	182
	Ethics and Integrity	188
9	2018 BUSINESS RESULTS	190
	Results of the Group	
	OPINION OF THE MANAGEMENT BOARD COMMITTEE OF THE CROATIAN BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT ON THE 2018 CSR REPORT OF VALAMAR RIVIERA	204
	GRI INDEX	206



ABOUT THIS INTEGRATED REPORT

This integrated report refers to the reporting period from 1 January to 31 December 2018. It is based on the Annual Report of Valamar Riviera Group* published on 27 February 2019.

For the fourth consecutive year, Valamar integrated business reporting with sustainability reporting i.e. non-financial information on the company's environmental and social impacts, using the new GRI Standards (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 develops continual communication with them as part of

Valamar's strategy where sustainable destination development, support to the local community and care for the environment are included in everyday business operations. As the largest employer in Croatian tourism, Valamar focused on investments in the constant development of human resources to maintain its leadership and status as a company providing the best conditions and overall care for its employees. According to an independent 2018 research by MojPosao, a Croatian job search web portal, Valamar is the only tourism company among the top 20 employers in Croatia and was voted best employer in tourism because of the conditions offered to its employees.

The report presents new initiatives launched in 2018, 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 end of the report contains the opinion and recommendations for future reporting given by the Croatian Business Council for Sustainable Development (HR PSOR).

* Valamar Riviera Group (hereinafter: company, group, Valamar Group, Valamar, Valamar Riviera) in 2018 included the following entities: Valamar Riviera d.d., Valamar hotels & resorts GmbH, Elafiti Babin kuk d.o.o., Magične stijene d.o.o., Palme turizam d.o.o., Pogača Babin Kuk d.o.o., Bugenvilia d.o.o., Puntizela d.o.o., Imperial d.d., Hoteli Makarska d.d., Valamar A GmbH, Valamar Obertauern GmbH.



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

2 ABOUT VALAMAR RIVIERA

Valamar Riviera is Croatia's leading tourism company operating hotels, resorts and camping resorts in prime destinations – Istria, the islands of Krk and Rab, Makarska, Dubrovnik, and Obertauern in Austria.

Valamar's 34 hotels and resorts and 15 camping resorts can welcome around 58,000 guests daily and provide perfect holidays and authentic experiences for each guest.

The company believes in a growth-driving strategy focused on investments in high added-value products, talents, innovative services and destinations that make Valamar Riviera a responsible and desirable employer and one of the top Croatian and regional investors in tourism with over HRK 5 billion invested so far.

Steered by sustainability and social responsibility, Valamar leads the innovative management of leisure tourism and creates new value for guests, employees, shareholders and local communities in partnership with its destinations.





*Valamar Lacroma
Dubrovnik Hotel 4*,
Dubrovnik*

VALAMAR RIVIERA D.D.

1 Stancija Kaligari, 52440 Poreč, Croatia

Business activity:

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

Primary Brands:

Valamar All you can holiday

Valamar Collection

Valamar Collection Resorts

Valamar Hotels & Resorts

Sunny by Valamar

Camping Adriatic by Valamar

Portfolio:

34 hotels and resorts and 15 camping resorts

Land surface:

589 hectares: 47% owned and

53% under concession*

Maritime domain: 37 km*

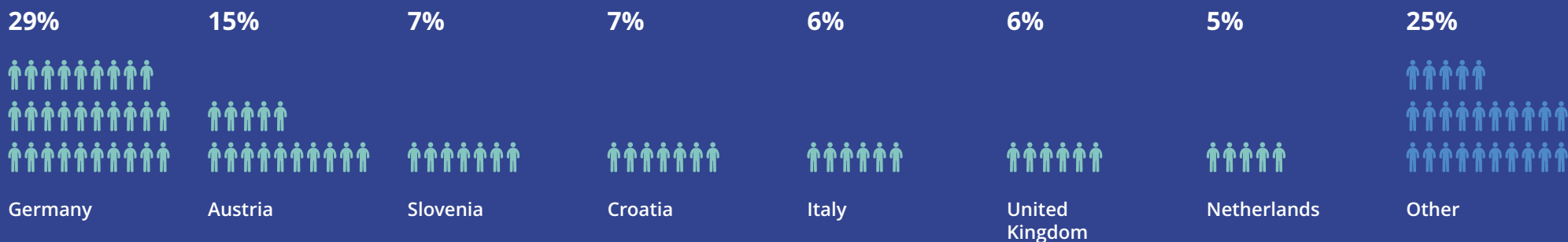
KEY INDICATORS

	2017	2018	2018/2017
Total revenues (HRK bn)	1.84	2.05	+11%
EBITDA (HRK mn)	606.0	694.5	15%
Net debt/ EBITDA	2.92	3.10	+6%
Employees (peak season)*	5,924	6,739	+13.1%
Capital investments (HRK mn)	877.7	703.6	-20%
Guests**	1,013,873	1,077,697	+6.2
Beds**	56,662	58,023	+2%
Overnights**	6,173,142	6,459,734	+5%
Keys**	20,852	21,371	+2%
Book value of long-term assets (HRK bn)	4.63	5.31	+14
Market capitalization as at 31/12 (HRK bn)	5.42	4.47	-18%
Shareholders as at 31/12	21,835	21,759	-0.3%

* Hoteli Makarska d.d. and Obertauern are included in the financial information on assets as at 31/12/2018.

* Peak season employment data include Hoteli Makarska d.d.
** Valamar House – Staff Residence – Valamar House accommodation is included.

SOURCE MARKETS



NET OPERATING REVENUE (HRK mn)

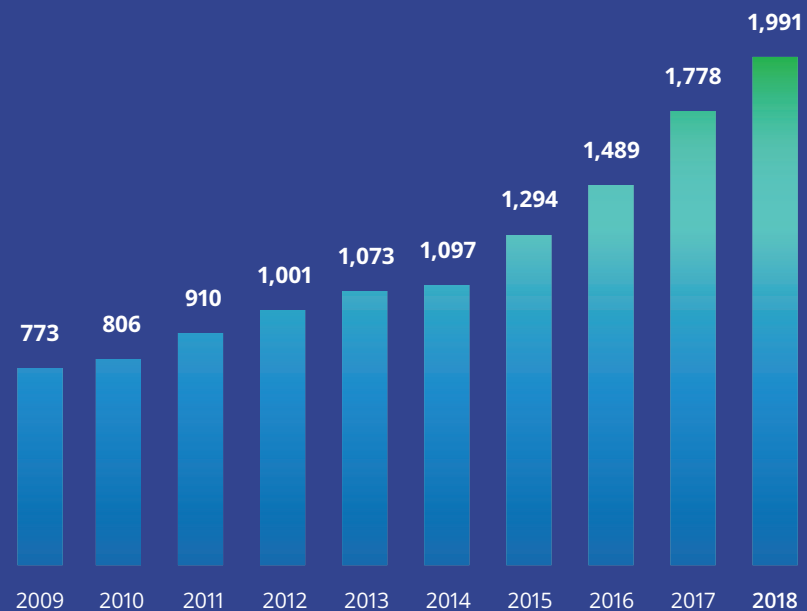
	2016	2017**	2018***	2018/2017	2018/2016
Hotels and resorts	1,119	1,319	1,453	10%	30%
Camping resorts	303	400	467	17%	54%
Other*	45	49	47	-4%	5%
Total	1,467	1,767	1,967	11%	34%

* Leasing, laundry and other operating revenues are included.

** Imperial d.d. is included.

*** Hoteli Makarska d.d. and Valamar Obertauern Hotel are included.

OPERATING REVENUES* (HRK mn)



* Imperial d.d. and Hoteli Makarska d.d. are included as of 2017 and August 2018, respectively.

2019 PORTFOLIO OVERVIEW (by keys/pitches)



VALAMAR BRAND

	2018		2019	
	Keys	Share	Keys	Share
Valamar Collection	428	2%	536	3%
Valamar Collection Resorts	725	3%	725	3%
Valamar Hotels & Resorts	3,923	18%	3,826	18%
Sunny By Valamar	3,349	16%	3,294	15%
Brand Partnerships	524	2%	548	3%
HOTELS AND RESORTS TOTAL	8,949	42%	8,929	42%
Camping Adriatic By Valamar – Premium Resorts	5,513	26%	5,315	25%
Camping Adriatic By Valamar – Resorts	4,550	21%	4,610	22%
Camping Adriatic By Valamar – Sunny	1,577	7%	1,576	7%
CAMPING RESORTS TOTAL	11,640	54%	11,501	54%
Valamar House – Staff Residence (Accommodation for seasonal workers)	782	4%	836	4%
TOTAL	21,371	100%	21,266	100%



VALAMAR RIVIERA CELEBRATING ITS 65TH ANNIVERSARY

Valamar Riviera celebrated its 65th anniversary in July 2018. The six decades of growth led to what Valamar Riviera is today – the largest company and the most desirable employer in Croatian tourism.



It all started in Poreč in 1953 with the establishment of Riviera Poreč, a company operating hotels, bungalows and restaurants in Poreč and Sveti Nikola Island and employing only 20 people during the first season of operation. At that time, Riviera had 198 beds. Today, in its 34 hotels and resorts and 15 camping resorts, Valamar Riviera can welcome around 58,000 guests daily, and in the 2019 season it will have more than 7,000 people employed.

“The company celebrated 65 years of commitment and success in developing hospitality and Valamar’s destinations. Numerous present and former employees have contributed to this, and we are especially grateful to all our retired colleagues. Today Valamar is among the largest ten companies by market capitalization in Croatia, the top investor in Croatian tourism, a major exporter and an important

partner for the Croatian economy. We want to grow with our employees and set a good example for our local community. Hence, we will keep investing in employees, quality, products and destinations in a responsible and sustainable way, in line with Valamar’s formula for long-term success,” said Željko Kukurin, CEO at Valamar Riviera during his speech at the anniversary ceremony.

The company’s new brand strategy and brand identity were launched under the “All you can holiday” slogan in the summer of 2018. Together, the new brand identity and strategy create the perfect holiday for each guest, along with five new product brands to differentiate the hotels, resorts and campsites in Valamar’s portfolio.







The beginning of tourism in Poreč

1910 – opening of the Riviera hotel (the company was named after it)



1953 – Riviera established, the company-predecessor of Valamar Riviera d.d.

20 people employed in the first season of operation



1970 – Kristal hotel built

Dynamic growth in tourism and intensive construction of hotels, apartments and campsites



1999 – establishment of Dom fond, the largest privatization investment fund



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

1895

1950

Tourism developing along the Croatian Adriatic coast

Public bathing areas became favorite spots for the first tourists

1950

1965

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

1965

1990

1979 – Pical hotel (the first high-category hotel in Poreč)

1986 – Fortuna hotel built on Sveti Nikola Island

1990

2000

Privatization and ownership transformation: economic processes in the war's aftermath

2000

2010

Valamar hoteli i ljetovališta starts managing hospitality operations

Business growth and portfolio investments: improving the quality of properties and services





Management and portfolio consolidation:
the company started operating as Valamar Riviera d.d. and was listed on the official market of the Zagreb Stock Exchange in December 2014



New stage in growth and acquisitions:

2015 – opening of Valamar Collection Isabella Island Resort 4*/5*



2017 – opening of the largest investment in Croatian tourism: Valamar Collection Girandella Resort 4*/5* and TUI Family Life Bellevue Resort 4*

2018 – Valamar presented the new brand strategy and brand identity named “All you can holiday” featuring five new product brands

2010
—
2015

2015
—
2018

Valamar timeline

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)

Mergers and acquisitions:

2015 – Hoteli Baška d.d. (est. 1949)

2016 – Imperial d.d. (est. 1965) in partnership with AZ pension fund

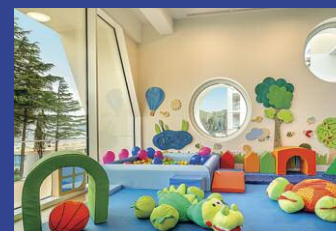
2018 – Hoteli Makarska d.d. (est. 1952) in partnership with AZ mandatory pension funds

Valamar acquires a hotel in Obertauern, Austria as its first step in internationalization

Repositioning Valamar Argosy Hotel in Dubrovnik and renovating Valamar Collection Imperial Hotel on Rab; the first Kinderhotel in Valamar's portfolio – Valamar Girandella Maro Suites opened in Rabac

Further investments in the camping segment focusing on camping resorts in Istria and Krk Island; Valamar recognized as the best employer in tourism and the only tourism company among the top 20 employers in Croatia

Valamar Riviera's 65th anniversary ceremony

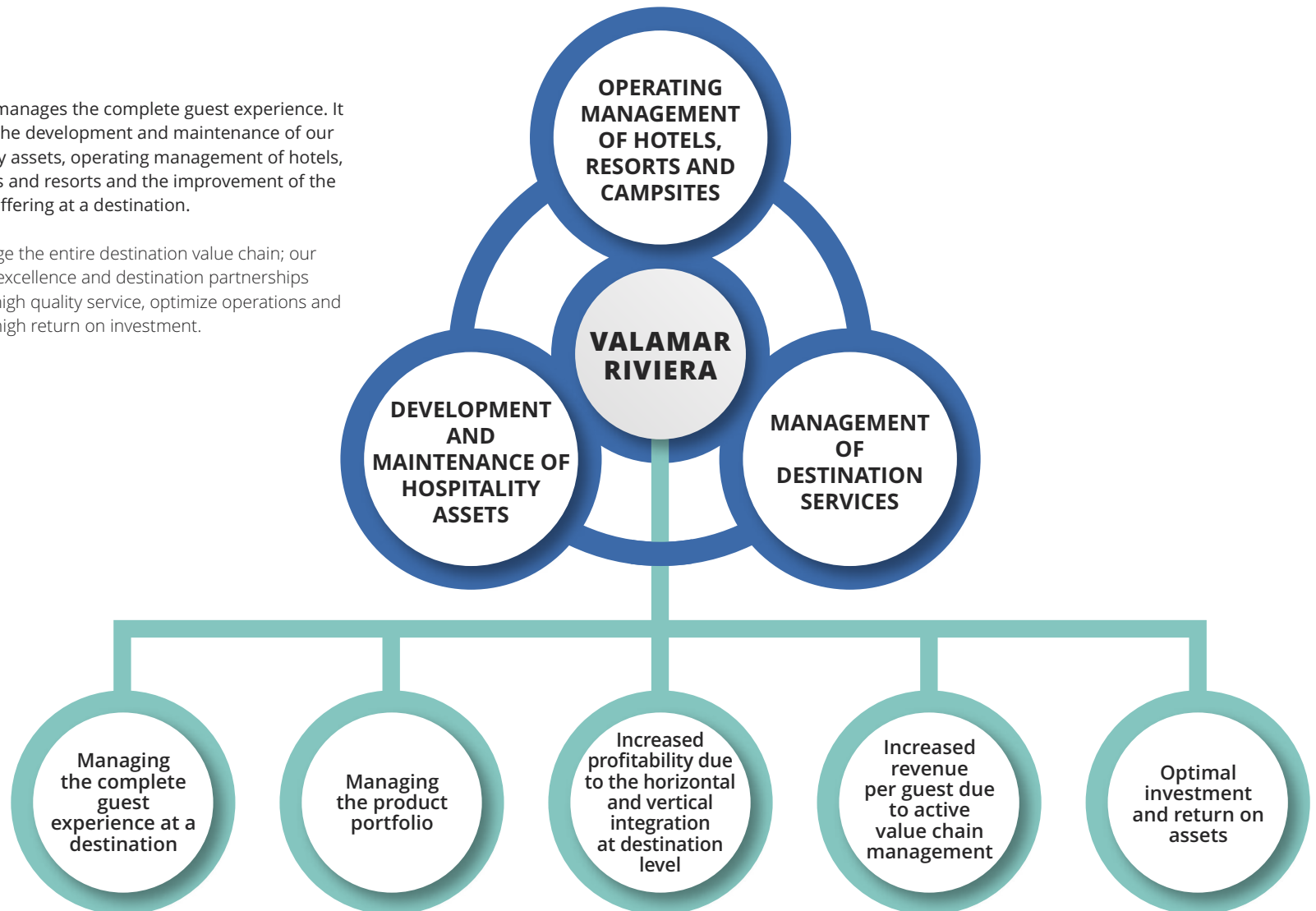




VALAMAR RIVIERA'S BUSINESS MODEL

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 LONG-TERM ASSETS OWNED

Valamar Riviera celebrated its 65th anniversary in 2018. The largest Croatian tourism company began in 1953 in Poreč and it has grown ever since.

A tradition in hospitality spanning six decades, the services provided and a unique asset portfolio with a book value of HRK 5.3 billion are our key success factors. Over the course of the years, we have developed the knowledge and organization to develop hospitality products and efficiently manage the value of our assets.

Today, we operate properties on more than 589 ha of land in prime locations along the Adriatic coast that include 37 km of shoreline. Our locations represent our major strength and an excellent opportunity for future development. 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.

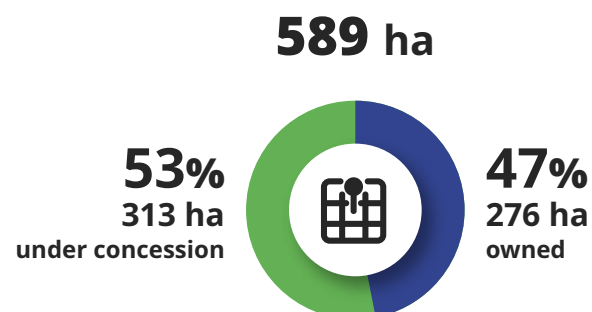
LONG-TERM ASSETS OF VALAMAR RIVIERA GROUP

Hotels and resorts	66%
Campsites	22%
Other ¹	12%
TOTAL	HRK 5.31 bn

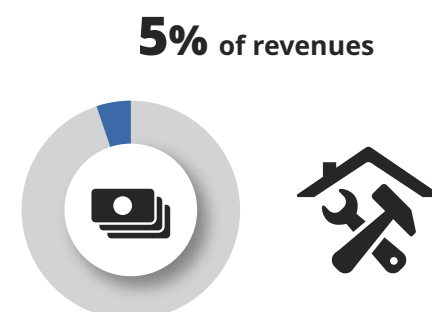
SHORELINE²



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 offering 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 2019

	Keys
Valamar Collection	536
Valamar Collection Resorts	725
Valamar Hotels & Resorts	4,374*
Sunny by Valamar	3,294
Camping Adriatic by Valamar	11,501
Valamar House – Staff Residence (Accommodation for seasonal workers)	836
VALAMAR RIVIERA - TOTAL	21,266

* Includes brand partnerships.

HOTELS AND RESORTS

8,929

			Keys
VALAMAR COLLECTION			536
Valamar Collection Marea Suites**	★★★★★	Poreč	108
Valamar Collection Imperial Hotel	★★★★	Rab Island	136
Valamar Collection Dubrovnik President Hotel	★★★★★	Dubrovnik	292
VALAMAR COLLECTION RESORTS			725
Valamar Collection Isabella Island Resort	★★★★★ (4/5)	Poreč	334
Valamar Collection Girandella Resort	★★★★★ (4/5)	Rabac	391

VALAMAR HOTELS & RESORTS			3,826
Valamar Riviera Hotel & Residence	★★★★	Poreč	130
Valamar Tamaris Resort	★★★★	Poreč	507
Valamar Diamant Hotel & Residence	★★★★ (3/4)	Poreč	372
Valamar Zagreb Hotel	★★★★	Poreč	230
Valamar Crystal Hotel	★★★★	Poreč	223
Valamar Pinia Hotel	★★★	Poreč	170
Valamar Sanfior Hotel & Casa	★★★★	Rabac	242
Valamar Koralj Hotel	★★★	Krk Island	194
Valamar Atrium Baška Residence	★★★★★ (4/5)	Krk Island	64
Valamar Zvonimir Hotel & Villa Adria	★★★★	Krk Island	113
Valamar Padova Hotel	★★★★	Rab Island	175
Valamar Meteor Hotel	★★★★	Makarska	277
Valamar Argosy Hotel	★★★★	Dubrovnik	308
Valamar Lacroma Dubrovnik Hotel	★★★★	Dubrovnik	401
Valamar Club Dubrovnik Hotel	★★★	Dubrovnik	338
Valamar Obertauern Hotel	★★★★	Austria	82



			Keys
SUNNY BY VALAMAR			3,294
Rubin Sunny Hotel by Valamar	★★★	Poreč	253
Pical Sunny Hotel by Valamar	★★	Poreč	249
Lanterna Sunny Resort by Valamar	★★	Poreč	606
Allegro Sunny Hotel & Residence by Valamar	★★★	Rabac	180
Miramar Sunny Hotel & Residence by Valamar	★★★	Rabac	178
Corinthia Baška Sunny Hotel by Valamar	★★★	Krk Island	431
San Marino Sunny Resort by Valamar	★★★	Rab Island	457
Eva Sunny Hotel & Residence by Valamar	★★★ (2/3)	Rab Island	284
Dalmacija Sunny Hotel by Valamar	★★★	Makarska	190
Rivijera Sunny Resort by Valamar	★★	Makarska	258
Tirena Sunny Hotel by Valamar	★★★	Dubrovnik	208
BRAND PARTNERSHIPS			548
TUI Family Life Bellevue Resort	★★★★	Rabac	372
TUI Sensimar Carolina Resort by Valamar	★★★★	Rab Island	176

CAMPING RESORTS**11,501**

			Keys
CAMPING ADRIATIC BY VALAMAR – PREMIUM RESORTS			5,315
Istra Premium Camping Resort by Valamar**	★★★★★	Poreč	826
Lanterna Premium Camping Resort by Valamar	★★★★	Poreč	2,906
Krk Premium Camping Resort by Valamar	★★★★★	Krk Island	500
Ježevac Premium Camping Resort by Valamar	★★★★	Krk Island	630
Padova Premium Camping Resort by Valamar***	★★★★	Rab Island	453
CAMPING ADRIATIC BY VALAMAR – RESORTS			4,610
Solaris Camping Resort by Valamar	★★★	Poreč	1,813
Orsera Camping Resort by Valamar	★★★	Poreč	596
Marina Camping Resort by Valamar	★★★★	Rabac	320
Baška Beach Camping Resort by Valamar	★★★★	Krk Island	654
Bunculuka Camping Resort by Valamar	★★★★	Krk Island	418
San Marino Camping Resort by Valamar	★★★★	Rab Island	809
CAMPING ADRIATIC BY VALAMAR – SUNNY			1,576
Tunarica Sunny Camping by Valamar	★★	Rabac	160
Brioni Sunny Camping by Valamar	★★	Pula	654
Škrila Sunny Camping by Valamar	★★★	Krk Island	344
Solitude Sunny Camping by Valamar	★★★	Dubrovnik	418

** To be opened in 2019.

*** Upgraded from 3* to 4* in 2019.

3

THE HOSPITALITY INDUSTRY

The sector of tourism and hospitality has been asserting its position as one of the largest in the world's economy with direct and indirect impact growing steadily over the years. Meanwhile, Europe and the Mediterranean are still among the top tourist destinations.

TOURISM AND HOSPITALITY GLOBALLY

Global tourism had stable economic growth indicators in 2018:¹

- ▶ tourism growth (3.8%) has exceeded global GDP growth for the eighth year in a row
- ▶ 10.4% of the overall global economic activity is generated by tourism
- ▶ the share of tourism in total leisure spending has increased to 78.5%
- ▶ tourism employs 1 in 10 people in the world and accounts for 1 in 5 new jobs created in the last 5 years

TOURISM IN 2018 AND 2019 OUTLOOK: TOURISM IS GROWING GLOBALLY, BUT THE GROWTH PACE IS MORE MODERATE²

Globally, the annual growth in international tourist arrivals was 5.6% in 2018, so this year was the second strongest since 2010. However, last year's growth fell by 7.0%.

2019 forecasts predict further decreases: international tourism growth will drop to 3% to 4% and the annual global and European growth in international arrivals will align with long-term forecasts.

This slowdown is caused by a decrease in economic activity in Europe and globally, thus affecting some of the strongest European markets, such as Germany, while other economies, such as Italy, show recession signs.

Globally, **Europe** is the top tourist destination macroregion accounting for over 51% of international tourist arrivals in the world. However, long-term forecasts predict significantly higher growth rates in the regions of Asia/ Pacific, Middle East and Africa vs. Europe and the Americas, due to demographic and economic trends.

The Mediterranean is the strongest European destination, accounting for over 40% of international tourist arrivals and spending generated in Europe and reporting a further above-average growth in international arrivals. In 2018, the tourist flow shifted from the western to the eastern and southern part of the Mediterranean with Turkey, Greece and North African countries joining in with increased air travel accessibility, national marketing and good value-for-money ratio.



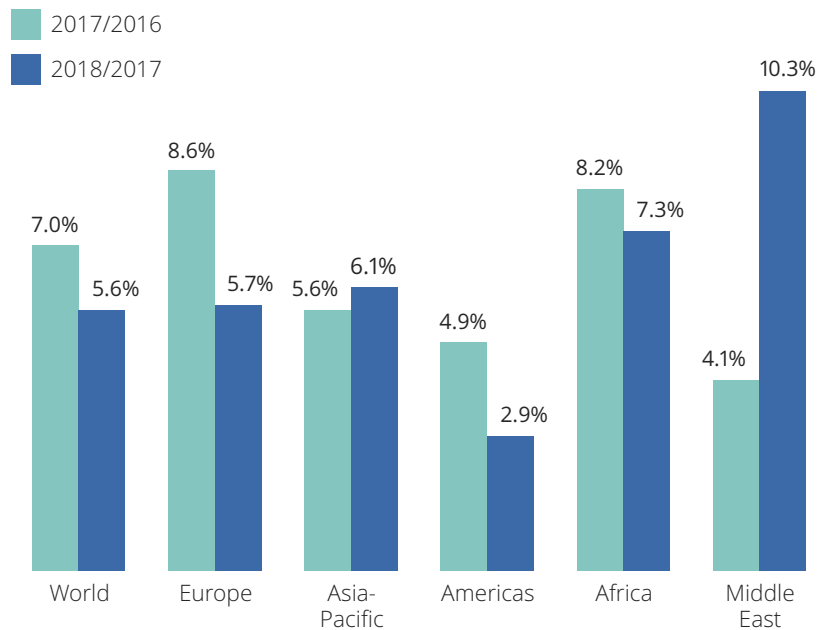
*Lanterna Premium
Camping Resort by
Valamar 4*, Poreč*

Key Growth Drivers in Tourism and Hospitality in the World and Europe:

- ▶ favorable overall economic environment, despite signals of economic slowdown in stable European economies, such as Germany, and the first signs of recession in Italy
- ▶ strong further demand for international travelling from key source markets
- ▶ post-crisis recovery consolidation of key tourist destinations
- ▶ better air travel connectedness and simpler visa regimes
- ▶ demographic changes: the population's average age is increasing along with their available income and travel propensity; growing middle class

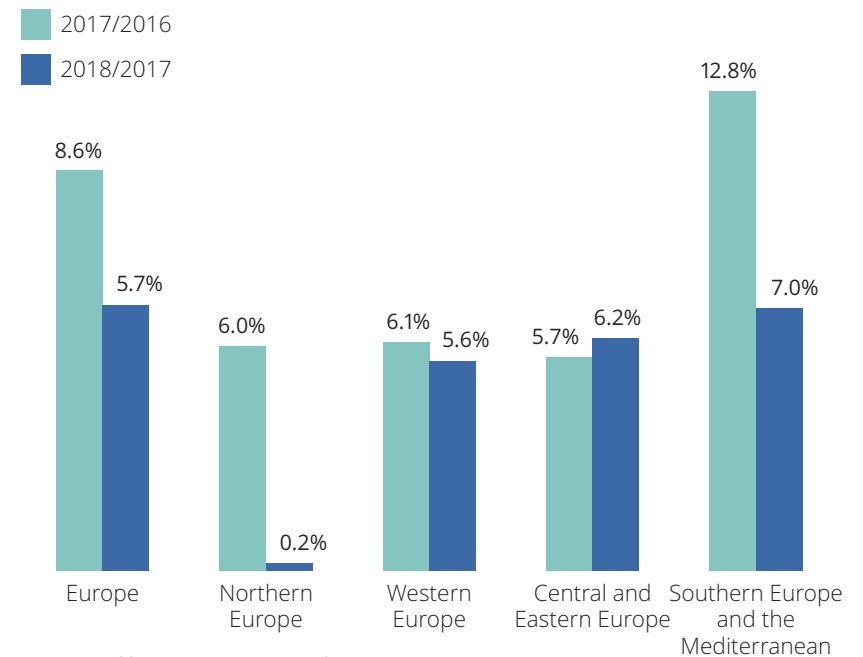


INTERNATIONAL TOURIST ARRIVALS GROWTH IN THE WORLD (2017 AND 2018)



Source: World Tourism Barometer, Vol. 17/1, UNWTO, January 2019

INTERNATIONAL TOURIST ARRIVALS GROWTH BY EUROPEAN REGIONS (2017 AND 2018)



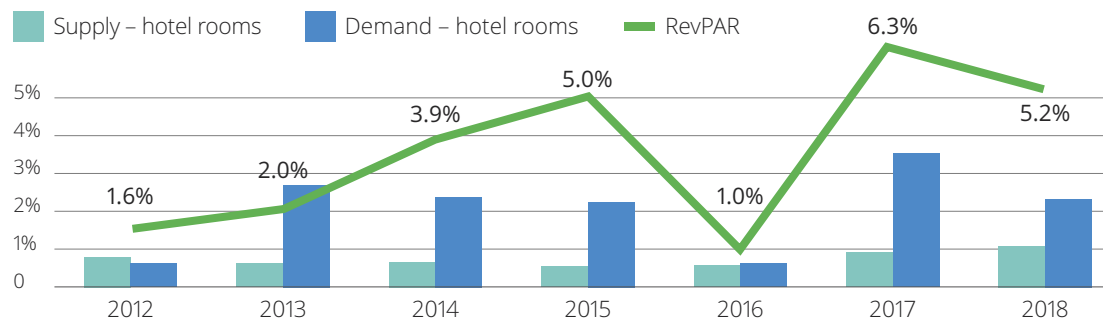
Source: World Tourism Barometer, Vol. 17/1, UNWTO, January 2019

Globally, the hotel industry reports steady RevPAR growth, despite slightly lower numbers in 2018 vs. prior year.

Regions leading hotel RevPAR growth are South America and North America, while the European hotel industry reported a moderate RevPAR growth of 5.2% in 2018.

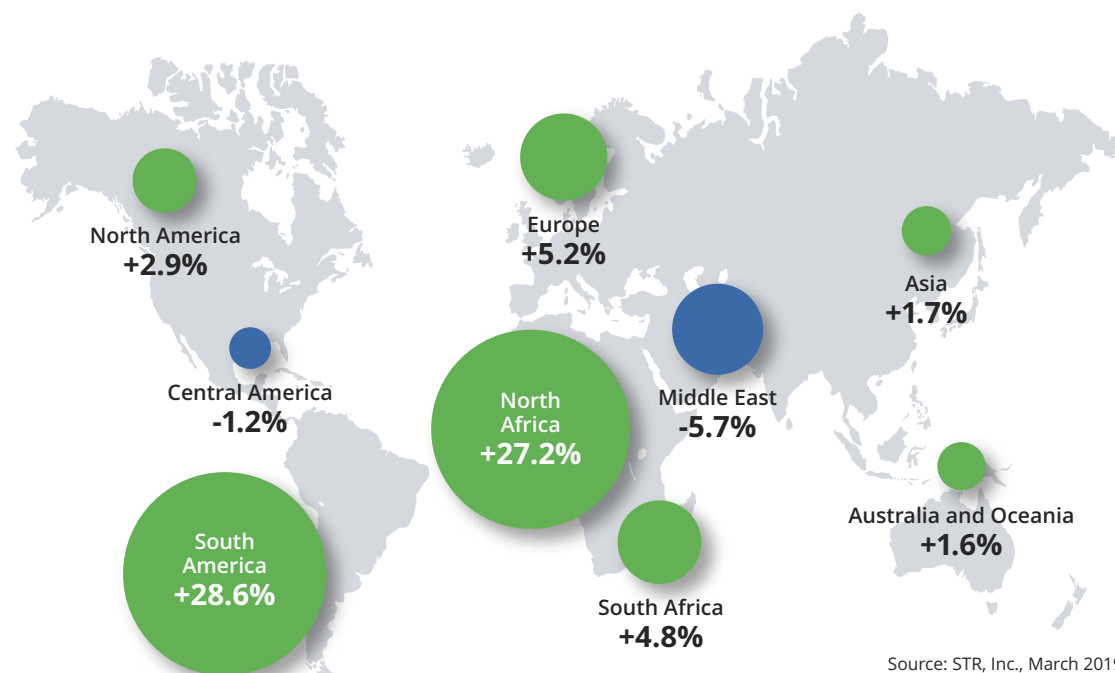
In the Mediterranean, the hotel industry in Turkey, Egypt and North African countries reported above-average growth in 2018, while the Croatian coast recorded a moderate annual growth of 6%.³

HOTEL INDUSTRY IN EUROPE - % CHANGES IN SUPPLY, DEMAND AND RevPAR (PERMANENT CURRENCY, EUR, 2012-2018)



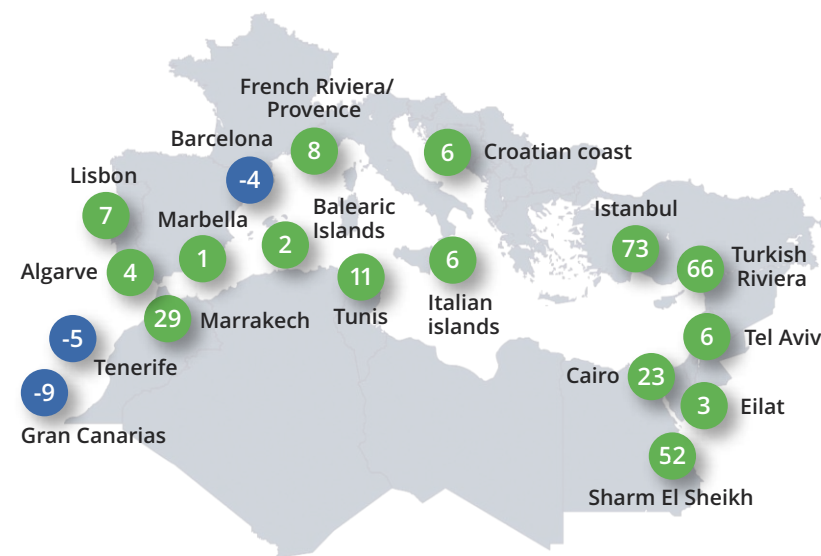
Source: STR, Inc., March 2019

HOTEL INDUSTRY - GLOBAL RevPAR, % CHANGES USD, EUROPE IN EUR, PERMANENT CURRENCY, 2018 TOTAL



Source: STR, Inc., March 2019

NORTH AFRICA AND TURKEY RECOVERING IN 2018 2018 TOTAL, RevPAR % CHANGES, EUR, PERMANENT CURRENCY



Source: STR, Inc., March 2019

TOURISM AND HOSPITALITY IN CROATIA

Croatia is the 25th destination in the world by international arrivals. Tourism in Croatia is growing at above-average rates if compared to the Mediterranean and has a considerable impact on the country's overall economy.

The Satellite Account of Croatia's tourism confirmed the significant role of tourism in the country's economy:⁴

11.4% of Croatia's total GDP is directly generated by tourism

16.9% is tourism's direct and indirect contribution to Croatia's gross value added

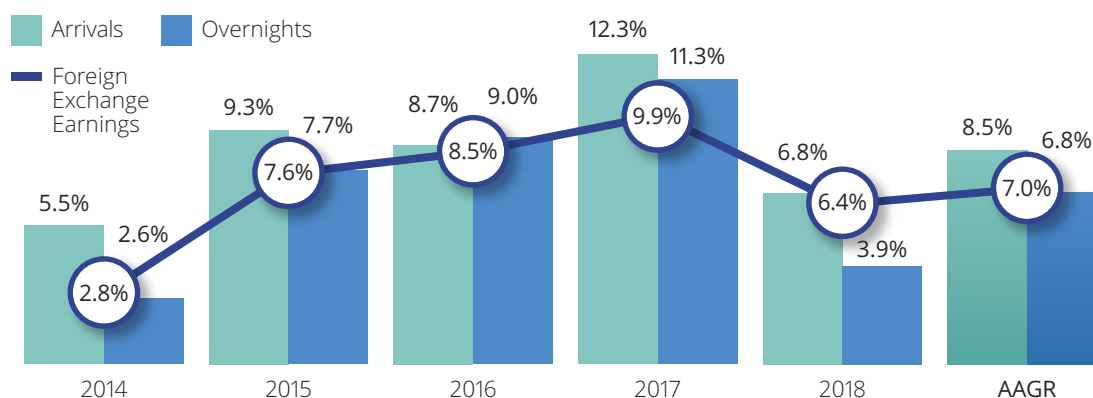
Tourism has a strong impact on employment and investments in Croatia's overall economy:⁵

1 in 10 people are directly employed in Croatia's tourism

23% of all workers in Croatia are directly and indirectly employed in tourism

11% of all investments in Croatia are generated by tourism

GROWTH IN ARRIVALS, OVERNIGHTS AND FOREIGN EXCHANGE EARNINGS FROM TOURISM IN CROATIA (2014-2018)



Source: Croatian Bureau of Statistics, Croatian National Bank

MARKET PROFILE OF CROATIAN TOURISM IN 2018

The long-term growth trends in Croatian tourism are positive. Despite their 2018 slowdown, they keep up with the growth rates in the Mediterranean.

In the EU, Croatia's share in international tourism income is lower than its share in international overnights (2.9% and 6.7% respectively) due to its "sun and sea" tourism characterized by longer tourist stays. Furthermore, the predominant accommodation segment is below-average priced private accommodation.

Private accommodation (accommodation in households, family farms and other similar accommodation forms) represents 60% of Croatia's total commercial accommodation. It has the highest growth among all accommodation forms in the last 15 years. The share of hotel accommodation in total accommodation is low (15%) thus averaging a lower total revenue per night if compared to other European countries.

There have been some major steps forward in hotel accommodation quality in the last decade, mostly via numerous brownfield projects, so today more than one half of hotel accommodation is 4* and 5*. Hotel accommodation (4* and 5* mostly) grew by 1.2% in 2018 in comparison to the previous year.

Although the volume of camping accommodation in Croatia has been stagnating for some time now, the camping segment has seen significant improvement in terms of innovation, product diversification, quality upgrades and variety of amenities. Due to this, camping accommodation is nowadays mostly 3* and

ACCOMMODATION TRENDS IN CROATIA (1995-2018)

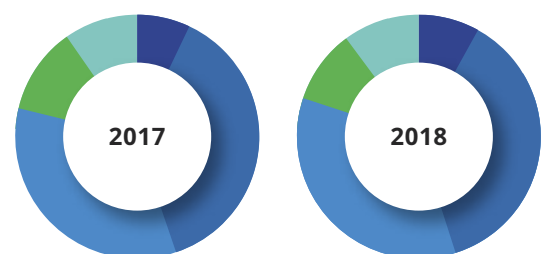


Source: Croatian Bureau of Statistics, eVisitor, Croatian Tourist Board, 2019

4*. Camping product development is characterized by a relatively fast return on investment because of high profit margins in camping operations.

According to a research by the Ministry of Tourism, a total of EUR 1,050 million will be invested in tourism and hospitality in 2019, while, according to the same research, 2018 investments were EUR 940 million. Companies will invest around EUR 626 million in its hospitality projects, while the public sector will invest EUR 425 million. The announced private sector investments include hotels, campsites, nautical ports and other kinds of accommodation, facilities and attractions.

HOTEL ACCOMMODATION IN CROATIA BY CATEGORY



Source: eVisitor, Croatian Tourist Board, 31/12/2017, 31/12/2018



HOTEL ACCOMMODATION BY CATEGORY (2017-2018)

	2017		2018		Growth rate Beds
	Properties	Beds	Properties	Beds	
5*	40	12,232	44	13,811	12.9%
4*	334	64,460	350	63,179	-2.0%
3*	403	58,372	411	60,001	2.8%
2*	95	19,300	80	16,557	-14.2%
Other	259	16,743	280	17,164	2.5%
Total	1,131	171,107	1,165	170,712	-0.2%

Source: eVisitor, Croatian Tourist Board, 31/12/2017, 31/12/2018

Valamar Collection
Dubrovnik President
Hotel, Dubrovnik 5*

Territorially speaking, most of the accommodation in Croatian tourism is located on the coast and islands that generate more than 95% of total overnights in the country.
All commercial accommodation reported a slowdown in occupancy in 2018, except for hotels where

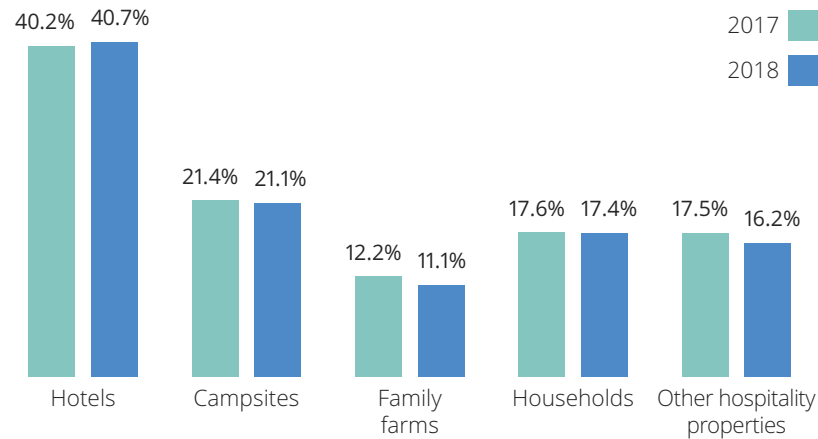
occupancy slightly grew if compared to the previous year. This was mainly driven by a somewhat lower peak-season demand if compared to the prior year because of the comeback made by competitors in the southern and eastern Mediterranean (Turkey, Greece, Egypt, North African countries).

Although Croatia's tourist turnover is characterized by seasonality, this trait is gradually decreasing with the growing share of various tourism products. In 2018, the number of overnights in the Jun-Sept period made up 83.6% of the total number of overnights in a year. The decrease in the average length of stay in Croatia (5.4 days in 2018) points towards a stronger development of various hospitality products beside the prevalent "sun and sea" concept.
Source markets in Croatian tourism are traditionally dominated by the German market with 20% of total overnights reported, followed by the Slovenian, Austrian, Polish, Czech and British markets. The German, Scandinavian and British markets reported slower growth in 2018, while the Hungarian market showed growing demand. However, the source markets of the following countries had the strongest turnover growth: China, Australia, South African Republic, USA, Canada, Israel and India.



ANNUAL OCCUPANCY RATES BY COMMERCIAL ACCOMMODATION SEGMENTS IN CROATIA – 2017 AND 2018

OCCUPANCY RATE BASED ON THE NUMBER OF BEDS AND 365 DAYS



Source: eVisitor, Croatian Tourist Board, 31/12/2018 and 31/12/2017

LEADING SOURCE MARKETS IN CROATIAN TOURISM IN 2018

	2017 Annual Growth Rate	2018 Annual Growth Rate	2018 Share in Total Overnights
Germany	13.6%	2.2%	20.0%
Slovenia	5.7%	4.1%	10.0%
Austria	6.7%	0.9%	7.3%
Czech Republic	5.9%	1.1%	5.2%
Poland	21.1%	-0.6%	5.9%
Italy	-0.3%	1.6%	5.0%
UK	25.4%	7.9%	4.2%

Source: e-visitor, Croatian Tourist Board, 31/12/2018

Hospitality and tourism in Croatia are characterized by the following:

- ▶ The ownership of organized accommodation in Croatia is highly concentrated and is currently undergoing further consolidation. The leading 25 companies (most of them having a varied portfolio consisting of hotels, resorts and campsites) make up more than half of the collective accommodation and represent around 70% of the total accommodation revenues reported by businesses in Croatia.
- ▶ Organized accommodation in Croatia is mostly managed by Croatian companies, while 15% of hotel accommodation is managed by international hotel management companies with a global or regional brand.
- ▶ Employment and the labor market (predominantly lacking labor force) affect the increased labor cost in tourism. If considering the current trends of growing labor demand in tourism due to quality upgrades and the economic emigration depleting the labor force, we can expect further labor cost increases.
- ▶ According to the research "Croatian Hotel Benchmarking", the key performance indicators of hotels in Croatia increased in 2018 if compared to the previous year. The highest growth rate in total revenues per available room was reported in the 5* segment and on the continent and in Dalmatia.⁶



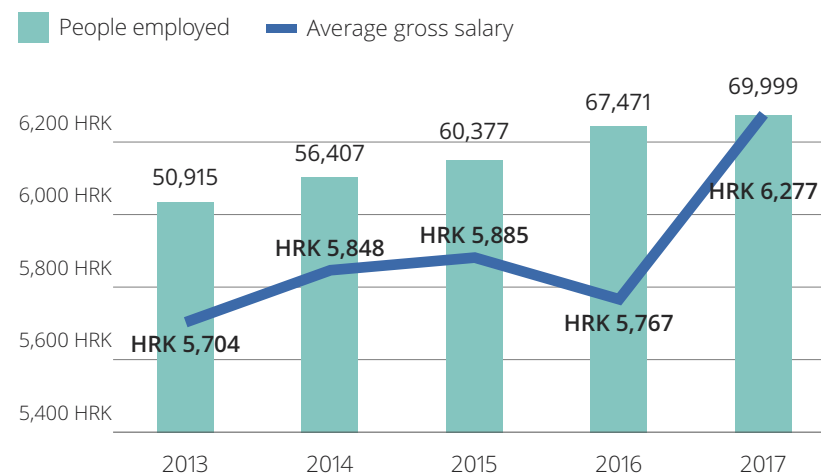
KEY PERFORMANCE INDICATORS OF THE CROATIAN HOTEL INDUSTRY BY SEGMENTS

TRevPAR – Total Revenue per Available Room

	Annual Occupancy	2017 Average Room Rate	TRevPAR	Annual Occupancy	2018 Average Room Rate	TRevPAR
Croatia	55.28%	€95.10	€79.96	57.26%	€100.62	€86.43
5 stars	58.78%	€162.35	€124.73	62.56%	€166.33	€139.30
4 stars	57.02%	€86.95	€83.87	58.00%	€90.57	€85.49
3 stars	50.92%	€63.51	€51.04	53.61%	€71.20	€56.36

Source: Croatian Hotel Benchmarking in 2017 and 2018, Tourism and Hospitality Management Faculty in Opatija

PEOPLE EMPLOYED AND AVERAGE GROSS SALARY IN AREA I – ACCOMMODATION AND FOOD PREPARATION & SERVING, COMPANIES IN CROATIA



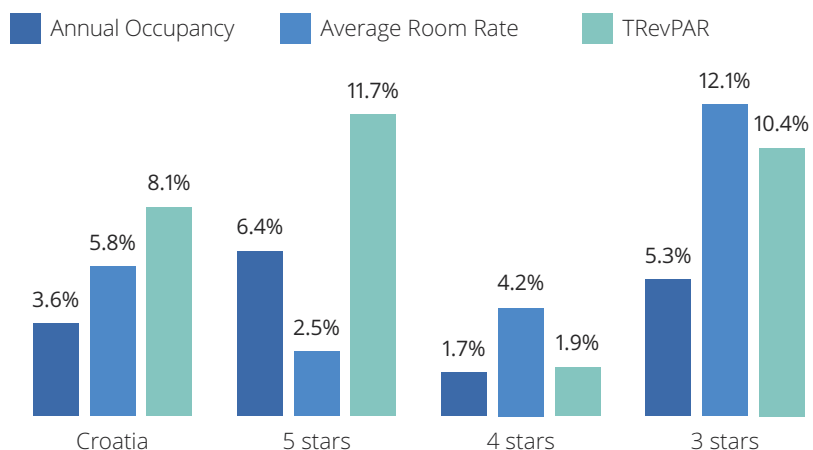
Source: Infobiz, GFI-POD, FINA, 2019



According to the research “Camping Benchmarking”, the 2018 revenue per available room for mobile homes in Croatian campsites was lower compared to the previous year and higher for camping plots and camping spots. Revenue per mobile home had the largest decrease in the Kvarner area, while Dalmatia reported the largest increase in revenue per camping plot and spot.⁷

The main challenges in Croatia’s tourism and hospitality are linked with VAT rates for accommodation and hospitality services being uncompetitive, i.e. higher than in the other Mediterranean countries, and thus determining the amounts available for investments. Another challenging area is the unresolved issue of what is commonly known as tourism land: it is utilized by hospitality companies without being included in the share capital, as well as issues regarding maritime domain regulations since the Act on Maritime

GROWTH IN KEY PERFORMANCE INDICATORS FOR THE CROATIAN HOTEL INDUSTRY BY SEGMENTS (2018/2017)



Source: Croatian Hotel Benchmarking in 2017 and 2018, Tourism and Hospitality Management Faculty in Opatija

KEY PERFORMANCE INDICATORS OF THE CROATIAN HOTEL INDUSTRY BY REGIONS

TRevPAR – Total Revenue per Available Room

	Annual Occupancy	2017 Average Room Rate	TRevPAR	Annual Occupancy	2018 Average Room Rate	TRevPAR
Croatia	55.28%	€95.10	€79.96	57.26%	€100.62	€86.43
Istria	58.20%	€102.28	€90.53	59.66%	€103.20	€92.74
Kvarner	50.51%	€86.28	€62.54	51.72%	€90.17	€66.80
Dalmatia	53.25%	€104.67	€79.32	54.40%	€114.25	€88.22
Continent	64.02%	€69.12	€84.63	70.59%	€84.02	€97.87

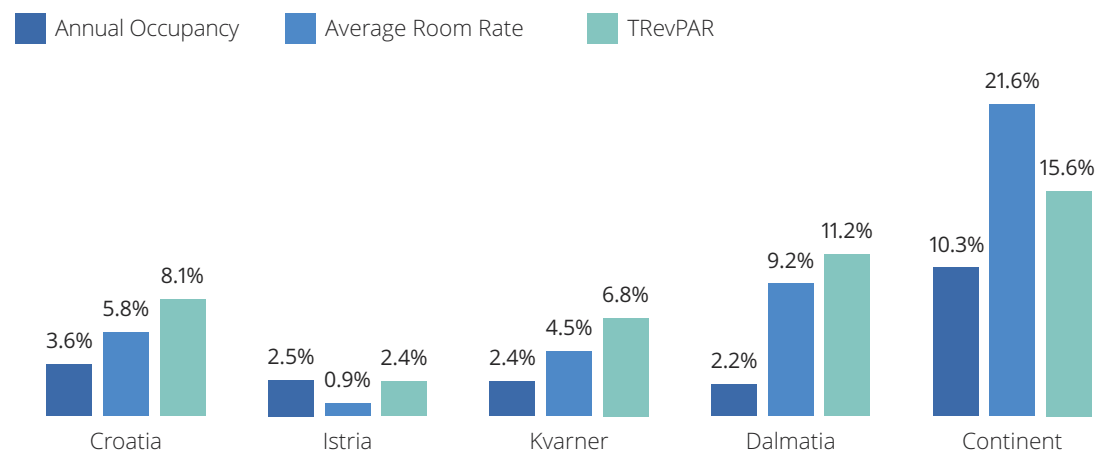
Source: Croatian Hotel Benchmarking in 2017 and 2018, Tourism and Hospitality Management Faculty in Opatija

Domain and Harbors has not been passed yet. Regulations regarding private accommodation as well as regional and destination management are areas that also need further improvement.

Considering the global economic state presenting an overall growth slowdown and the economic and political situation in Croatia's key source markets (economic slowdown in Germany, recession signs in Italy, Brexit's uncertain outcome) and also slower booking trends caused by the comeback of Mediterranean competitors (Turkey, Greece, Egypt, North African countries), Croatia can expect moderate growth rates in tourist turnover in 2019 and lower to moderate price growth rates as well as further dispersion of tourist turnover and revenues on the preseason and postseason period.



GROWTH IN KEY PERFORMANCE INDICATORS FOR THE CROATIAN HOTEL INDUSTRY BY REGIONS (2018/2017)



Source: Croatian Hotel Benchmarking in 2017 and 2018, Tourism and Hospitality Management Faculty in Opatija

REVENUE PER AVAILABLE ROOM AT CROATIAN CAMPSITES BY REGIONS (2017-2018)

	Mobile homes		Plots and spots	
	2017	2018	2017	2018
Croatia	€350.01	€327.11	€82.96	€85.01
Istria	€345.60	€363.22	€80.59	€79.46
Kvarner	€384.05	€275.37	€92.95	€90.22
Dalmatia	€344.85	€317.89	€87.11	€104.36

Source: "Camping Benchmarking", reports for 10/2017 and 10/2018, Tourism and Hospitality Management Faculty in Opatija



MEGATRENDS SHAPING TOURISM'S FUTURE

An intensive world transformation is significantly shaping the future of tourism.⁸

Focus on the Individual and Experience

The values of the upcoming generations have changed (Millennials and Gen Z) leading to a growing number of people fueled by a desire for personal enrichment, self-direction and community. The focus is shifting from materialism to experiences, technologies become more sophisticated thus enabling the integration of online and offline experiences when shopping and consuming goods and services. Tourism can now provide unique and personalized experiences to the new generations that directly respond to these changing values.

Radical Changes in Lifestyles and Businesses

The “sharing economy” is redefining relationships, disrupting business concepts, and creating new expectations for living and working. The growth of technology-based economies continues redefining relationships and changing business. Fluidity, autonomy, social engagement and decreasing loyalty are becoming very important, therefore blurring the traditional lines dividing work and free time. All these changes present new opportunities and new expectations in tourism.

Revolution in Data Usage

Data, delivered via the Internet of Things and mechanical learning, represent the driving force in

today's economy, enabling instant personalization and direct connection and becoming the central place of new applications, strategies and business plans. New technologies offer great possibilities for tourism to deliver connected, personalized and integrated experiences for tourists. Data collection via smart devices enables consumer empowerment through information access, so the customer communication channels in tourism are adapting to this.

Power Redistribution

The demographic shift from the West to the East and population concentrating in urban areas are redefining the centers of influence and reshaping the global



market, with individuals mobilizing and demanding responsibility in the provision of goods and services. The growing middle class, especially in Asia and the increasing urbanization will have dramatic effects on global markets. This revolution has already started to compel tourism to meet the needs of the most demanding consumers, but also to have a deep understanding of current social processes.

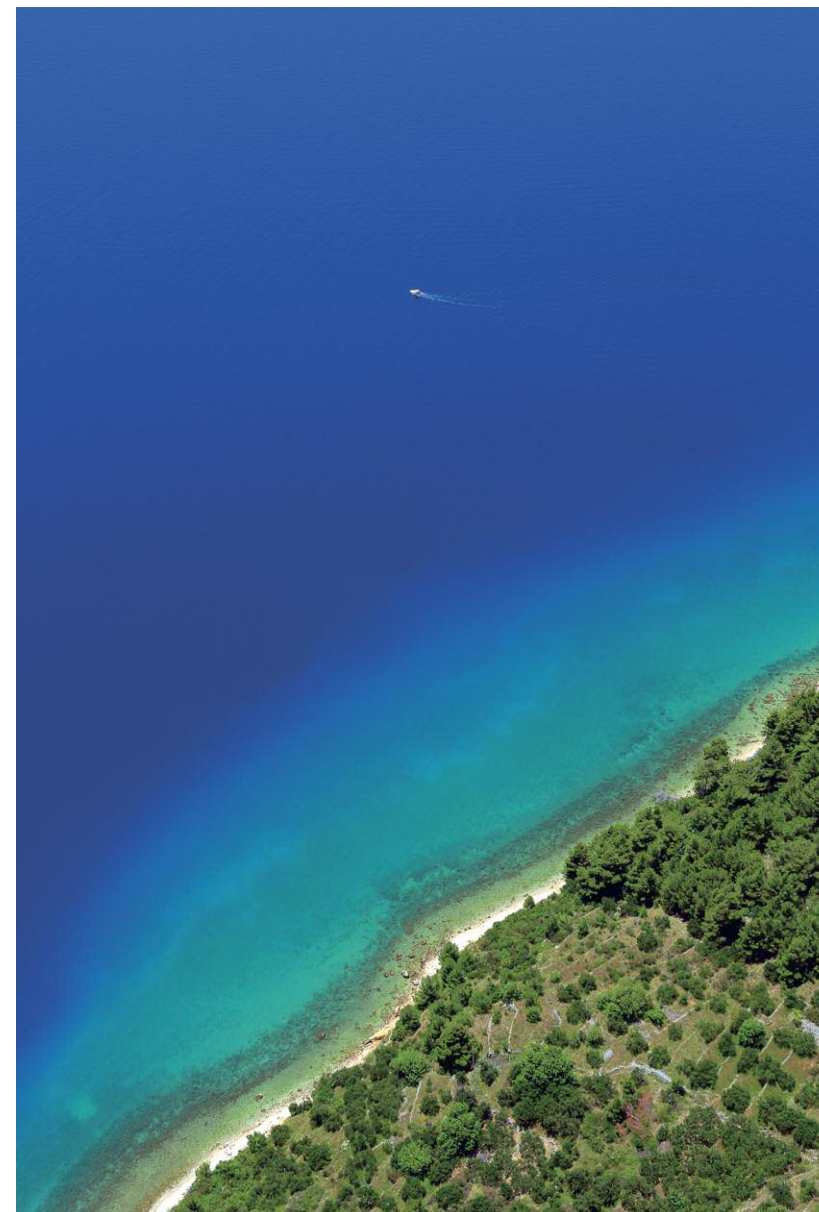
Sustainability as Context

As a response to the risks increasingly threatening our environment, ethics and resource efficiency are gaining importance in the mind of the consumer and affect the decisions of younger generations.

As resources become scarce, there is an increasing need to responsibly balance short-term and long-term priorities. Present business models are starting to be questioned and the private sector is facing pressure to move towards sustainable operations. In this context, sustainable business practices are inevitably becoming the core of the growth strategy in the tourism sector, focusing on safeguarding destinations, leading environmental



protection and caring for the community. These practices are becoming an integral part of the customer experience and an important factor in decision making.



¹ Travel & Tourism Economic Impact 2018 World, World Travel & Tourism Council, March 2019.

² World Tourism Barometer, Vol. 17/1, UNWTO, January 2019.

³ STR, Inc., March 2019.

⁴ Tourism Satellite Account for the Republic of Croatia, 2016, Institute for Tourism, Croatian Bureau of Statistics, Ministry of Tourism, Presentation on 15/01/2019.

⁵ Travel & Tourism Economic Impact 2018 Croatia, World Travel & Tourism Council, March 2019.

⁶ Research "Croatian Hotel Benchmarking", reports for the years 2018 and 2017, Tourism and Hospitality Management Faculty in Opatija.

⁷ Research "Camping Benchmarking", report for 10/2018 and 10/2017, Tourism and Hospitality Management Faculty in Opatija.

⁸ World, Transformed – Megatrends and Their Implications for Travel and Tourism, Bloomberg Media Group.

4 ENGAGEMENT OF KEY STAKEHOLDERS AND MATERIAL ASPECTS

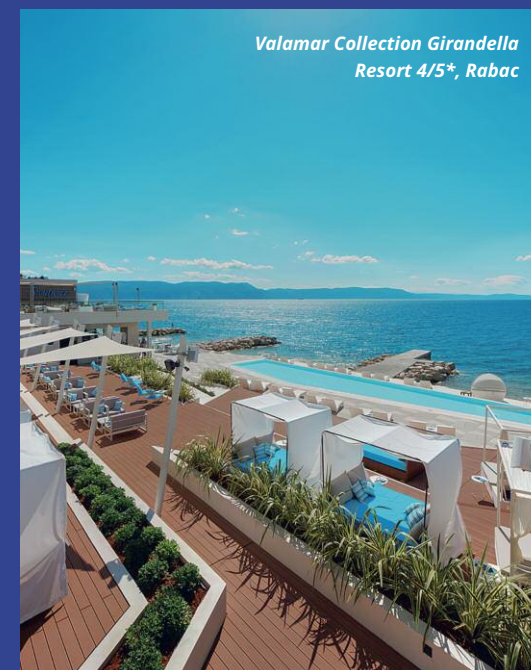
Valamar Riviera's business success is based on long-standing partnerships and an open communication with all its stakeholders.

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





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



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

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

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 (Croatian Tourism Association, Croatian Employers' Association, Croatian Chamber of Economy, Croatian Business Council for Sustainable Development, American Chamber of Commerce in Croatia and others)

SUPPLIERS

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

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

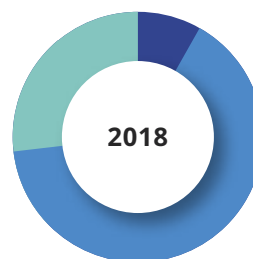
GENERAL PUBLIC

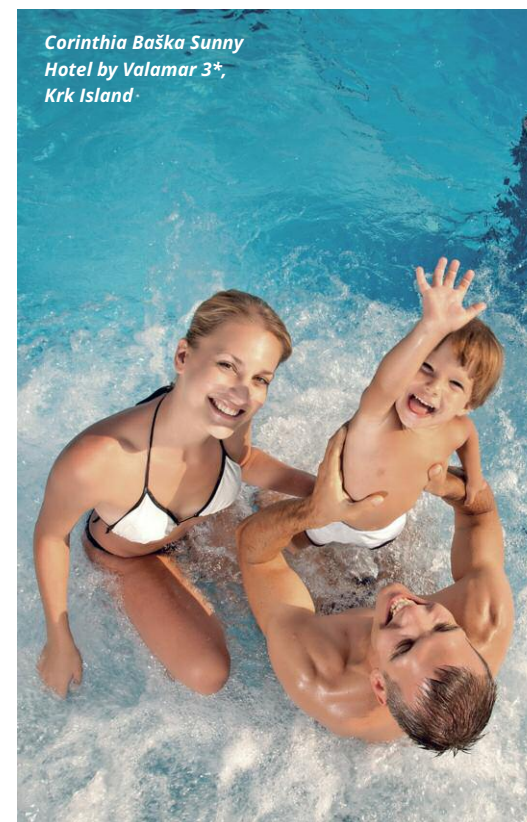
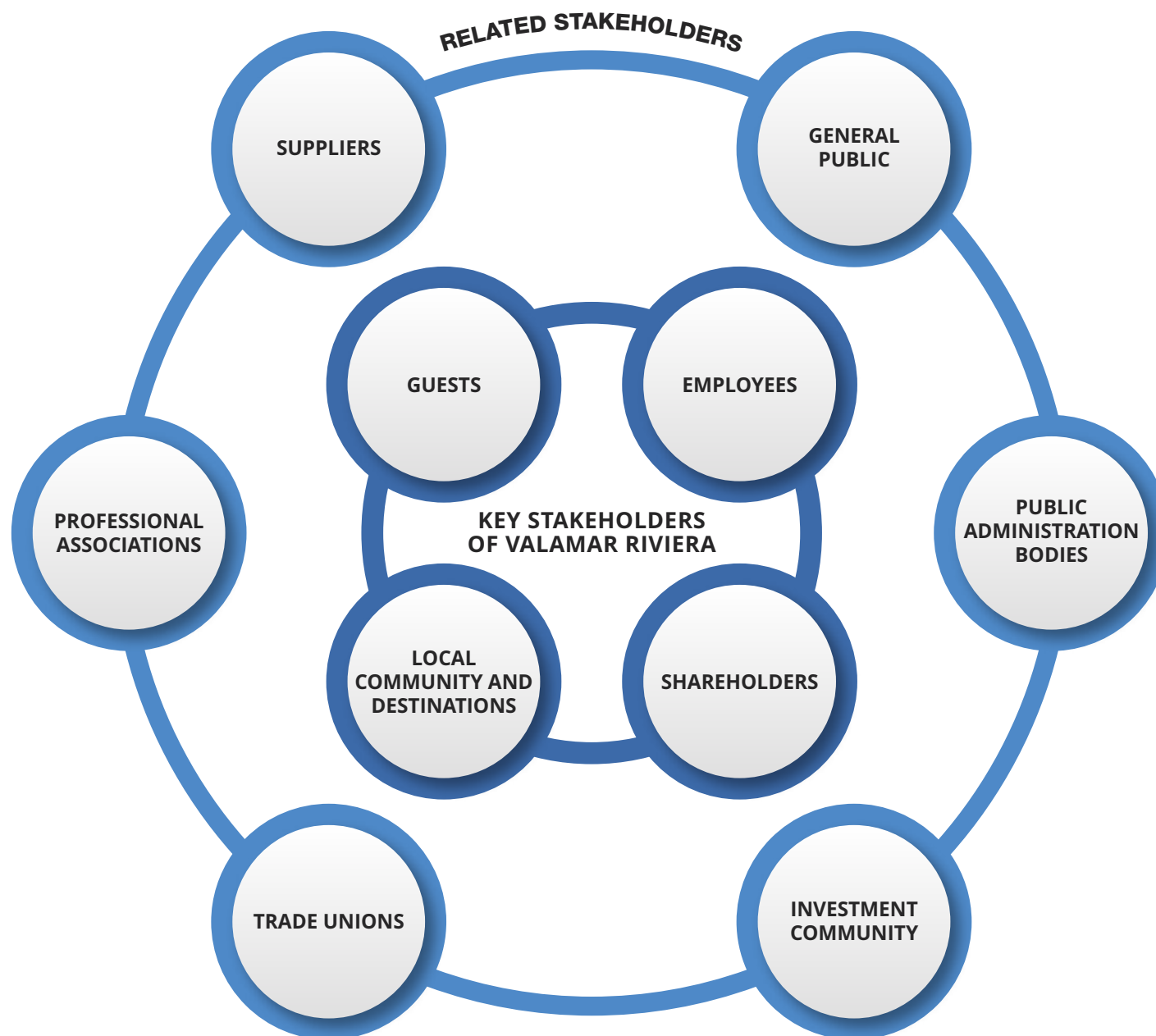
- ▶ press releases
- ▶ corporate website
- ▶ VIV magazine

2018 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 may contain imported raw material	8.2%
	Croatian products that contain only domestic raw material	65.0%
	Imported product	26.8%





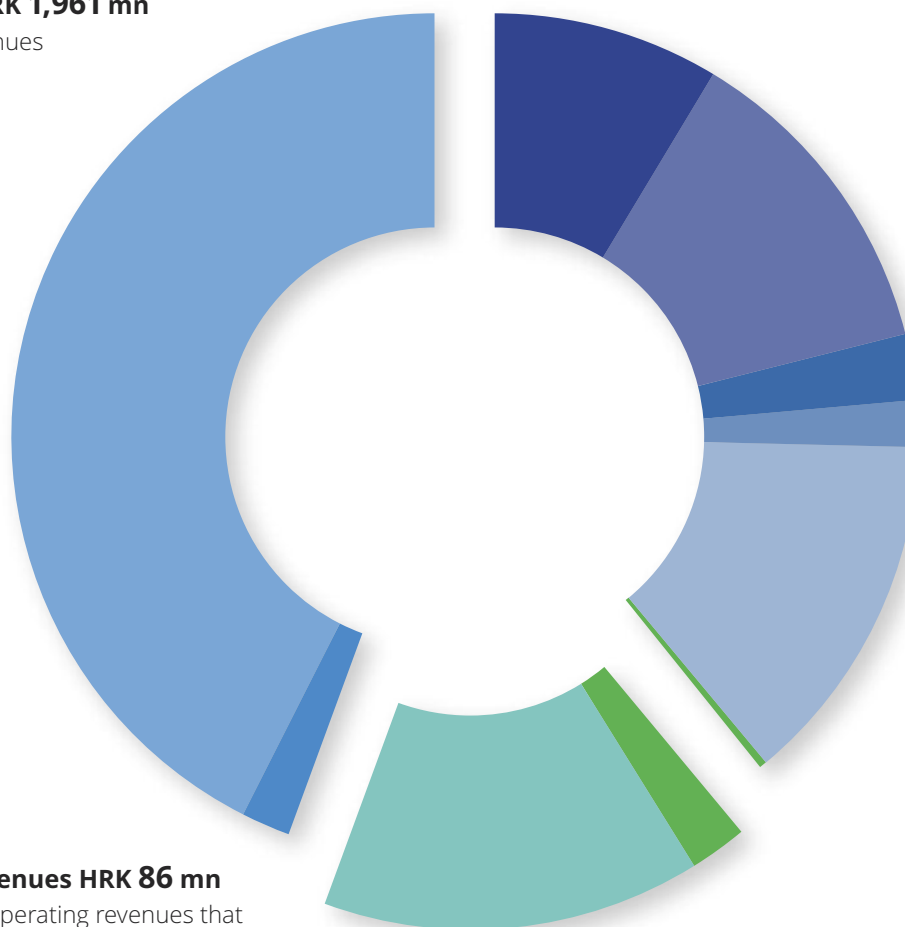


VALAMAR RIVIERA'S CONTRIBUTION TO ECONOMIC DEVELOPMENT IN 2018

DIRECT ECONOMIC VALUE GENERATED

■ **Guests HRK 1,961 mn**
net sales revenues

■ **Other revenues HRK 86 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 398 mn**
net salaries and other net employee income

■ **Suppliers HRK 574 mn**
costs paid to suppliers, including food and beverage, energy sources, communication, transport, promotion, maintenance, intellectual services and other

■ **Shareholders HRK 116 mn**
dividends paid to shareholders

■ **Banks and creditors HRK 82 mn**
interest and other costs related to financing

■ **Public administration* HRK 625 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 101 mn**
total investments and projects included in the 9 CSR programs

■ **Portfolio investments HRK 667 mn**
capital investments in hospitality assets, equipment and services

* 30.5% of Valamar Riviera's revenues go into fiscal and parafiscal payments to the public administration annually.

Direct economic value generated	HRK 2,048 mn
Economic value distributed	HRK 1,795 mn
Economic value retained	HRK 253 mn
Total investments	HRK 768 mn



*TUI Family Life Bellevue
Resort 4*, Rabac*



*Valamar Collection
Dubrovnik President Hotel 5*,
Dubrovnik*



*Valamar Atrium Baška
Residence 4 & 5*,
Krk Island*



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



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 can 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 Unit, 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.

Annual sectoral meetings were held in 2017 and 2018 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 principle 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 2018, we particularly consulted our employees as key stakeholders of the company. Through consultations carried out in all sectors, and through the annual 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. In addition, we continued developing a two-way communication with other key stakeholders in order to additionally improve integrated reporting quality, which will be among our concerns in the forthcoming period.

Valamar Collection
Girandella Resort 4/5*,
Rabac



MATERIALITY MATRIX

In accordance with the process of identifying and prioritizing material aspects within the organization regarding business operations, a materiality matrix was defined at the level of all 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.



5 VALAMAR'S CORPORATE STRATEGY



Vision

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

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.

Mission

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.



VALAMAR
All you can holiday



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

We focus on our guests' needs and desires throughout the year – before, during and after their stay. At Valamar Riviera, 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.



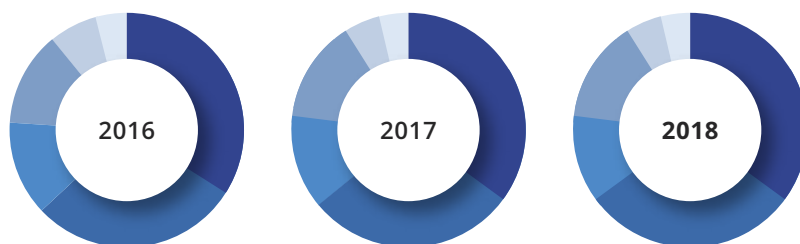
DEVELOPMENT OF TAILORED PRODUCTS AND SERVICE CONCEPTS BASED ON GUESTS' NEEDS AND DESIRES

We are aware that guests' expectations are rising, especially in the premium segment. Therefore, we develop 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 resorts are stable in share of revenue and luxury camping is a trend experiencing growth.

VALAMAR MARKET SEGMENTS: HOTELS AND RESORTS



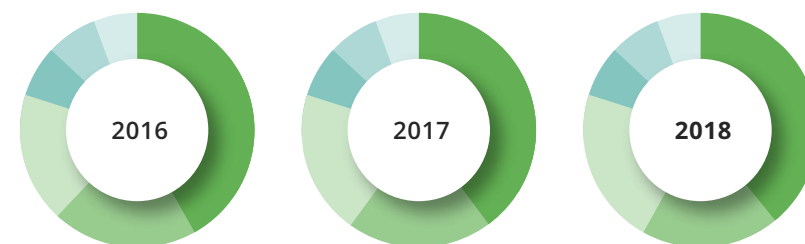
	2016	2017	2018
Families	34%	35%	35%
Adults and couples	29%	29%	30%
Seniors	13%	13%	12%
Active guests	13%	14%	14%
MICE	7%	5%	5%
Leisure groups and tours	4%	4%	4%



VALAMAR MARKET SEGMENTS: CAMPSITES



	2016	2017	2018
Families	42%	40%	39%
Adults and couples	20%	20%	19%
Luxury camping	18%	20%	22%
Active guests	7%	7%	7%
Seniors	7%	7%	7%
Short stay	6%	6%	6%





*Valamar Collection
Imperial Hotel 4*,
Rab Island*



VALAMAR SIGNATURE PROGRAMS

Our product development strategy defines ambitious plans for the innovative improvement of Valamar signature programs, especially in premium and upscale properties. This process encompasses hotels, resorts as well as camping resorts.

We aim to improve the content and definition of each program. The clear connection between our signature programs and Valamar core brand values 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.

We improved all the existing programs further in 2018 and started the successful elaboration of new ones. We have set very high standards for the quality and consistency of their implementation and consider their development to be an ongoing, continual process that will reflect the latest market trends as well as guests' needs and expectations in years to come.



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 cuisine, 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.

Vlevel



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.

MARO
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.

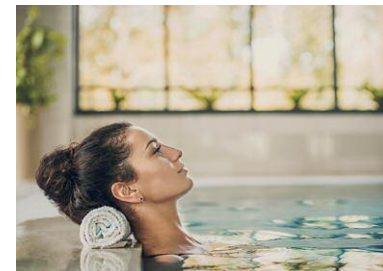
DESIGNED FOR
ADULTS



BALANCE MEDITERRANEAN SPA

By blending the Mediterranean heritage and the beauty of the local culture, Valamar created the Balance Mediterranean Spa offering a relaxing and revitalizing experience. The Mediterranean way of life is at the core of the brand, reflected in all the facilities and amenities which are entirely inspired by the Mediterranean landscapes and materials. The signature rituals and treatments feature organic beauty products by local and renowned international manufacturers and contain Mediterranean herbs and ingredients nurtured by the generous Mediterranean climate.


BALANCE
Mediterranean Spa
by Valamar



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. It is the central sports point at Valamar, offering over 25 attractive activities. Under the guidance of our professional 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.



BIKE

Along with prime properties and professional services, Valamar offers a unique way of exploring a destination regardless of one's age and cycling prowess. Valamar bike hotels offer all the amenities and services for cyclists – from storage and maintenance to transport and route planning, guaranteeing a relaxing and carefree cycling experience for all fans of mountain, road or trekking biking and also for professional bike teams.



PIAZZA

Piazza is where our guests come to discover the authentic flavors typical of the destination. It features 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

By continually creating new restaurant features that combine Valamar's passion for gastronomy and design, we improve and expand our food and beverage concepts that consist of distinctively and professionally designed restaurants and bars.

FINE DINING

Spinnaker Restaurant

The elegant Spinnaker features the most talented Valamar chefs and sommeliers who combine creative cuisine and a careful selection of premium wines using the finest local ingredients.

SPINNAKER

À LA CARTE RESTAURANT



Miramare Restaurant

Located in the most attractive spots, the Miramare offers exclusive dishes and the restaurant's specialties based on fresh fish and seafood for a truly unforgettable experience.

MIRAMARE
RESTAURANT



Black & Blue Steakhouse

At the Black & Blue Steakhouse, we select only the finest aged cuts of meat and prepare them according to traditional and contemporary influences.

**BLACK
& BLUE**
— STEAKHOUSE —



CASUAL DINING

La Pentola

This attractive trattoria-style restaurant offers homemade pasta, pizza, bruschettas and other all-time Italian favorites and local dishes.



Craft Beer and Grill

This casual restaurant offers an intriguing selection of craft beers, tasty homemade burgers and irresistible grilled dishes.



Grano Duro

With just a few simple, skillfully combined ingredients, our chefs at the Grano Duro's open kitchen can make a tasty pizza or pasta dish in a matter of minutes.



Oliva Restaurant

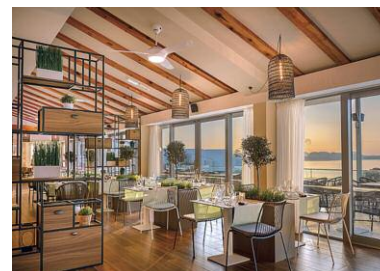
At the Oliva, the creative combinations of local ingredients make tasty Mediterranean dishes for all ages and palates.



HOTEL RESTAURANTS

Momenti Restaurant

Hailed as the finest gourmet breakfast at Valamar, the exclusive breakfast and dinner at Momenti Restaurant are served in an elegant and intimate atmosphere according to the highest V Level standards.



SNACK BARS

Mezzino

An ideal place for a light lunch or quick bite at the poolside or beach, Mezzino snack bar offers simple dishes, ice-cream, light desserts and fresh fruit as well as take-outs.

[mezzino]
SNACK BAR



Sweet&Petite

This pastry shop offers a selection of homemade waffles and pancakes served with a choice of irresistible fillings and toppings, as well as artisan ice-cream, assorted desserts and coffee.

SWEET&PETITE
—



Splash Beach Bar

Splash Beach Bar is the perfect place to grab a quick bite while you enjoy a selection of refreshing cocktails and drinks on the beach.

SPLASH
BEACH BAR



BEACH CLUBS

Sundance Beach Club

Only the finest Mediterranean and international dishes are combined with refreshing cocktails you can have on the beach while enjoying the sea and sun.



The Beat Beach Club

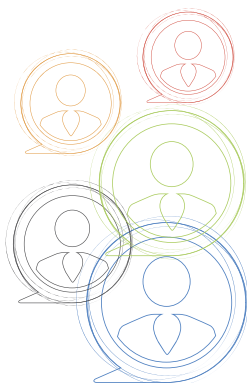
Casual and fun, it offers light bites and a wide selection of refreshing cocktails and drinks and is the perfect place for enjoying a day on the beach.



beat
THE BEAT BEACH CLUB



VALAMAR EXPERIENCE CONCIERGE



This is one of Valamar signature programs aiming at delivering excellent quality and authentic destination experiences. Showing outstanding hospitality, this program is open to the needs of each Valamar guest and always finds new ways to provide a personalized approach.

Perfect Experience Creator continued to grow in 2018. We upgraded our premium points that now have Guest Relation managers to improve our service quality and overall guest relations.

Perfect Experience Creator became Valamar Experience Concierge by the end of 2018, and we increased our focus on upgrading our services and providing the best holiday experience with our insider knowledge and personalized approach.

- ▶ quality of premium points at hotels: 92%
- ▶ new functions at premium points: guest relation and solving complaints
- ▶ 390 selected experiences, 100 local partners
- ▶ 36,700 experiences sold in 2018
- ▶ more than 100 souvenirs under the brands Valamar, Camping Adriatic by Valamar and authentic local souvenirs
- ▶ new Perfect Experience Creator point at Valamar Collection Imperial Hotel, Rab
- ▶ 21 Perfect Experience Creator points



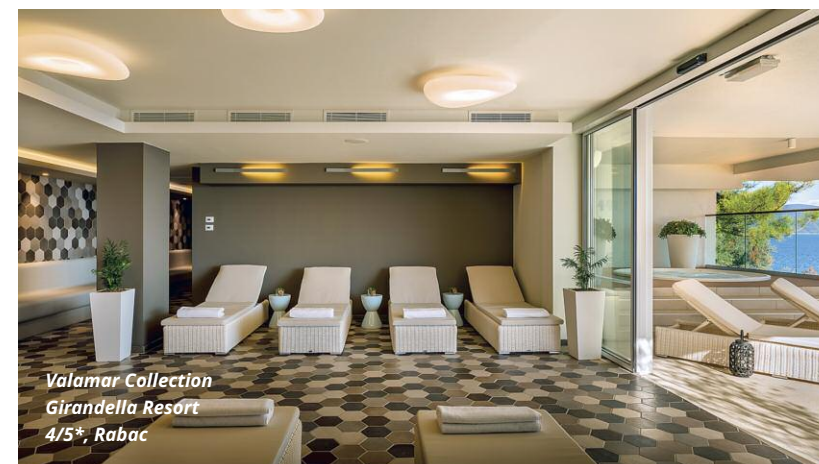
DIRECT RELATIONSHIPS AND GUEST LOYALTY

Creating returning loyal guests increases our revenues and allows us to increase the share of direct booking. In 2018, Valamar Riviera reported HRK 692.86 million achieved via Valamar's direct distribution system: call center, direct online booking, loyalty program and front offices.

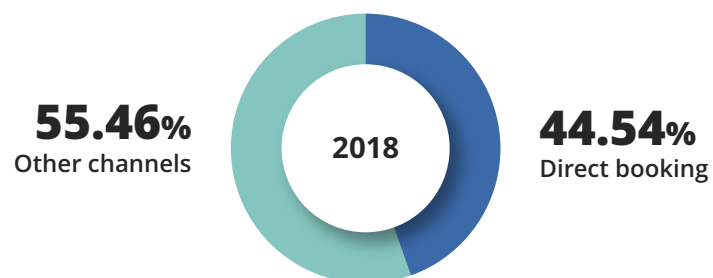
We are continually developing the loyalty strategy in order to create even more added value for our guests. We also continue developing our website, e-marketing and technologies, in order to increase the number of visits to our sites and the number of unique web users (2018: 4.27 million), phone and

email inquiries (2018: 461,960) and bookings (2018: 102,841).

In 2018 the share of direct booking was 44.54% and the share of loyal guests was 23%*. The share of loyalty member revenue in total direct booking reached 59% in 2018.



SHARE OF DIRECT BOOKING (by revenues**)



* Due to new technology and monitoring method. The company retained guest loyalty.

** Board revenues net of agency commissions.

DIRECT SALES AND MARKETING

	2017	2018
Board revenues (direct booking, HRK mn)	612.1	692.86
Number of bookings	82,846	102,841
Number of web sessions***	7,615,589	8,124,064
Number of unique web users***	3,995,186	4,270,960
Number of phone and email inquiries	374,858	461,960

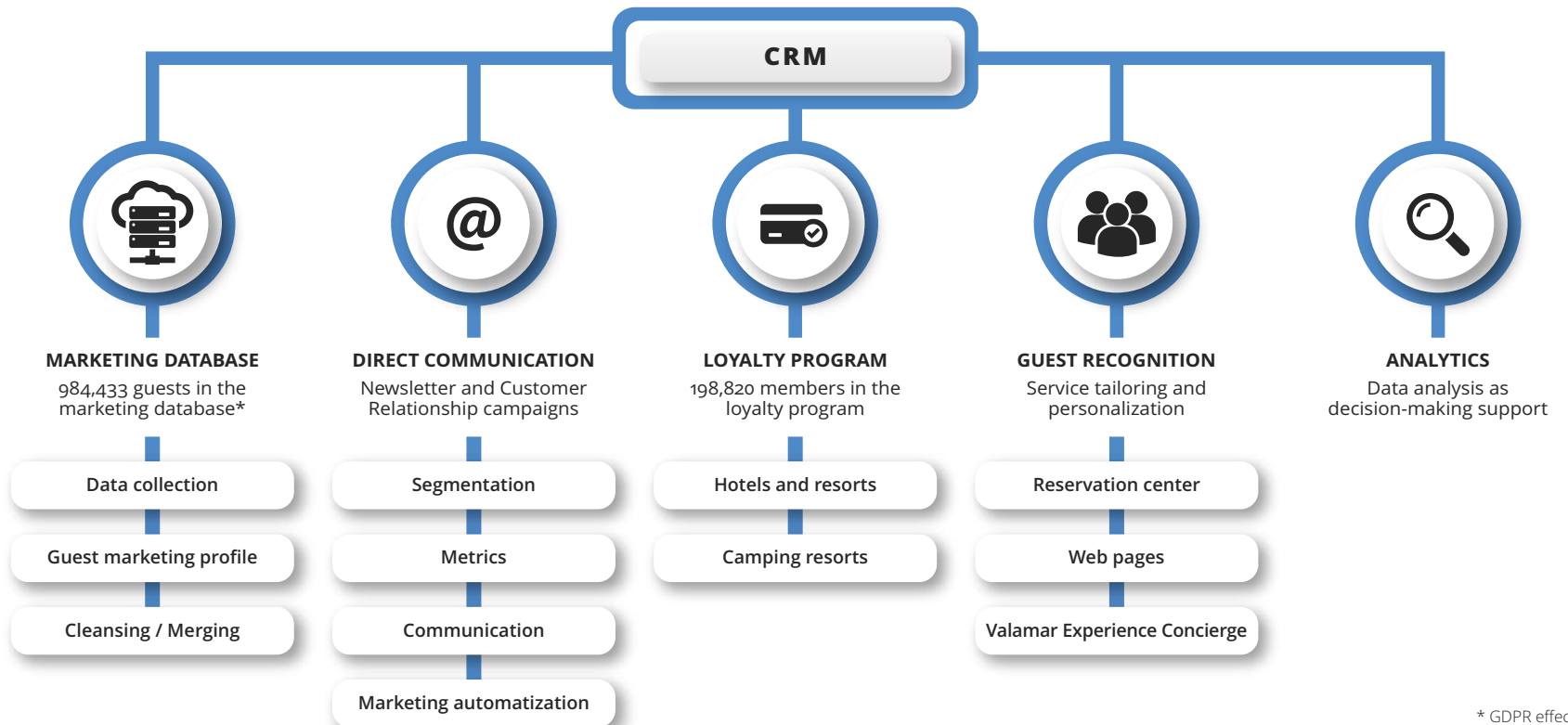
*** www.valamar.com and www.camping-adriatic.com



BUILDING LONG-LASTING AND DIRECT RELATIONSHIPS WITH OUR GUESTS

We must 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 and our long-standing tradition help us address our guests' needs before, during and after their stay, thus establishing year-long communication. Our CRM is additionally supported by our loyalty



program – Valamar Plus Club: as of 2018, it covers our hotels and resorts as well as camping resorts. The program is designed as an attractive platform since the first day of membership.

Thanks to the efforts made in this area, the rate of returning guests was 23%. We believe that through our further focus on understanding our guests better and through our provision of personalized services, we will increase loyalty towards reaching the targeted 30% of returning guests.

The General Data Protection Regulation became effective in May 2018, thus changing the way Valamar collects and processes personal data. This regulation changed e-mail communication with guests and the volume of the customer base with contact permission.

Before the regulation was implemented, Valamar's data base clients were notified of the changes and rights regarding data protection and the possibility to unregister from the data base.

The new privacy policies clearly state the principles of data processing and clients' rights in the entire process. Pursuant to the regulation, each collection source of guest contact data (potential guests included) included a consent on which data processing was based. Along with the consent, after GDPR implementation, direct e-mail communication with guests is also based on the legitimate interest of one part of existing guests or guests who booked their accommodation.





MANAGING SERVICE QUALITY

The strategic model of quality management at Valamar is designed to enable the success of the whole organization through our focus on the guest and our consistent provision of unbelievable service.

The quality management model enables a 360-degree approach that is primarily focused on measuring guest satisfaction, the successful implementation of top internal and external industry standards, building Up!Lifting service excellence culture, employee education and training, constant improvements and implementation of feedback received from guests and external experts, and securing proactivity and innovation for the future.

Valamar strives to achieve high guest satisfaction for all our brands and in relation to global competitors. This approach has helped us in creating a culture of service excellence as the company's key driver of success and growth.



2018 STRATEGIC QUALITY MODEL



Valamar Collection
Isabella Island Resort 4/5*,
Poreč





MEASURING GUEST SATISFACTION

The service quality management strategy is primarily based on monitoring guest satisfaction that grew further in 2018, reaching a high 88%.

This indicator is based on the ratings of as many as 167,710 guests who completed the guest satisfaction survey or left an online review in 2018. The number of received surveys in 2018 was 25% and one in four Valamar guests completed their survey. The high result of 95% in the performed internal audits of standard operating procedures confirms the consistent delivery of services and work processes. What should be singled out in our guest satisfaction results is the Unbelievable Index which jumped by 13 percentage points in 2018 and reached 71%.

Valamar measures guest satisfaction via printed and digital in-stay and post-stay surveys. Over 125,000 guests completed our printed surveys, while over 30,000 of them completed our online surveys and we

received nearly 11,000 guests' comments in our post-stay surveys. The online reputation index was 88% for Valamar hotels and resorts and 86% for campsites.

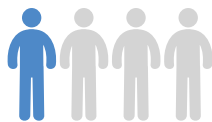
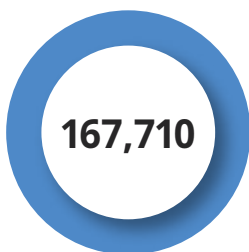
In order to efficiently manage all sources of information on guest satisfaction and build up its reputation on social networks, Valamar uses an online reputation management system (ORM). Most of our properties are among the top 10 on the TripAdvisor list by destinations. Valamar has a strong presence on the internet, in online booking channels, on 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 surveys in their rooms, and opinions collected via post-stay surveys or posted on social networks. In this way, service quality is constantly improved and managed efficiently in various areas, with a response time within 48 hours from inquiry. This makes client relationships stronger and fosters the trust clients 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



SURVEYS IN 2018

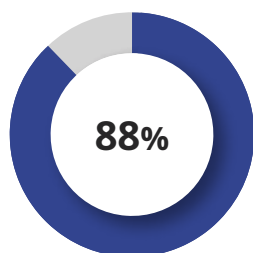


25% of guests
completed the satisfaction survey or left an online review

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 23% of returning guests) we know we have achieved our goal. Only then can we say that quality at Valamar is successfully managed and that we continually improve our products and services. The Net Promoter Score, i.e. recommendation rate was high in 2018 and reached 66.

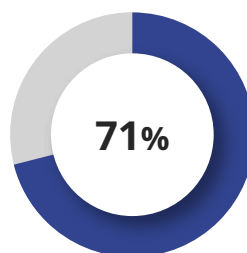
KEY GUEST SATISFACTION INDICATORS IN 2018

OVERALL GUEST SATISFACTION



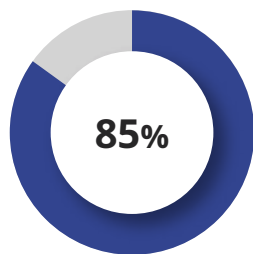
Overall guest satisfaction is based on 167,021 submitted surveys and online posts made by our guests. The total result for hotels was 88% and 86% for campsites. Collection properties reported the best results (93%).

UNBELIEVABLE INDEX



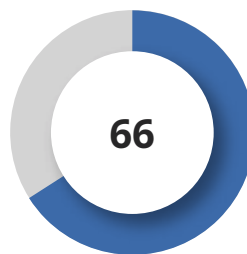
Unbelievable Index – the percentage of guests who gave our staff the best rating possible – “unbelievable”, the reported growth vs. prior year is 13 percentage point

ONLINE GUEST SATISFACTION AVERAGE



The online guest satisfaction average refers to the overall online score in the last 24 months on all web portals, but it does not include Valamar’s digital and printed surveys.

NPS – NET PROMOTER SCORE



NPS – Net Promoter Score – we ask our guest one question to obtain our NPS: “Would you recommend us to a friend or colleague?”



How is Net Promoter Score (NPS) calculated



$$\text{Net Promoter Score} = \% \text{ Promoters} - \% \text{ Detractors}$$



STANDARDS AND CERTIFICATES

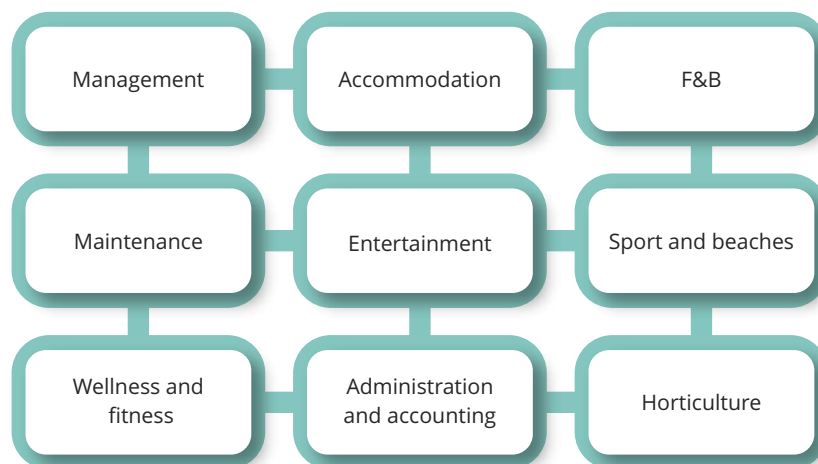
The Quality Department continuously contributes to improving quality in order to maintain service excellence. The lowest target score for internal audits is 95%.

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

- ▶ establishing quality standards
- ▶ auditing and updating standard operating procedures
- ▶ internal audit
- ▶ preparing the company for certification.

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

SOP – STANDARD OPERATING PROCEDURES



QUALITY GROWTH DRIVERS: CERTIFIED SYSTEMS

CERTIFIED MANAGEMENT SYSTEMS:

- ▶ ISO 9001
- ▶ ISO 14001
- ▶ ISO 50001
- ▶ HACCP

TRAVELIFE GOLD AWARD for 20 hotels:

- ▶ recognizing sustainable and environmentally friendly hotels

EU ECOLABEL

- ▶ 6 campsites in Poreč and Krk

e-HACCP

- ▶ introduced in 14 profit centers

BLUE FLAG

14 beaches



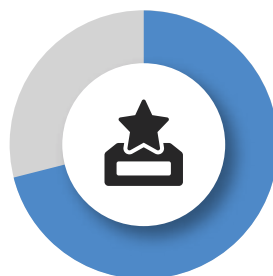
UP!LIFTING SERVICE CULTURE

Service excellence is the foundation of Valamar's lasting and sustainable business success. Our key product is service, and our daily focus is raising quality on a higher level. Up!Lifting Service represents the excellent service we strive for. Therefore, we put our core values into daily practice and improve our service quality for both our guests and colleagues.

"Unbelievable" represents the highest rating that Valamar employees can receive from guests, and its continual growth is driven by the systematic efforts to create a service-centered culture within the organization, one that includes not only guests but also colleagues and partners. This is achieved through education, employee development and workshops, therefore motivating employees to be always focused on providing excellent service – towards a guest, colleague or partner. We aim at surprising guests with an unexpected service and anticipating specific guests' needs and desires.

The continual growth of the Unbelievable Index shows that our employees create unforgettable memories for each guest every day. 71% of our guests rated Valamar staff as "unbelievable" in 2018, so the Unbelievable Index grew by 13 percentage points in 2018 vs. 2017. The total Up!Lifting Index at Valamar is 95%, with 95% for hotels and 94% 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



71%

the percentage of guests who rated Valamar staff as "unbelievable" in 2018 (+13 percentage points vs. 2017)

Valamar Collection
Isabella Island Resort
4/5*, Poreč



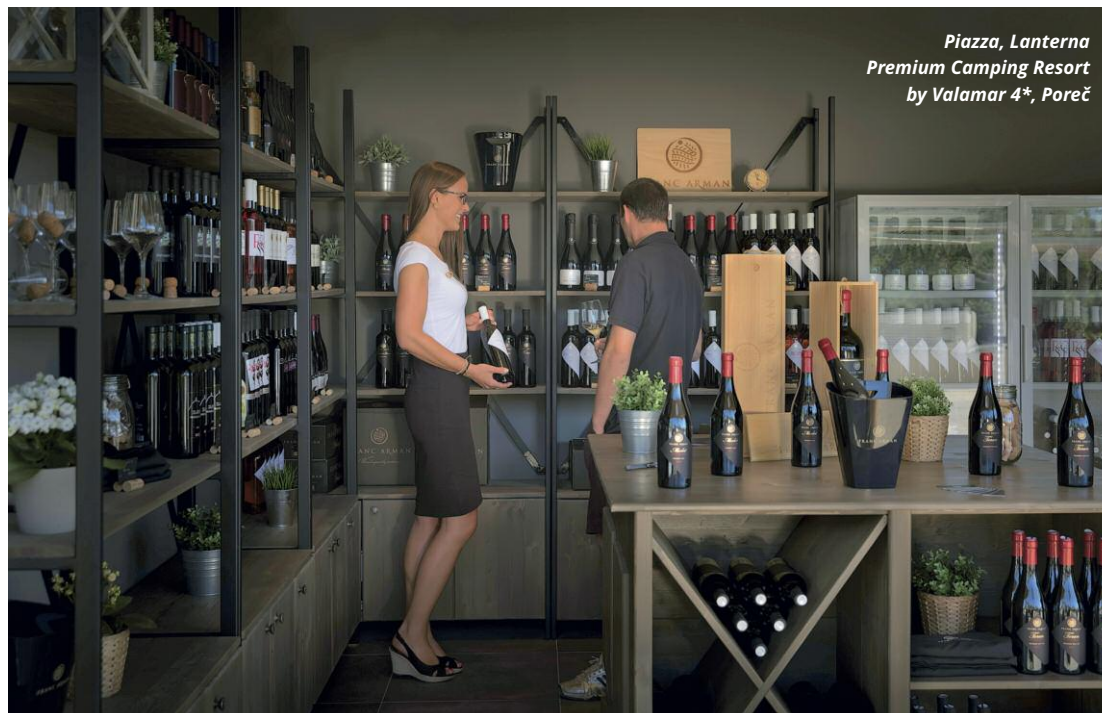
the Adriatic coast. In 2018, the number of training sessions doubled if compared to 2017: there were over 6,000 sessions organized at our properties and 18 different training topics. Over 1,500 employees attended orientation presentations for new employees and there were 400 Up!Lifting-awarded ValamArtists 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 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 other employees.

Valamar Collection
Girandella Resort 4/5*,
Rabac



Last year, over 300 managers participated in the Up!Lifting training program and the internal training program named "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 are internal trainers for their employees in order to achieve

service excellence and create unforgettable memories for our guests. All our 6,700 employees are ValamArtists and they contribute to our top-class service culture and our combination of proactivity, creativity, hospitality, team spirit and welcoming atmosphere. They all treat their colleagues and guests in accordance with Valamar's service culture principles.



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

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
(food safety management system)
- ▶ ISO 9001
(quality management system)
- ▶ ISO 14001
(environmental management system)
- ▶ ISO 50001
(energy management system)
- ▶ "Q" quality mark by Croatia's Ministry of Tourism
- ▶ Blue Flag – FEE
(Foundation for Environmental Education)
- ▶ Sustainable Hotels
- ▶ Travelife Gold Award
- ▶ EU Ecolabel

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

In 2018, Valamar boasted 20 hotels carrying this prestigious certificate.

Travelife is an international certification system that promotes sustainability in hospitality 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 between economic progress, care for the environment in the broadest sense, and social involvement in the community.



All our hospitality properties are certified by the ISO 14001 certificate of environmental management, while 75% of our accommodation at hotels and resorts is also covered by the Travelife certificate of sustainability.



HOTELS HOLDING THE TRAVELIFE GOLD AWARD CERTIFICATE

Allegro Sunny Hotel & Residence by Valamar	★★★	Rabac
Valamar Sanfior Hotel & Casa	★★★★	Rabac
Miramar Sunny Hotel & Residence by Valamar	★★★	Rabac
Valamar Argosy Hotel	★★★★	Dubrovnik
TUI Family Life Bellevue Resort	★★★★	Rabac
Valamar Tamaris Resort	★★★★	Poreč
Valamar Crystal Hotel	★★★★	Poreč
Valamar Diamant Hotel & Residence	★★★★ (3/4)	Poreč
Valamar Collection Dubrovnik President Hotel	★★★★★	Dubrovnik
Valamar Collection Isabella Island Resort	★★★★★ (4/5)	Poreč
Valamar Koralj Hotel	★★★	Krk Island
Valamar Lacroma Dubrovnik Hotel	★★★★	Dubrovnik
Valamar Pinia Hotel	★★★	Poreč
Valamar Riviera Hotel & Residence	★★★★	Poreč
Rubin Sunny Hotel by Valamar	★★★	Poreč
Valamar Zagreb Hotel	★★★★	Poreč
Valamar Club Dubrovnik Hotel	★★★	Dubrovnik
Tirena Sunny Hotel by Valamar	★★★	Dubrovnik
Pical Sunny Hotel by Valamar	★★	Poreč
Valamar Collection Girandella Resort	★★★★★ (4/5)	Rabac

EU ECOLABEL

Pursuant to Regulation (EC) No 66/2010, EU Ecolabel can be awarded to services having a reduced environmental impact during their entire life cycle.

Pursuant to Commission Decision (EU) 2017/175 on establishing EU Ecolabel criteria for tourist accommodation, the awarding requirements are the following:

- compliance with each of the 22 compulsory criteria covering general management, energy efficiency, use of renewable sources of energy, rational use of water, waste and waste water reduction and management and other criteria
- compliance with a sufficient number of the remaining 45 criteria to receive the required points

The criteria aim at promoting the use of renewable energy sources, energy and water saving, waste reduction and the improvement of the local environment.

EU Ecolabel has a dual purpose: it assures us that our products and services comply with high environmental protection standards and inform our partners and guests about making a greener choice when choosing among the products and services on the market.

Valamar Riviera applied to receive the label for 6 campsites in August 2018. After reviewing the applications, the competent body awarded the labels on 22 January 2019.

Valamar Riviera received the EU Ecolabel for the following 6 properties:



CAMPSITES HOLDING THE EU ECOLABEL

REGISTRATION NUMBER		
Istra Premium Camping Resort, Funtana	★★★★★	HR/051/001
Ježevac Premium Camping Resort, Krk	★★★★★	HR/051/001
Krk Premium Camping Resort, Krk	★★★★★	HR/051/003
Lanterna Premium Camping Resort, Tar-Vabriga	★★★★★	HR/051/004
Orsera Camping Resort, Vrsar	★★★★	HR/051/005
Solaris Camping Resort, Tar-Vabriga	★★★	HR/051/006



5.2 EMPLOYEES AND ORGANIZATION



RESPONSIBLE MANAGEMENT OF HUMAN RESOURCES

According to a research conducted by MojPosao web portal on 10 000 subjects in 2018, Valamar Riviera was the only tourism company among the top 20 employers in Croatia, ranking 12th on this prestigious list. The company also received another valuable recognition when it ranked 4th among the most desirable employers in Istria in 2018.

The total number of employees increased by over 700 to reach 6,739 in 2018. The recruitment for all the new advertised positions was helped by the campaign named "Good Job at Valamar". Valamar Riviera was among the first companies to launch an integrated communication campaign to boost Valamar's top employer image and attract as many applicants as possible.

The campaign aimed to enhance the perception of Valamar as an employer offering career opportunities and guaranteeing the best working conditions and employee accommodation in Croatia. One of the goals was also to boost the number of applicants for seasonal positions at Valamar. Valamar started this process with a strategic decision to be the first in Croatia to guarantee a

minimum net pay of HRK 5,000 – HRK 7,500 for employees who worked full-time during the month.

With this, Valamar emerged as a labor market leader in tourism, as evidenced by the strong media feedback received and the fact that the number of applications for the 2018 season went up by 88% vs. 2017. The Facebook page "Good Job at Valamar" also contributed to these great results by ensuring an intensive two-way communication with applicants and was used as a point where we presented key messages and encouraged interaction through an open and innovative communication. The outcome was excellent – in the first 6 months of 2018, the campaign's domain *dobarposauvalamaru.com* was visited by 140,403 users, resulting in 5,466 job applications.

Considering the challenges in the labor market facing Croatian tourism recently, quality in human resource management became one of Valamar Riviera's primary goals. Since some of the professions needed became scarce on the labor market, we launched our own career development programs. In order to retain our employees (seasonal or permanent) despite strong emigration trends, Valamar especially focused on continually improving the material and non-material rights and benefits of employees. Valamar Riviera justifies its status as top tourism employer by offering competitive salaries, motivation and rewarding systems, career development opportunities, care for employees' wellbeing and collaboration with educational institutions across Croatia. Valamar Riviera is proud of being the top investor in Croatian tourism and a company offering the best working conditions and career development opportunities in this sector. It keeps asserting its position with these initiatives that are constantly upgraded and re-affirmed. Valamar Riviera believes that such practices can decrease labor force emigration and create a positive workplace environment for promising young people who want to live and work in Croatia.



One of Valamar Riviera's key priorities is employees' workplace safety and health protection. The company is committed to fully complying with all legal requirements and internal standards for protecting the health and safety of employees, contract partners and guests. The Workplace Security Department was formed at Valamar Riviera in order to help monitoring, advising and receiving feedback on workplace safety and security programs.

Freedom of association is a human right defined by international declarations and conventions, while collective bargaining is an important form of stakeholders' inclusion that help create institutional frameworks. Valamar Riviera's collective agreement covers all employees, except for two management board members. Regarding all significant changes in business operations that reflect on employees, there are legal regulations that define time periods to inform and receive consent from the Workers' Council, trade unions and other social partners.

The employer must inform the Workers' Council of business results and status, work organization, expected business developments, trends and changes in salaries, number and type of workers as well as cost of labor and other issues that are



important for the economic and social position of workers.

Valamar Riviera systematically works on improving the position of employees in collaboration with social partners. Following talks with the Trade Union of Tourism and Services of Croatia (STUH) and the Trade Union of Istria, Kvarner and Dalmatia (SIKD), in 2018, Valamar Riviera decided to increase the minimum net pay from HRK 4,000 to HRK 5,000 for all employees through an initiative called "Valamar Guarantee". The satisfied employees ensured a service level that 95% of our guests rated as unbelievable – 5 and excellent – 4 in 2018, thus showing an increase over prior year results, while total guest satisfaction was also high and reached 88%.

Valamar Riviera was among the first organizations in Croatia to sign the Diversity Charter aiming at

promoting diversity, non-discrimination, inclusion and equal opportunities in the workplace. By adopting the Charter in 2017 (under the auspices of the Croatian Business Council for Sustainable Development), and adopting its Diversity Policy in 2018, Valamar Riviera confirmed to understand the importance of respecting diversity and ensuring equal opportunities regardless of sex, age, religion, ethnicity, disability and other factors.

In this way, the company committed to promoting and enforcing workplace diversity and non-discrimination policies and reporting regularly on its activities in this area. Valamar Riviera's commitment and persistence were honored by the CSR Index Award in 2018 for the socially responsible policies of diversity and human rights protection given by the Croatian Business Council for Sustainable Development and the Croatian Chamber of Economy.



SALARY POLICY



BASE SALARY

Valamar Riviera is systematically focusing on improving material and non-material rights and benefits for its employees. The company continued to increase salaries in 2018, which resulted in a 12% increase in the total cost of salaries.

Salaries at Valamar were 7.4% higher than the Croatian average and 31.5% higher than the sector average in this year. The average gross 1 salary for 2018 at Valamar Riviera was HRK 9,075 while the average salary in Croatia was HRK 8,448 and HRK 6,902 in the sector. The average gross 1 salary jumped by 24% in the period from 2013 to 2018.

Nearly one in two Valamar Riviera employees have year-long income secured – through permanent contracts or the permanent seasonal worker measure and the Valamar +3 program. As the first company in Croatia, Valamar Riviera launched a rewarding program named “Valamar Guarantee” in 2018, assuring a minimum net pay between HRK



HRK 9,075

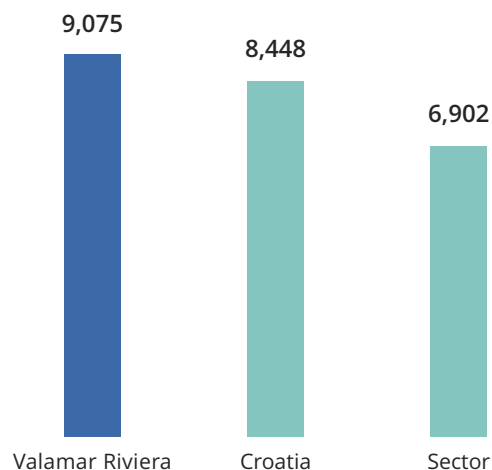
Average gross 1 salary
at **Valamar Riviera** in 2018

5,000 and HRK 7,500 for all employees working full-time during the month.

Following an agreement with trade unions, the base salary went up by 2% as of 1 June and an additional 2% as of 1 December. Also, the tariff appendix

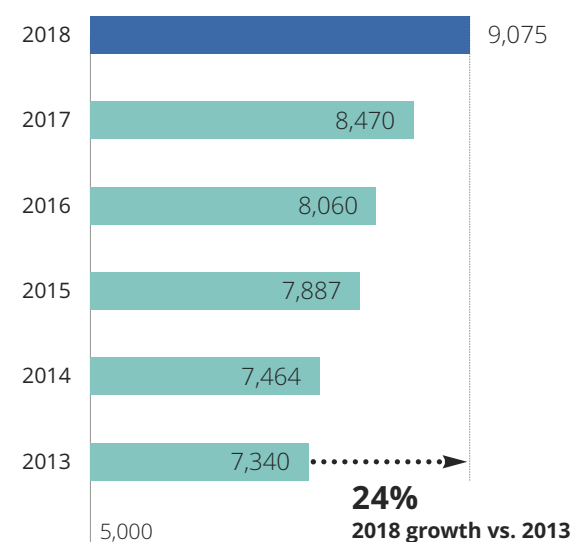
coefficients were increased for over 4,000 employees. Pursuant to the collective agreement, in 2018, Valamar's employees received a reward in kind in the maximum non-taxable amount of HRK 600 and a child bonus (for parents of children under 15 years of age) in the same amount. 3,493 employees

2018 GROSS 1 SALARY COMPARISON (HRK)



Source: Croatian Bureau of Statistics

GROWTH OF AVERAGE GROSS 1 SALARY IN 2018 VS. 2012 (HRK)



received the HRK 600 reward in kind and 1,084 child bonuses were paid out.

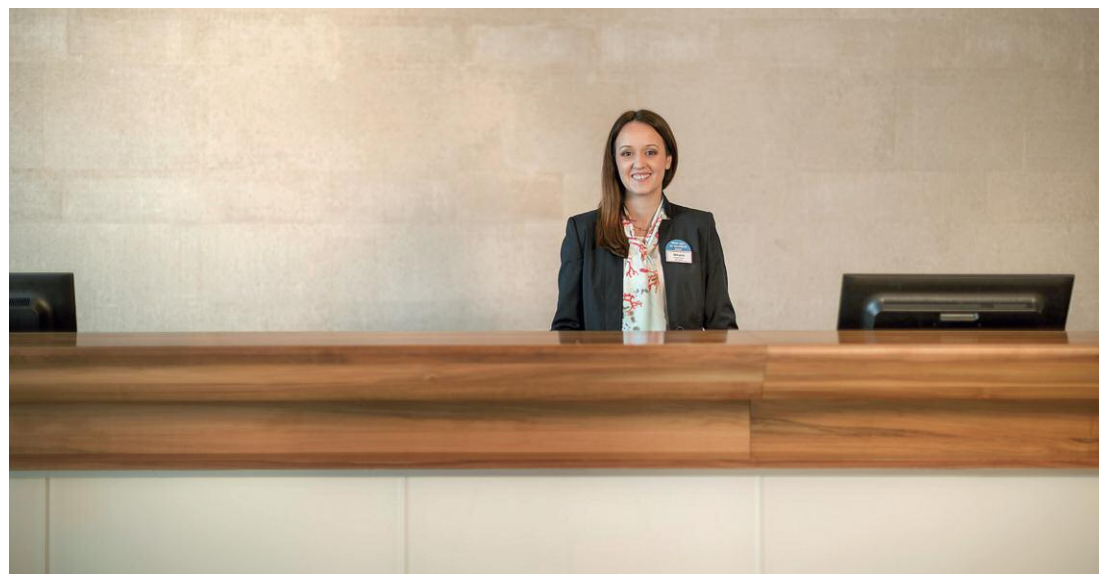
We introduced a performance reward that was paid by the end of the year. It was based on the number of hours employees worked – HRK 2,600 net for all permanent employees; HRK 1,700 net for all workers employed for at least 10 months in 2018; HRK 1,400 net for all workers employed for at least 7 months in 2018; HRK 600 net for workers employed for at least 5.7 months in 2018, and HRK 400 net for workers employed for at least 4.3 months in 2018. A total of 4,660 employees received this reward in 2018.

A satisfied employee leads to a satisfied returning guest, and therefore Valamar Riviera uses numerous incentives, rewarding programs and personal development opportunities to regularly reward its employees and their hard work. In 2018, 5,618 employees were rewarded via various programs at Valamar Riviera.



5,618
employees

rewarded via various programs



REWARDING PROGRAMS AT VALAMAR RIVIERA :

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



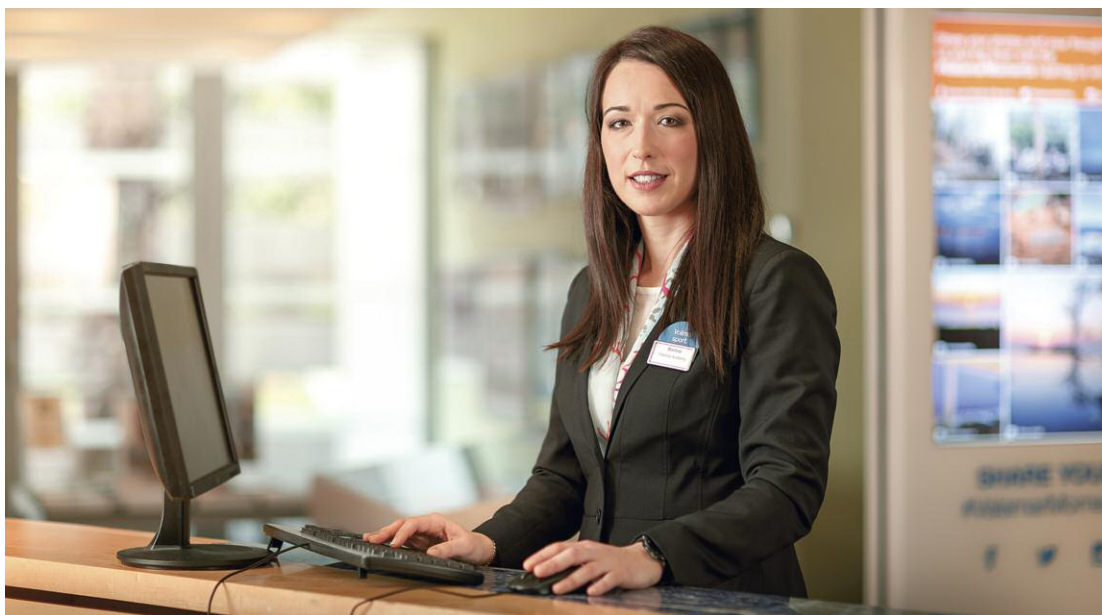
MANAGING TALENTS AND CAREER DEVELOPMENT

Valamar Riviera earns the trust of its employees and partners by systematically investing in employees and being committed to creating a remarkably educated, strongly motivated and satisfied workforce. There are numerous career development opportunities at the largest tourism company in Croatia, regardless of the position.

Valamar Riviera encourages continual development in order to increase professional skills and knowledge. Therefore, the company has developed its own annual umbrella program that provided 102, 142 hours of education and training in 2018. Valamar's goal is to create a motivating atmosphere at work, besides increasing the overall guest service. From core jobs in hospitality to experts in IT, controlling, sales, marketing and various other areas – one of the strategic goals of the company is to develop educated and satisfied employees who can build a successful career in tourism.

In line with this goal, Valamar Riviera introduced a new model of annual employee assessment by the end of 2017. It assesses performance but also potential: all the employees are assessed, corporate departments and operations alike, and this kind of approach enables a timely planning of promotions, rotations and successions for key positions at the company.

Following the implementation of the new model based on 9-box matrix (a performance assessment tool), individual development plans were introduced by the end of 2018 enabling employees to plan their career development in the long term.



Valamar Riviera constantly monitors employees' work in order to make the best of their potential. In line with received results, the company invests in their education and directs them forward depending on their skills, knowledge and interests. Valamar employs candidates having different professional profiles and experience and each of them is offered the possibility to advance and develop at the company. Nowadays, maintaining stability in business operations while facing changing market trends is crucial, so it is important to identify the potential in people, develop them and reward them according to their performance. Therefore, we especially focus on career development, education and training.

We promote life-long learning because we believe that only trained individuals can create the values necessary to achieve competitive advantage. Also, our employees often visit renowned professional conferences and training courses.

LIFE-LONG LEARNING AND TRAINING

Numerous opportunities for personal growth and continual professional development with special focus on the development of competences are just some of the reasons why Valamar Riviera was honored with the status of top employer in tourism.

There are numerous career development opportunities at the largest tourism company in Croatia, regardless of the position. All Valamar employees enjoy equal training and education opportunities and most of them uses these opportunities. We invested over HRK 6.3 million in training and education. In line with its needs, the company has developed its own annual umbrella program that provided 102,142 hours of education and training in 2018. Valamar's goal is to create a motivating atmosphere at work, besides increasing the overall guest service.

With the option of one-day or longer training courses, employees can take part in professional conferences, fairs, expos and meetings. There is also the opportunity to participate in postgraduate studies, internships and foreign language courses, in

accordance with the business needs and employees' potentials. Recently, we have boosted the educational segment, especially with Valamar Excellence, a life-long learning umbrella program that includes education and training for jobs in hospitality and tourism that we started by the end of 2018.

Valamar Excellence is divided in two main parts.

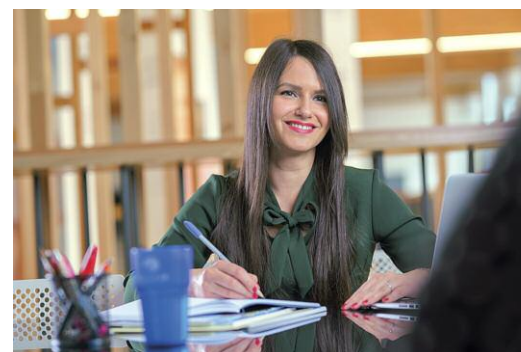
Valamar Education Programs:

- ▶ learning about the hotel and hospitality business:
 - Executive EDU – executive learning program for the hotel and hospitality business
 - Professional EDU – specialistic learning program for the hotel and hospitality business

Valamar Training:

- ▶ a training program for the hotel industry that includes Valamar Academy, V-LEAD, V-INTERN and V-START.

After dedicating the whole year 2018 to creating an entirely new education platform containing all the new features and levels, Valamar Riviera will launch this platform in 2019.



102,142 hours

in the umbrella learning program in 2018



HRK 6.3 million

invested in training and education in 2018



VALAMAR TRAINING

VALAMAR ACADEMY

It is an education and training program aimed at expanding and enriching corporate knowledge and professional skills. It is based on the principle of best practice and knowledge transfer (mentor to student) and it was started in 2007. Since then, 247 employees that had showed leadership and management potential have completed this program.

72% of our managers, general managers and assistant general managers at properties have completed this program. Today, they represent most of the management team employed at our hotels and campsites. In line with changing trends and Valamar's growth determining employees' growth and development, we created a new concept for Valamar Academy in 2018. Its main goal is to develop a learning organization corporate climate and culture and a system to support it.

Valamar Academy started to include more departments and people than before – not only operations but also all corporate departments.

Up to then, internal talent development was focused on general managers and managers in hotel operations, but now the new concept includes all employee categories, regardless of their position, in order to develop their professional competences.

VALAMAR LEAD

This program focuses on the professional development and training for future managers, PC directors, department directors and potential successors of leading management positions in operations and corporate departments. It will include 20 people each year with the first generation starting on 1 June 2019. The final course preparation was carried out throughout 2018.

V START

This program was created as an introduction into the hotel and hospitality industry for apprentices entering the business world and joining Valamar Riviera. In this one-year program, candidates learn about the company by taking part in rotations at various departments and learn about the operating processes through training and mentorship.

- ▶ a structured and comprehensive program and plan
- ▶ mentor support
- ▶ insight into Valamar's business processes
- ▶ regular performance feedback
- ▶ relationship based on trust and partnership

V INTERN

Valamar Riviera fosters further partnerships with secondary vocational schools educating young people for jobs in hotel management and hospitality (chefs, pastry chefs, waiting staff, 4-year programs), as well as close relationships with Croatian universities, providing internship and traineeship opportunities as well easier access into the world of business.

- ▶ The number of traineeship applications increased in 2018 and is growing further in 2019
- ▶ 168 students (led by over 50 internal mentors) did 30,395 training hours at Valamar Riviera properties (all destinations) in the summer of 2018
- ▶ 37% of all trainees held a Valamar scholarship and learned about the working conditions and their future employer's expectations and quality in the best way possible
- ▶ 95 Croatian university students for whom internship is mandatory did 4,457 hours of training. An important collaboration was started with the Faculty of Tourism and Hospitality Management from Opatija, whose full-time students mentored by hotel general managers do a 300-hour training and prepare to become apprentices and develop their career further at Valamar Riviera
- ▶ Valamar Riviera continued the international collaboration on an Erasmus project with a vocational school from Kaposvar (project holder) whose 45 students had the opportunity to learn about international, and especially Mediterranean, quality and service from Valamar's chefs and waiting staff in the course of 2.5 months.



72%

of hotel GMs completed the Valamar Academy between 2007 and 2018





INVESTMENT IN FUTURE EMPLOYEES AND PROMOTING JOBS IN HOSPITALITY AND TOURISM

Valamar has a long-standing tradition in providing scholarships to young people training for high-demand jobs in hospitality. The company has been the largest partner to the Ministry of Tourism and the largest individual scholarship provider in Croatian tourism. Valamar's presence in 20 vocational schools across Croatia helped in the process of informing on this unique scholarship opportunity that also includes traineeship and first employment opportunities and it received great feedback from high school students.

Valamar Riviera provided 330 scholarships in 2018. In collaboration with the Ministry of Tourism, the company launched a scholarship program for university students in 2018, thus providing 17 student scholarships of HRK 1,200 a month (half of the amount is provided by Valamar and the other half by the Ministry). These initiatives are part of Valamar's measures to find adequate labor force on the market. However, they also represent a necessary investment, made by the largest tourism company investing in training for jobs in hospitality.

This year the campaign lasted for 60 days (30 days in previous years) and this enabled a better selection of the numerous applications to find the best candidates.

WHO ARE VALAMAR RIVIERA'S SCHOLARSHIP HOLDERS?

They come from 47 schools across Croatia, mostly from the continental part and outside of Valamar's destinations (76%). Many of them are high school seniors (32%) entering the world of work and starting their first job on 1 July 2019. 48% of Valamar's scholarship holders are future chefs.

The large volume of scholarships will have positive long-term results and a significant impact on society at large. Valamar Riviera leads this process and significantly contributes to it, thus achieving the following goals:

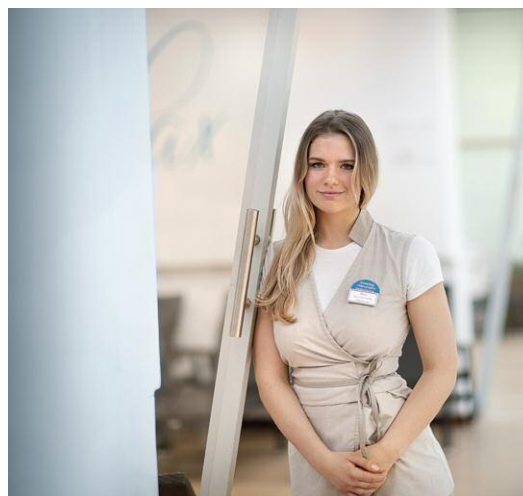
- ▶ supporting young people to train for a job in hospitality and tourism
- ▶ fostering better relationships between Valamar Riviera and vocational schools across Croatia
- ▶ improving the overall quality of Croatian tourism and its labor force.

For the duration of the scholarship, all holders must fulfill the following requirements: regular school

NEW SCHOLARSHIPS IN 2018*- STRUCTURE AND TOTAL NUMBER



* Valamar Riviera and Imperial d.d.



330 scholarships

Valamar Riviera is the largest **single scholarship** provider in Croatian tourism

attendance, regular yearly enrollment and successful school-leaving exam. Students have the opportunity to do their summer traineeship in one of Valamar's attractive destinations – Poreč, Rabac, Rab, Krk or Dubrovnik, and to start their first job at Valamar.

Valamar Riviera has established a close collaboration with the national and international education community. In collaboration with the foundation "Znanje na djelu – Stiftung Wissen am Werk" and an association formed by head teachers working in hospitality schools, Valamar Riviera carried out a strategic project named "Knowledge to Excel" in 2018. This project represents a strategic step forward in the promotion of jobs in hospitality and made it possible for 27 schools from all parts of Croatia, 500 students and their parents, to learn about trends and careers in tourism at Valamar's properties in Poreč, Rabac and Krk.

All the university students who wish to pursue a career in hospitality and tourism as well as those who have already had their job experience at Valamar and want to secure a position with the largest Croatian tourism company, can receive the necessary information at the Student Career Center. This is the right place for all those who are interested in further professional development and want to find out how to use their potential.

Valamar has partnered with international educational institutions as well, as seen in the numerous collaborations achieved. One of them is the project conducted together with Laurea University of Applied

Sciences from Finland. Valamar and 10 of their students were tasked with creating solutions to include guests, employees and local communities in sustainable business projects, which they presented by the end of 2018. This collaboration started after Valamar Riviera participated in the "Intensive Week" project that was created in the partnership between VERN University, the Finnish university and the #EducationmeetsBusiness project. In the same year, Valamar hosted 70 Swiss college students from Scuola superiore alberghiera e del turismo (SSAT) from Bellinzona during the Project Week traineeship.

Thanks to this project, the students had the opportunity to learn from Valamar employees about hotel operations and actively participate in the creation of solutions for issues in tourism and hospitality.



SCHOLARSHIP HOLDERS

Valamar Riviera

Year	Destination	Other regions	Total
Seniors	19	81	100
Other years	58	151	209
Total	77	232	309

Valamar Riviera and Imperial d.d.

Year	Destination	Other regions	Total
Seniors	23	81	104
Other years	73	153	226
Total	96	234	330



VALAMAR MANAGEMENT

The number of managers grew in 2018 along with other growth indicators, driven by a large number of jobs created, the company's investment pace and Valamar's distinctive ambitious approach to business. The number of managers in 2017 was 493 or 15% more than in the prior year. The number of managers in 2018 was 543, and 226 of them were women.

One of the key goals and priorities at Valamar Riviera is building an entire management team who is equipped with the necessary knowledge, skills and capacities to attain the strategic goals of the company. Valamar is very proud of the fact that more than half of the present managers have built their career within this company.

The factors making it possible are: transparent information on advancement opportunities, individual career development plans, numerous training opportunities available and performance feedback.

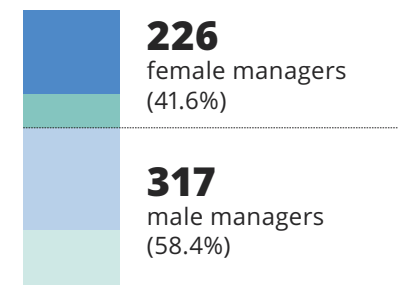
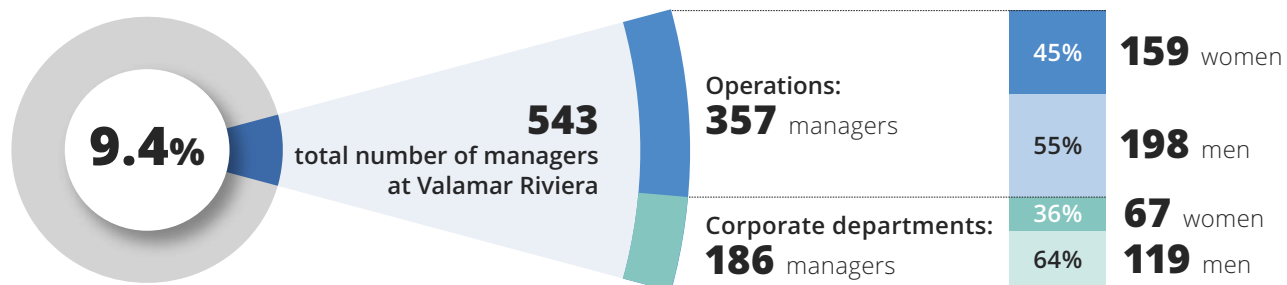
With these processes, Valamar secured a long-term, comprehensive and integrated approach to developing management competences at the company, i.e. a structured process for identifying, selecting, developing and retaining key employees for the present and future needs at the company.

When evaluating the contribution to the achievement of company goals, those managers who achieve the clearly set performance indicators receive and annual reward.

SHARE OF MANAGERS IN THE TOTAL NUMBER OF EMPLOYEES IN 2018 AT VALAMAR RIVIERA



5,770*
people
employed at
Valamar Riviera



* This does not include the employees of Imperial d.d. and Hoteli Makarska d.d.





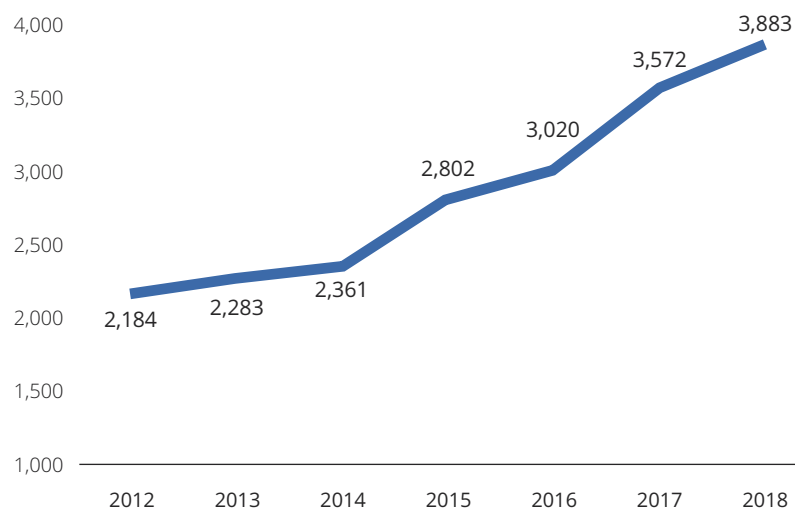
PERMANENT EMPLOYEES AND EMPLOYEES WITH YEAR-LONG INCOME

The number of employees is growing each year, driven by numerous investments and continual quality upgrades.

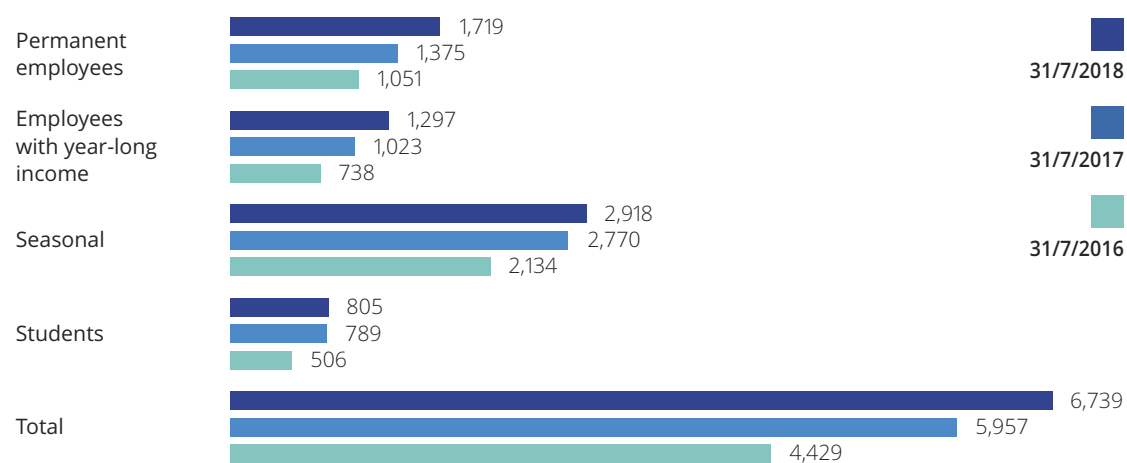
Valamar employed 6,739 people in 2018. If we take into consideration that the Croatian market was lacking labor force, planning new employment strategically (as we have done in the past decade) was the only way to achieve such an employment rate.



AVERAGE NUMBER OF EMPLOYEES BASED ON FULL-TIME EQUIVALENT

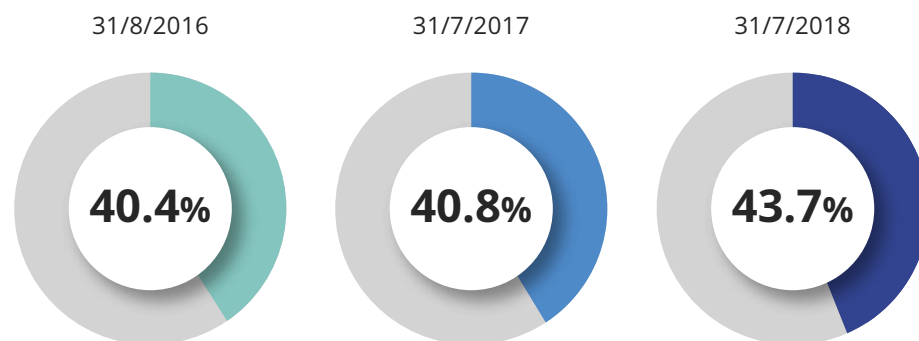


EMPLOYEES BY CONTRACT TYPE*



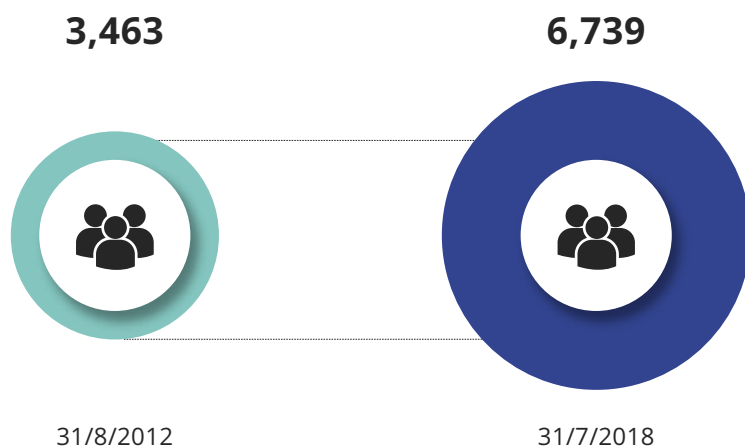
* Employee data include Valamar Riviera and Imperial d.d. as at 31/07/2018, and Hoteli Makarska as at 1/8/2018.

YEAR-LONG EMPLOYMENT INDEX



Year-Long Employment Index is the sum of permanent employees and year-long income employees, divided by the total number of employees.

INCREASE IN THE NUMBER OF EMPLOYEES (2012-2018)



EMPLOYEE TURNOVER RATE

Valamar Riviera monitors employee turnover for all its destinations: if compared to 2016, the employee turnover rate fell by 2%.

PERMANENT EMPLOYEES WHO LEFT IN THE PERIOD FROM 1/1 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 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 EMPLOYEES WHO LEFT IN THE PERIOD FROM 1/1 TO 31/12/2018

	Men	Women	Total	Turnover rate
Baška	2	1	3	4%
Dubrovnik	7	6	13	4%
Krk	0	1	1	2%
Poreč	28	30	58	8%
Rabac	5	2	7	3%
Rab	11	4	15	7%
Total	53	44	97	6%



VALAMAR +3 PROGRAM

There were 700 new people employed at Valamar Riviera in 2018 and our destinations along the Adriatic coast (from Istria and Kvarner to Dubrovnik) reported 6,739 people employed in total. Valamar secures the stability and continuity of year-long income through the Permanent Seasonal Worker measure and Valamar +3 program, as part of our active employment policy.

In the future, Valamar Riviera aims at increasing the permanent index to 50%, i.e. the number of permanent contracts and contracts ensuring year-long income via the Permanent Seasonal Worker measure.

The employment growth trends will continue in 2019, so Valamar plans to employ nearly 7,000 employees at its properties. Besides 1,200 contracts covered by the permanent seasonal worker measure and Valamar +3 program providing year-long income and pension insurance coverage to seasonal workers, the company plans to offer between 300 and 500 new permanent contracts in 2019.

Permanent Seasonal Worker is part of the active employment policy that Valamar Riviera carries out in partnership with the Croatian Employment Service and aims at providing financial support to workers employed only during the summer season. To employees covered by this measure employment is secured for at least 6 months a year, while for the rest of the period these workers receive extended pension insurance and financial support. Valamar's permanent seasonal workers can benefit from the opportunities to develop professional skills and have free annual health check-ups.

Besides, through the Valamar +3 program, the terms of permanent seasonal workers are closely matched to those of permanent employees. The number 3 in the program name stands for the possibility to return to work at Valamar in the next three seasons, along with numerous other benefits. Throughout the whole 3-year contract period, permanent seasonal workers enjoy employment status and extended pension insurance as well as priority for permanent employment at Valamar.







SEASONAL EMPLOYMENT



Valamar Riviera guarantees the best conditions for seasonal employment in Croatian tourism. Seasonal employment at Valamar represents so much more than that, because seasonal employees have numerous opportunities to develop their career.

Valamar Riviera continued to employ local workers in 2018 at its destinations because the company considers them very important in delivering authentic service and because local employees are proud to represent their destination of origin. At Valamar Riviera, the employment of local workers is part of a stimulating

corporate culture that is continually developed as the company always puts people first. Three departments at the company – Operations, Human Resources and Quality – are responsible for organizing orientation presentations to welcome the new employees into the Valamar team and to make their integration process simpler. The presentations are divided by destinations and clusters and provide extensive information on numerous topics, exemplify the meaning of “good job at Valamar” and present Valamar’s core values, mission and vision, service excellence and rewarding system. The atmosphere at orientation presentations is informal and friendly and these presentations provide a good opportunity for the new employees to meet the general managers at a destination or cluster, meet their colleagues and learn about the property where they will

work. In order to make non-resident workers feel at home while working for Valamar, the company provides accommodation centered around the notion of “home away from home”. In the last two years, Valamar Riviera invested over HRK 60 million in the Valamar House concept (staff residences) and opened the 4th Valamar House in 2018. Along with Krk and Rabac, today there are two more Valamar Houses in Poreč, and Valamar Riviera is especially proud of this project.

Due to the growing number of employees that Valamar Riviera has reported year after year, the share of returning seasonal employees decreased from 63% (2016) to 57% (2018). However, the absolute amount of returning employees is growing, and there were 7.5% more returning employees in 2018 vs. 2017.

PERCENTAGE OF RETURNING SEASONAL WORKERS BY REGION

Region	2016	2017	2018
Dubrovnik	59%	55%	55%
Krk	51%	59%	56%
Poreč	66%	59%	57%
Rabac	73%	46%	59%
Baška	45%	65%	57%
Rab	/	55%	49%
Total	63%	56%	57%

SHARE OF LOCAL EMPLOYEES BY REGION

Region	2016	2017	2018
Dubrovnik	68%	61%	58%
Krk	60%	59%	66%
Poreč	76%	71%	66%
Rabac	94%	78%	68%
Baška	51%	45%	40%
Rab	/	65%	65%
Share of local employees	74%	68%	64%



VALAMAR HOUSE – STAFF RESIDENCE – A HOME AWAY FROM HOME FOR SEASONAL EMPLOYEES

Valamar House is a modern, comfortable residence for seasonal employees coming to work at Valamar's destinations. Employees have at their disposal mainly single and double rooms, with en-suite bathroom and toilet, new furniture, a TV set and a refrigerator.

The kitchen and dining room are equipped with all the necessary appliances and are comfortably furnished. There is also a launderette and Valamar House residents can use it at no charge. The common room is also comfortably furnished as a place where residents can spend their free time and relax. All Valamar Houses have free wi-fi. Seasonal workers coming to work in Dubrovnik have their accommodation provided in private apartments. However, the construction of another Valamar House – Staff Residence started at the location of the former Dubrovnik Business Center. The total investment worth will range between HRK 80 and 100 million and the expected completion is in 2019.



*Valamar House,
Krk Island*



CORPORATE CULTURE AND CLIMATE

The annual Valamar survey on employee satisfaction in 2018 contained two new categories to find out how satisfied were employees with their accommodation and work clothes. 85.2% of employees completed their survey (4,643 people, -3% vs. 2017).



More than one half of those who submitted their feedback were younger than 37 and their total satisfaction score was 3.79 or slightly more than the year before. Employee satisfaction in operations was 3.78, and 3.83 in corporate departments with both results showing improvement over prior year. Employees at Valamar Riviera (overall rating at company level) were the most satisfied with their superiors (4.14). Advancement opportunities, salary and permanent employment, sense of accomplishment, good workplace atmosphere and respect for colleagues were the most important motivation factors for employees.

Up!Lifting program is a quality growth driver that includes a systematic and continual training and mentorship, new employees' selection and orientation and rewarding according to the achieved results in guest satisfaction, communication and promotion of team work.

Following its launch as destination standard, the ValamArtist Center was opened in Poreč. Its

OUR ACCOMPLISHMENTS IN 2018



5

UP ambassadors



20

energizers



70

commendation letters



6,000 training sessions

covering **18** topics



1,500 employees

at orientation presentations

goals are to improve communication with employees, especially with job applicants, and make the recruiting process easier. Everything can be done in one place: apply for a job, have your interview, sign the employment contract and receive your work clothes. Besides, candidates can also receive information on recruitment and employment.





FOCUS ON COMMUNICATION

We maintain a regular communication with our employees, and one of the most appealing ways to exchange information was again the monthly ViV magazine or Valamar News (Vijesti iz Valamara). The articles featured in the printed version can also be found on Valamar Riviera's blog.

The traditional annual ViV survey for our employees showed that nearly 64% of them read each issue, and more than 53% of them considered ViV content to be very useful for learning more about the company, while 49% of them said that ViV content was interesting, informative and easy to read. Employees also stated how they used the information presented in ViV.

Besides Valamar's popular magazine, Valamar Riviera communicates with its employees through newsletters informing on employee promotions and other achievements, changes in teams, excursions and excursion reports and much more.

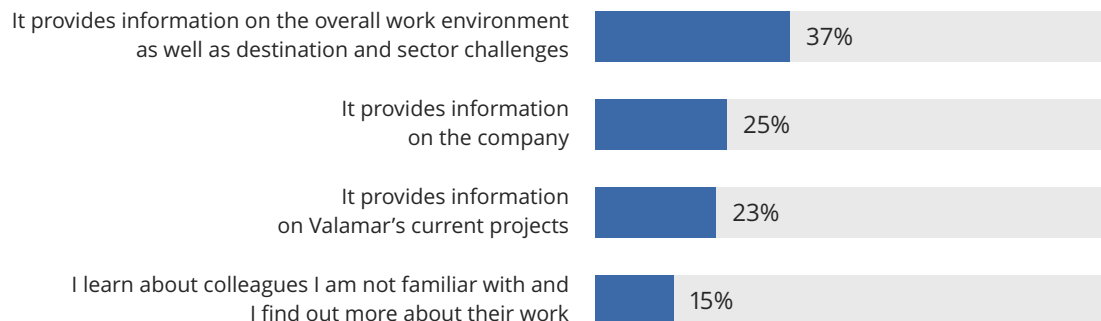
At Valamar Riviera, workers' meetings are organized twice a year at each destination and have a high turnout. Their goal is to strengthen the relationship between employees and the management team, present the strategy of the company and individual organization units, as well as the future tasks and goals. Annual parties at Valamar Riviera are casual events and an opportunity to reward employees, present recognition for years of service and introduce new programs and innovation made.



Communication with employees also includes the corporate climate and culture survey and daily, weekly and monthly department meetings as well as a continual employee performance feedback.



HOW DOES VIV CONTENT HELP YOU AT WORK?



GOOD JOB AT VALAMAR

The integrated communication campaign named Good Job at Valamar produced excellent results – in the 2018 season we filled all the advertised vacancies at Valamar destinations.

There were 88% more applications received during the 2018 campaign than in the prior year. We received 5,500 applications through our website which was visited 140,403 times. The video campaign directed by the famous tv-personality Robert Knjaz had 756,000 views, while our online ads had 9 million views.

In a few months' time, we ensured that campaign-related news appeared 300 times in the media, thus boosting Valamar's top employer image. The campaign was centered around Valamar's satisfied employees, attractive career opportunities and internal development programs offered to all present and future employees.

Besides this campaign, the company is presented to the market and potential applicants at job fairs across Croatia. Such events are held in various cities and they are an excellent way to present to the labor market that Valamar is a top employer in tourism who offers the best working conditions to job-seekers. Moreover, these events also provide an excellent opportunity to promote jobs and career opportunities in tourism and hospitality.





MODERN WORKSPACES

At Valamar Riviera, special attention is devoted to workspace design because creating a good work atmosphere improves communication, teamwork and employee creativity.

The new HQ building in Poreč was opened during Valamar Riviera's 65th anniversary ceremony held in Poreč in July 2018. The Istrian and Mediterranean landscape and colors inspired the design of the new office spaces for all Valamar corporate departments and nearly 400 employees. This can

be seen in the choice of colors and fabrics used: the four colors of the Istrian soil, the white of rocks, the blue of the sea, the gold of the mosaics in the Euphrasian Basilica and the warm brown of wood.

Hotel interiors inspired the design of the HQ lobby and reception area featuring an e-library, while the open atrium recreates the Val beach vibe and atmosphere. The HQ building also features the Mediterraneo Restaurant for employees and the ValamArtist Atelier designed as a venue of creative

workshops, while the V-lab is mainly used for meetings related to product and concept development. Employees can take a break in the Valamar Living Room and relax in the massage chair or play pinball, darts and foosball. The new HQ building features modern digital equipment and multimedia screens displaying the latest KPIs, destination information and guest reviews. It also has its own PV system on the rooftop and an EV charging station for bikes and cars in the parking lot.



*The new HQ
building in Poreč*



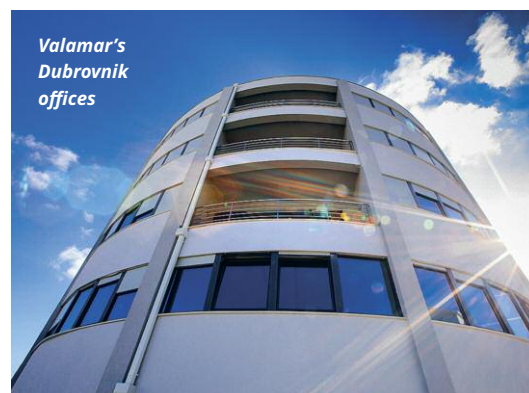
In May 2017, a new building was opened for the Dubrovnik – Babin kuk subsidiary where Valamar's employees work in attractive new offices. Modern architecture, high construction standards, energy class A certification and up-to-date office infrastructure have improved and simplified daily work across all departments.



The new HQ building in Poreč was opened in 2018 during Valamar Riviera's 65th anniversary ceremony



Valamar offices in Dubrovnik



Valamar's Dubrovnik offices



5.3 GROWTH STRATEGY

Valamar Riviera achieved an exceptional increase in revenue and profit in 2018 driven by our continued efforts to improve our business processes, develop our portfolio, increase our focus on the guest and expand 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 with strategic partners and destinations to prolong the season
- ▶ growth through acquisitions, mergers and partnerships 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



Valamar Collection
Isabella Island
Resort 4/5*, Poreč

PORTFOLIO CAPITAL INVESTMENTS AND ASSET DEVELOPMENT

2018 INVESTMENTS

Investments worth HRK 703.6 million were capitalized in the portfolio of non-current tangible assets in 2018. The 2018 investment cycle was part of our strategy focused on further double-digit business growth and encompasses all our seven destinations, while Valamar's success and growth is based on sustainable and socially responsible investments in products, employees and destinations.

We continued to reposition our portfolio and develop top quality products and services in 2018 with the upgrade of existing and construction of new properties. After the opening of the two new resorts in Rabac (the largest investment in Croatia's tourism), the year 2018 saw the completion of Valamar Collection Girandella Resort 4*/5* (392 rooms) in Rabac with the opening of the first Kinderhotel in our portfolio - Girandella Maro Suites 5* (149 rooms).

Besides this key project in Rabac, other large investments were carried out at our destinations as well as investments in premium camping.

Imperial d.d. carried out one of the largest investment cycles focused on improving the quality of properties and services and the competitiveness of the whole destination (HRK 72 million). The largest investment was the reconstruction and repositioning of Valamar Collection Imperial Hotel 4* as "designed for adults" accommodation on Rab.

DESTINATION POREČ

Investments at Lanterna Premium Camping Resort 4* were focused on improving accommodation, overall quality and beaches as well as the reconstruction of the main road with footpaths and cycling paths. The 2018 summer season saw the introduction of numerous features and attractions: the opening of a brand new family-friendly Maro Premium Village with 86 mobile homes, 9 glamping tents and other amenities (two swimming pools and children's playgrounds), 18 new mobile homes at Marbello Premium Village, 14 new glamping tents and an improved beach at Glamping Village, a new zone for sports, recreation and entertainment – V Sport Park with Terra Magica adventure miniature golf and numerous other amenities.

The first of the 3 phases to reposition Istra Sunny Camping 2* as premium accommodation was completed in 2018. It included the reconstruction of the municipal infrastructure (electrical and water supply, drainage, optical network, wireless network and the construction of a new main road). It also covered the improvement of several beaches and the reconstruction of the present 117 pitches in the southern part of the camping pitch zone and a new sanitary block.

DESTINATION RABAC

We opened our first Kinderhotel, Valamar Girandella Maro Suites 5* by the end of April 2018. The accommodation, services and amenities at Valamar Girandella Maro Suites 5* are tailored according to the needs of families with children of different ages: from spacious family rooms with children's accessories, indoor and outdoor swimming pools, water attractions and slides, to fun activities at Maro club and the Teen Hangout zone. The restaurant features a children's buffet and there is also a play lounge with an indoor play area that serves soft drinks and afternoon snacks (salads, soups and cakes). There are 50 Kinderhotels in Europe, and this one is the third in Croatia. This hotel opening completed the HRK 600 million investment cycle to reposition Rabac as leading high-end holiday destination and created 150 new jobs in Rabac.

**Valamar Girandella
Maro Suites 5*,
Rabac**



DESTINATION KRK ISLAND

Baška Beach Camping Resort (ex Zablaće) was upgraded from 3* to 4* and the investment provided 35 new mobile homes, a new sanitary block and other amenities, landscaping work, infrastructural improvements of camping pitches and the introduction of energy-saving LED lighting.

Investments in Ježevac Premium Camping Resort 4* were focused on a new pool zone featuring a sundeck and slides, a new children's playground, 31 new mobile homes added, and 18 old mobile homes replaced with new ones. In the 2018 season, the campsite featured an EV charging station and upgraded services in line with premium camping standards.

Škrila Sunny Camping 3* featured a new shopping area, redesigned landscape, new mobile homes and energy-saving LED lighting. Investments at Bunculuka Camping Resort 4* were focused on the installation of solar panels and the redesign of the campsite entrance area.

After a four-year investment cycle, Krk Premium Camping Resort became the first 5-star campsite in Croatia in 2016. Several features were improved in 2018: beach service quality, landscape, central sanitary block and a new EV charging station.

DESTINATION RAB ISLAND

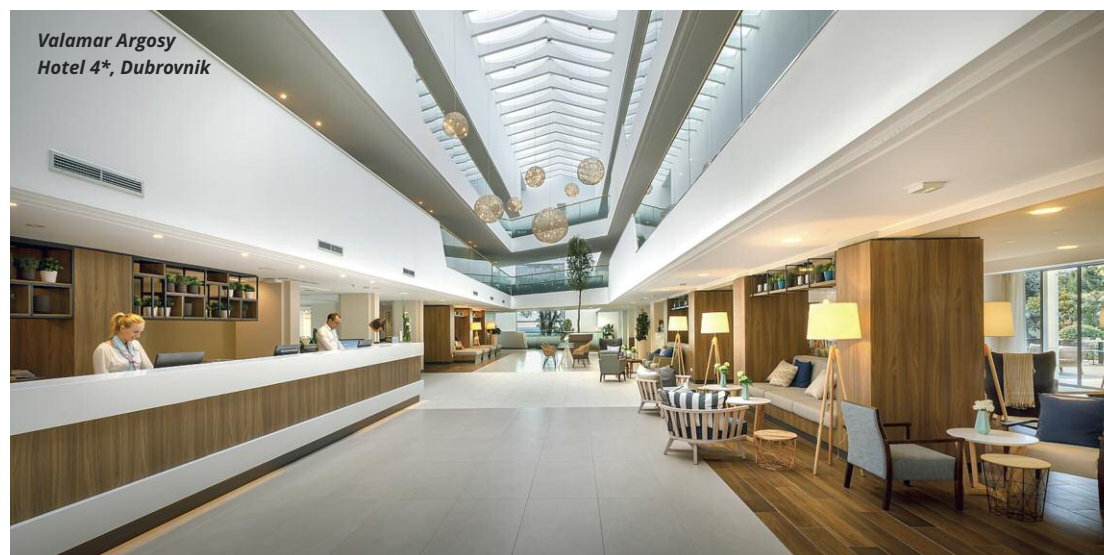
Valamar Collection Imperial Hotel 4* on Rab Island opened as a new luxury hotel designed for adults with 136 modern double rooms, a premium restaurant and many more upgraded features.

Investments in campsites on Rab Island were focused on Lopar Garden Village at San Marino Camping Resort 4* offering new mobile homes, as well as numerous new features at Padova Camping Resort 3*, such as the new Marine Premium Village, the introduction of innovative camping concepts – the spacious camping suites and romantic camping chalets for couples.

DESTINATION DUBROVNIK

Investments in Dubrovnik were focused on repositioning hotel accommodation and developing high-quality products and services.

Valamar Argosy Hotel 4* opened last year's season as a hotel designed for adults, offering upgraded service quality and new improved amenities such as the new outdoor pool featuring a new snack bar and terraces, landscape improvements, the total refurbishment of the 308 rooms, reception, lobby and restaurant and the redesign of the common areas.



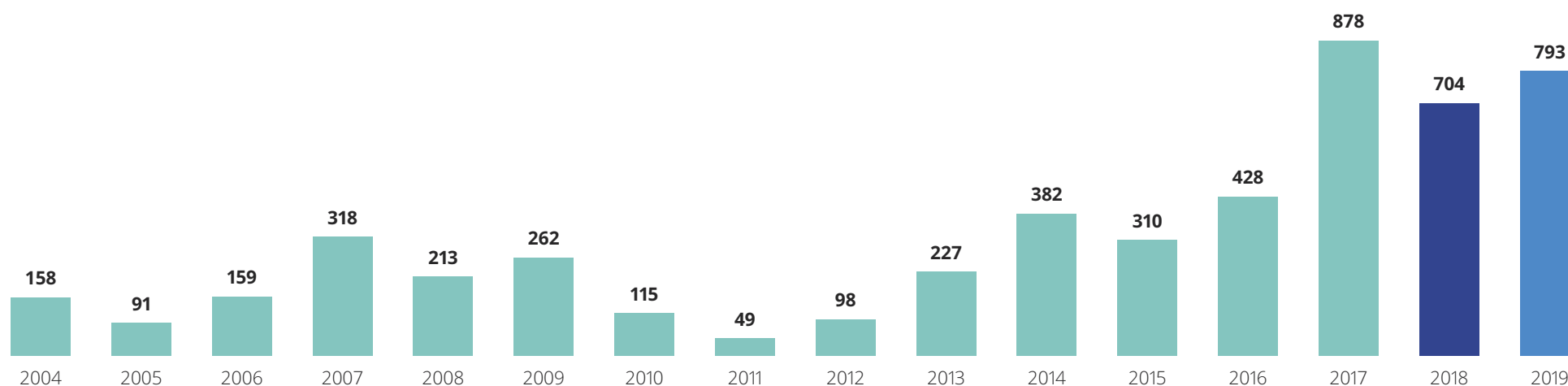
2019 INVESTMENTS

Valamar's investment projects in 2019 focus on repositioning the portfolio and develop products and services with high added value. Total investment for the 2019 season at Valamar's destination amount to HRK 793 million. Our product development strategy defines ambitious plans for the innovative improvement of Valamar products and services with focus on the upscale and premium portfolio segment of hotels and resorts as well as camping resorts. The development of Valamar service concepts is an ongoing, continual process that will reflect the latest market trends as well as guests' needs and expectations in years to come. We will keep investing in our programs – V Level, Maro Holiday, Designed for Adults, V Sport, Stay Fit, Music and Fun, Camping Piazza and others.

Valamar Riviera's investment cycle is worth HRK 636 million and the most important projects are the investments in Istra Premium Camping Resort 5* in Funtana, which will become the largest 5* campsite in Croatia in this season, and the opening of the luxury family hotel Valamar Collection Marea Suites 5* in Poreč. Besides that, the accommodation, products and services in Lanterna Premium Camping Resort 4* and Ježevac Premium Camping Resort 4* will also be upgraded. Also, large investments in accommodation for seasonal employees will continue in line with Valamar's strategic goals.



INVESTMENT CYCLE (capitalized investments, HRK mn)





The 2nd investment phase at Istra Sunny Camping 2* in Funtana started last autumn. This summer Valamar's guests will be able to enjoy top features and amenities at Istra Premium Camping Resort 5*. Besides becoming a fully textile camping resort, it will also feature a large family water park – Aquamar – spreading over 1,000 m² of water areas with a wide range of slides and water attractions, a large entertainment arena with a cinema, stage, children's clubs and playrooms as well as Super Maro children's programs. It will also include one of the best Valamar beaches overlooking Vrsar's old town, Piazza, restaurants, bars, a sports and recreation zone named V Sport Park, Terra Magica adventure miniature golf, numerous children's playgrounds, as well as 9 new glamping tents, a variety of new mobile homes (135), as well as 4 new luxury mobile homes with private pools. Istra Premium Camping Resort 5* will be a top-class resort with a wide range of amenities and excellent service.

Valamar Collection
Marea Suites 5*, Poreč



The construction of Valamar Collection Marea Suites 5* is in progress in the Borik area of Poreč at the location of the current Pinia Sunny Residence. Valamar will develop the Borik zone further by adding accommodation and amenities with higher added value and this investment will create 100 new jobs. The future Valamar Collection Marea Suites 5* has been designed for families with children, where guests can enjoy V level services, luxury suites ranging from 32 to 56 square meters, with sea view (108 rooms). It will feature more than 200 square meters of attractive pools, the sandy family beach named Val Marea, restaurants, sport facilities and Maro amenities for children of all ages. Special attention will be paid to landscape design and planting new trees and indigenous plant species.

At Valamar Riviera's largest campsite, Lanterna Premium Camping Resort 4*, we will keep investing in premium camping by adding 12 new mobile homes with sea view in the Marbello zone and develop 3 camping zones with 136 new mobile homes. We will also reposition one part of the existing plots and continue with the beach improvement in Tar Bay. The projects also include the reconstruction of a sanitary block, more water surface for the family aquapark as well as service and amenity upgrade.

The investments on the island of Krk are focused on raising the quality and range of accommodation at Ježevac Premium Camping Resort 4*. The high added value of the campsite will be boosted by 23 new mobile homes in the Lungomare zone, 20 mobile home replacements and capacity expansion to a total of 661

units offered by this camping resort. Next year's guests will also be able to enjoy the new Piazza, while the upgraded amenities for families with children will include Maro club and new children's playgrounds.

HRK 140 million of planned investments on the island of Rab in 2019 represent Imperial's largest investment cycle in the last ten years. The major investments include TUI Sensimar Carolina Resort by Valamar 4*, Valamar Padova Hotel 4* and Padova Premium Camping Resort 4*.

The investment in TUI Sensimar Carolina Resort by Valamar 4* will increase the capacity to 174 rooms, improve the quality of accommodation and other features and services (restaurant, lobby bar, public spaces, new adult swimming pool, and wellness and fitness zones).

Valamar Padova Hotel 4* will welcome the new tourist season with improved family features, including the new Maro clubs and children's swimming pool. Padova Premium Camping Resort 4* will feature a new swimming pool complex, Maro family program with playrooms, Mezzino Snack Bar and Piazza. With the introduction of these new features, the campsite will be upgraded to 4* and will become a premium campsite. Investments on Rab Island include improving energy efficiency with the implementation of solar systems and efficient heat pumps.

HRK 17 million worth of investments in Makarska will primarily be aimed at improving the quality and amenities of Valamar Meteor Hotel.

SALES AND DISTRIBUTION STRATEGY

For the third consecutive year in 2018, Valamar Riviera achieved a significant 13% increase in revenues in direct sales, its most lucrative channel. Moreover, the direct channel average daily rate grew by 13%. In line with the distribution management strategy, the direct channel share in the Group's total revenues was successfully increased from 43% to 44.54% in 2018.

At group level, Valamar Riviera reported a 1.7 p.p. increase in occupancy in hotels and apartments and 1.6% in campsites. The strongest occupancy growth was reported by the premium and upscale segment of hotels (3.7 and 3.6 p.p., respectively). Continual initiatives aimed at increasing direct bookings and guest loyalty as well as strengthening strategic partnerships with targeted tour

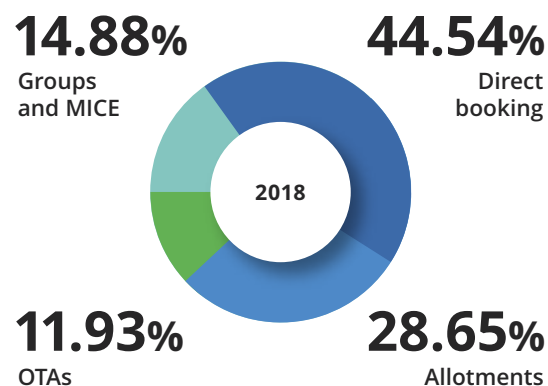
operators to prolong the season and expand the market resulted in a further growth in revenues in 2018.

Valamar hosted a number of important business and destination events in 2018, such as those held in Dubrovnik – Dubrovnik Summer Festival, Summer at Valamar, Winter Festival, Meeting & Incentive Forum (M&I Forum, the largest and leading event in congress industry), the European Congress of Veterinary Dermatology, Ocean Optics Conference with NASA as chief sponsor – and events held in Istrian destinations, such as WinDays Conference, Poreč Open Air festival and Rabac Open Air festival.

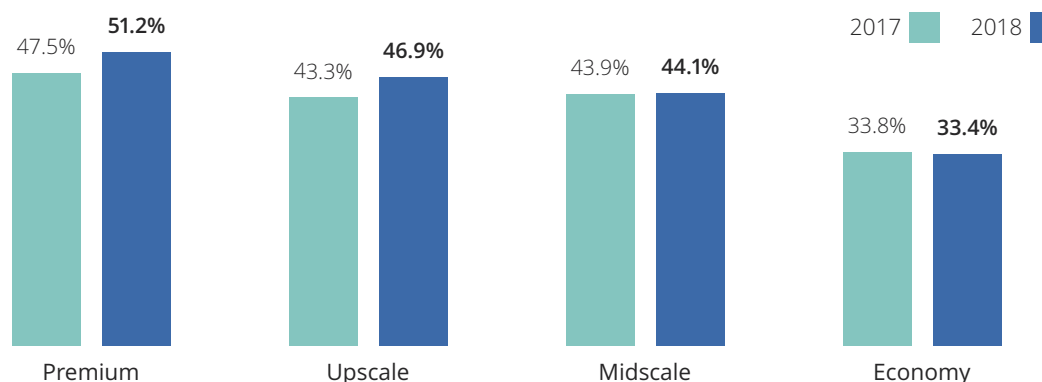
The continual growth in the premium and upscale segment has validated our orientation towards

investments in high-end properties. The reported 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). The increase in overnights and ARR reported by premium properties was 17% and 2%, respectively. The increase in overnights and ARR reported by upscale properties was 4% and 4%, respectively. These results point to a steady further growth in the segment. Premium hotels and resorts reported the highest occupancy (51%). Valamar Riviera continues working towards its goal: one property working year-round in each destination. There were 3 hotels open throughout 2018 - Valamar Diamant in Poreč, Valamar Sanfior in Rabac and Valamar Lacroma in Dubrovniku.

DISTRIBUTION CHANNELS IN 2018 (by revenues)



ANNUAL OCCUPANCY HOTELS AND RESORTS





SEGMENTATION AND SELECTION OF TARGET MARKETS

Valamar Riviera was focused on further portfolio positioning to efficiently address the target groups in 2018.

Along with 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 market segments. This will increase market reach, boost guest loyalty and drive a sustainable, strong growth in all key performance indicators.

This strategy was best reflected in the product development covered by the brands of Valamar Collection and Valamar Collection Resorts, where we created a range of features targeting families, adults only as well as V Level services.

We have fully integrated some of Valamar signature programs into the camping segment and we have developed specific products for luxury camping such as premium camping home villages and glamping. These advancements can best be seen in the products covered by the brand of Premium Camping Resorts.





Valamar
Obertauern
Hotel 4*, Austria

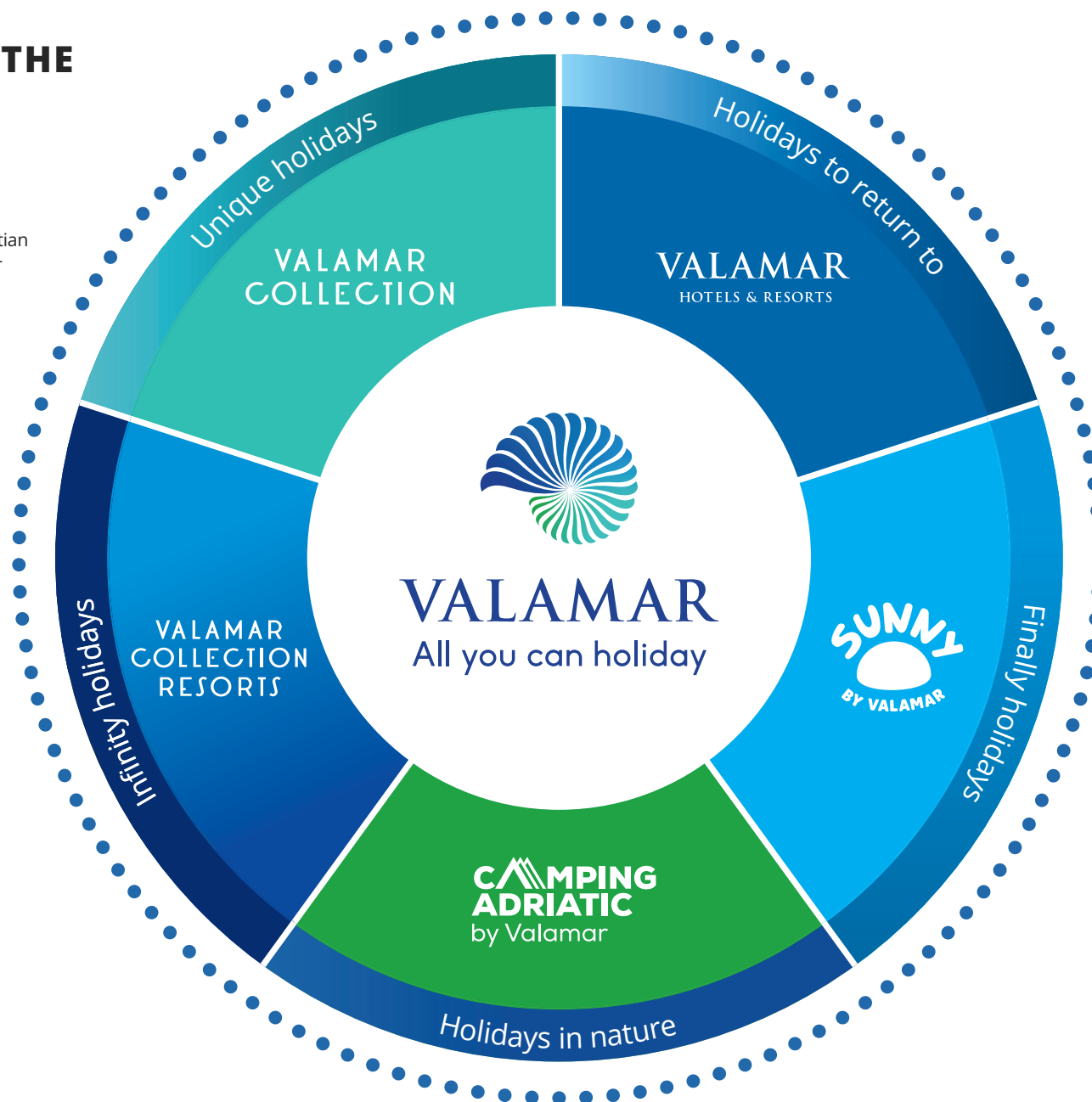


MANAGEMENT OF THE VALAMAR BRAND

Valamar has been the leading brand in Croatian tourism for more than 10 years. The Valamar brand system represents a communication platform enabling greater market reach, product and service compatibility with specific market segments, guest loyalty and, ultimately, growth in key business indicators. The brand system consists of 1 umbrella brand and 5 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.





2019 PORTFOLIO OVERVIEW

VALAMAR

All you can holiday

VALAMAR COLLECTION

Valamar Collection Marea Suites 5*
Valamar Collection Imperial Hotel 4*
Valamar Collection Dubrovnik
President Hotel 5*

VALAMAR COLLECTION RESORTS

Valamar Collection Isabella
Island Resort 4*/5*
Valamar Collection Girandella
Resort 4*/5*

VALAMAR

HOTELS & RESORTS

Valamar Zagreb Hotel 4*
Valamar Diamant Hotel 4* & Residence 3*
Valamar Crystal Hotel 4*
Valamar Riviera Hotel & Residence 4*
Valamar Pinia Hotel 3*
Valamar Tamaris Resort 4*
Valamar Sanfior Hotel & Casa 4*
Valamar Koralj Hotel 3*
Valamar Atrium Baška Residence 4*/5*
Valamar Zvonimir Hotel & Villa Adria 4*
Valamar Padova Hotel 4*
Valamar Meteor Hotel 4*
Valamar Argosy Hotel 4*
Valamar Lacroma Dubrovnik Hotel 4*
Valamar Club Dubrovnik Hotel 3*
Valamar Obertauern Hotel 4*



DESIGNED FOR
ADULTS



Rubin Sunny Hotel 3*
Pical Sunny Hotel 2*
Lanterna Sunny Resort 2*
Miramar Sunny Hotel & Residence 3*
Allegro Sunny Hotel & Residence 3*
Corinthia Baška Sunny Hotel 3*
San Marino Sunny Resort 3*
Eva Sunny Hotel & Residence 2* & 3*
Tirena Sunny Hotel 3*
Dalmacija Sunny Hotel 3*
Rivijera Sunny Resort 2*

CAMPING ADRIATIC

by Valamar

PREMIUM RESORTS

Istra Premium Camping Resort 5*
Lanterna Premium Camping Resort 4*
Krk Premium Camping Resort 5*
Ježevac Premium Camping Resort 4*
Padova Premium Camping Resort 4*

RESORTS

Solaris Camping Resort 3*
Orsera Camping Resort 3*
Marina Camping Resort 4*
Baška Beach Camping Resort 4*
Bunculuka Camping Resort 4*
San Marino Camping Resort 4*

SUNNY

Tunarica Sunny Camping 2*
Brioni Sunny Camping 2*
Škrila Sunny Camping 3*
Solitudo Sunny Camping 3*

BRAND PARTNERSHIPS

TUI Family Life Bellevue Resort 4*
TUI Sensimar Carolina Resort by Valamar 4*



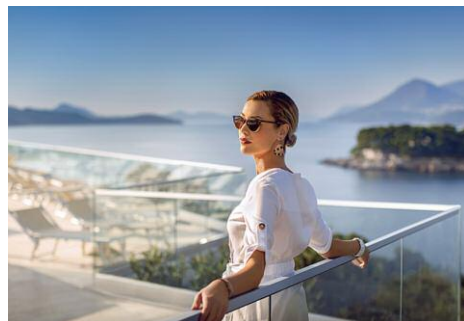


VALAMAR ALL YOU CAN HOLIDAY

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 recognized 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

A collection of modern luxury hotels, each one with its own unique story and character.

- ▶ A COLLECTION OF MODERN LUXURY HOTELS
- ▶ EACH HOTEL HAS ITS OWN UNIQUE STORY AND CHARACTER DESIGNED EITHER FOR ADULTS OR FOR FAMILIES
- ▶ ORIGINALITY OF THE HOTELS IS REFLECTED IN ALL OF VALAMAR SIGNATURE PROGRAMS
- ▶ EXCLUSIVE V LEVEL PROGRAM OFFERING LUXURY PERSONALIZED EXPERIENCES
- ▶ PREMIUM GOURMET EXPERIENCES WITH SIGNATURE DISHES IN OUR THEMED RESTAURANTS MANAGED BY VALAMAR'S BEST CHEFS



VALAMAR COLLECTION RESORTS INFINITY HOLIDAYS

Valamar Collection Resorts for families, couples or a luxury vacation offer endless possibilities to relax and have fun.

- ▶ SPACIOUS PREMIUM RESORTS AT THE FINEST SEAFRONT LOCATIONS WITH THE WIDEST RANGE OF HIGH-END SERVICES
- ▶ MARO FAMILY HOLIDAY PROGRAM AND KIDS CLUBS
- ▶ DESIGNED FOR ADULTS AND BLEISURE DEDICATED SERVICES
- ▶ INFINITE OPTIONS FOR DIFFERENT TYPES OF HOLIDAY
- ▶ THEMED BEACHES AND POOLS TO RELAX AND ENJOY THE SUN AND THE SEA
- ▶ V SPORT OFFER AND STAY FIT PROGRAM FOR AN ACTIVE HOLIDAY
- ▶ V LEVEL SIGNATURE PROGRAM ENSURING A LUXURY HOLIDAY FOR EVEN THE MOST DEMANDING GUESTS
- ▶ WIDE SELECTION OF THEMED RESTAURANTS, BARS AND DINE AROUND OPTIONS FOR AN AUTHENTIC GOURMET EXPERIENCE



VALAMAR HOTELS&RESORTS HOLIDAYS TO RETURN TO

Valamar Hotels & Resorts offer a wide selection of hotels and resorts for a family, active, romantic or just relaxing holiday that you will always be happy to return to ...

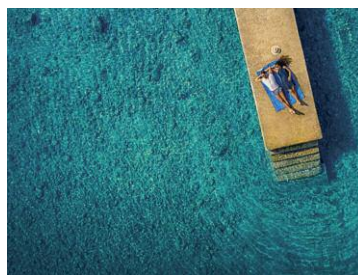
- ▶ THEMED HOTELS AND RESORTS – MARO FAMILY HOLIDAY, DESIGNED FOR ADULTS AND ALPINE HOLIDAY
- ▶ THE WIDEST RANGE OF HOTELS AND RESORTS FOR A FUN FAMILY, ACTIVE OR ROMANTIC HOLIDAY
- ▶ VALAMAR SIGNATURE PROGRAMS SPECIALLY CREATED FOR DIFFERENT TYPES OF HOLIDAY
- ▶ MEDITERRANEAN INSPIRED BUFFET RESTAURANT WITH LOCAL CUISINE HIGHLIGHTS
- ▶ VALAMAR EXPERIENCE CONCIERGE DEDICATED TO PROVIDING YOU WITH THE BEST DESTINATION EXPERIENCE

VALAMAR
HOTELS & RESORTS

**MAR
HOLIDAY**

DESIGNED FOR
ADULTS

**ALPINE
HOLIDAY**



SUNNY BY VALAMAR FINALLY HOLIDAYS

Simple holidays done well at a perfect and relaxing beachside setting.

- ▶ SIMPLE BEACH HOLIDAYS DONE WELL
- ▶ HOTELS AND RESORTS WITH SIMPLE ACCOMMODATION AT FANTASTIC LOCATIONS
- ▶ VALAMARTIST'S RENOWNED SERVICE AND HOSPITALITY
- ▶ RELAXATION AND FUN AT THE BEACH



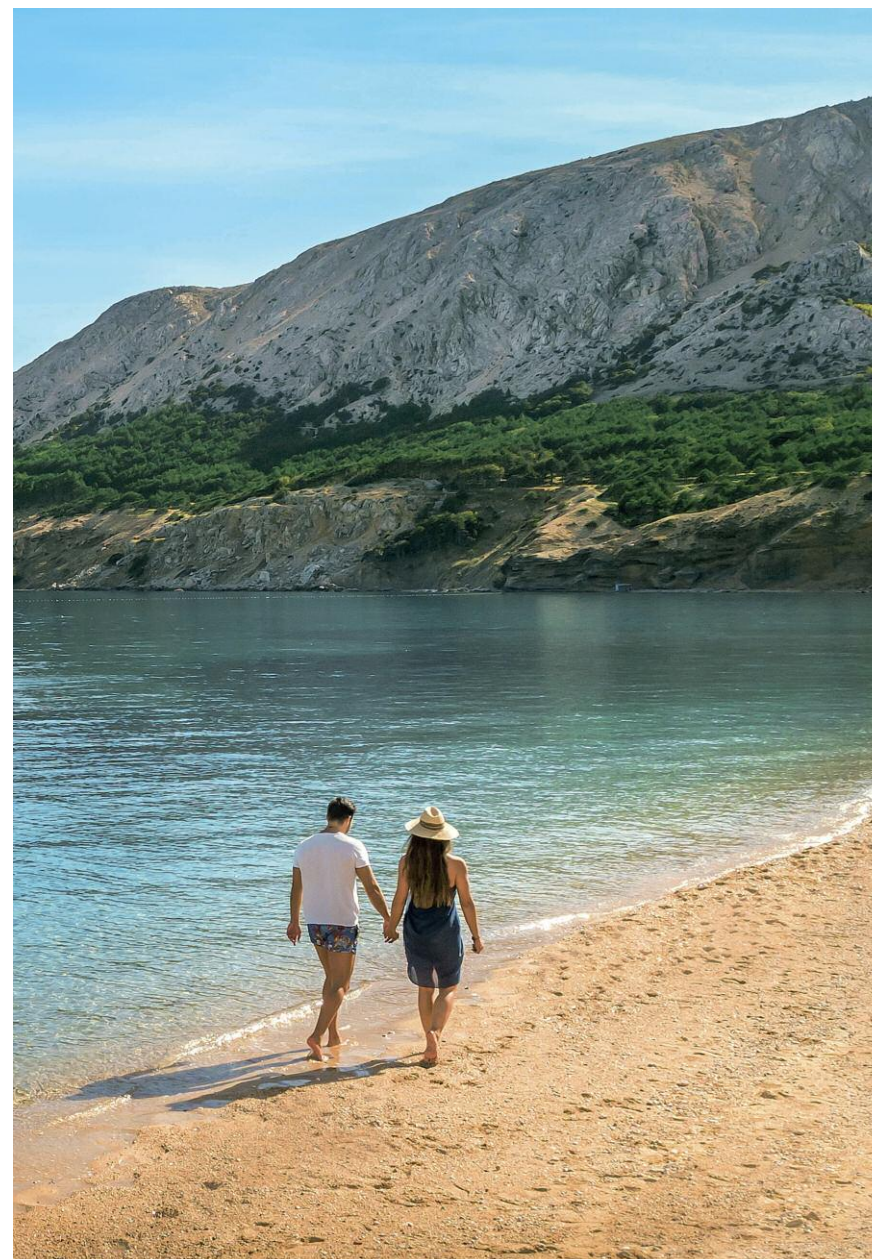
CAMPING ADRIATIC BY VALAMAR HOLIDAYS IN NATURE

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

With its three brands, Camping Adriatic by Valamar offers a wealth of choices for an ideal camping holiday

- ▶ **PREMIUM CAMPING RESORTS** - a wide selection of first-class accommodation, themed beaches and pools, as well as Valamar signature programs such as Maro Family Holiday, Stay Fit, V Sport...
- ▶ **CAMPING RESORTS** - feature beautiful beaches and well-prepared amenities and services, creating an ideal setting for active and fun camping holidays
- ▶ **SUNNY CAMPING** - simplicity of holidays in nature done well, with fantastic and relaxing beach front locations

CAMPING
ADRIATIC
by Valamar





INCREASE IN DIRECT BOOKINGS AND GUEST LOYALTY

Valamar Riviera aims at providing added value for returning guests and increase revenues and direct booking through its loyalty program. The share of returning guests in 2018 was 23%.

In the course of 2018 at Valamar Riviera, 44.54% of revenues was achieved through direct channels. These bookings were made through our direct distribution systems: call center, direct web booking, mobile platform booking and loyalty program.

We will continue developing our loyalty program to create further added value for our clients. Also, we will develop our web pages, e-marketing and technologies. The 2018 share of loyalty member revenue in the total direct booking reached 78.7% in hotels and 32.7% in campsites.



*Valamar Argosy
Hotel 4*, Dubrovnik*



STRATEGIC PARTNERSHIPS

Valamar continually works on establishing strategic partnerships and thanks to them, the number of guests from air travel markets has increased. However, despite the decrease in total share due to new products (Valamar Collection Maro), ultimately, the segmentation of source markets became more uniform and the tourist season is longer.

We keep developing the specialist segment and focus our specialist partners on growth in the preseason and postseason period, especially for our 4* properties. The products on which we continue to focus our activities are cycling, tennis, gastronomy, destination-enriching events and large-scale international conferences.

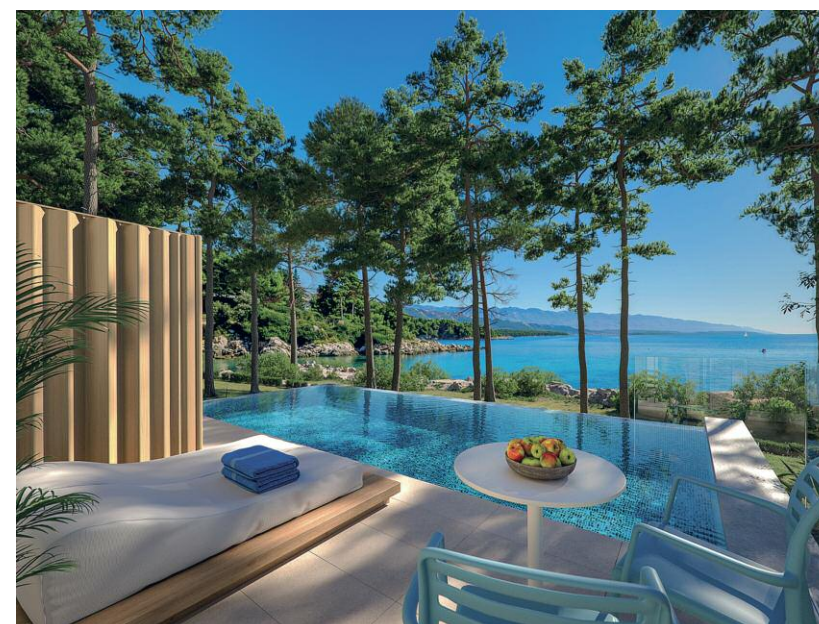
We find additional room for growth and support for the new branding of Valamar properties in the tour operating segment, by focusing our key partners in

individual properties that suit their target groups. TUI Group is the world's largest tourism company with a chain of important tour operators, 1,500 agencies, 6 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, we successfully continue the second year of the family concept at TUI Family Life Bellevue Resort.

We successfully completed the first season of the Kinderhotel brand at Valamar Collection Maro Suites 5* with the support of DER Touristik group. Together with this partner, we also completed the second year at Valamar Girandella Family Resort and Girandella Designed for Adults. 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.

These partnerships resulted in a major step forward in the consolidation of Rabac's repositioning (from mostly 2*/3* to 4* and 5*), as well as the introduction of the new Kinderhotel brand concepts thus improving Valamar's knowledge base, which is applicable to the entire chain of destination services.

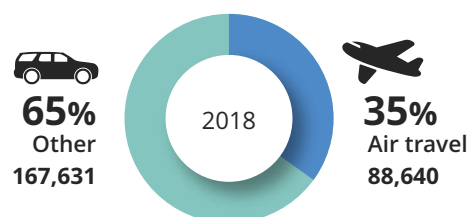
Jetzholidays is UK's third largest tour operator and a sister company to Jet2.com, UK's fourth largest airline company. Each year, Jet2.com flies approximately 7 million passengers. At destination level, Jetzholidays grew by 26% in Istria and by an additional 32% in Dubrovnik in 2018.



***TUI Sensimar Carolina
Resort by Valamar 4*,
Rab Island***

SHARE OF GUESTS BY MANNER OF ARRIVAL AT HOTELS AND RESORTS IN ISTRIA

TOUR OPERATOR SEGMENT



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 to open new markets. A strong cooperation with our strategic partners has resulted in a stable share of 35% of air travel guests in 2018 in Istria in the tour operator segment for hotels and resorts.



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

Close relations with destinations and strategic partners, 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.

In order to achieve better results each year, one of Valamar's key focuses is the expansion of strategic partnerships. This year again, the event calendar that Valamar was involved in, either as organizer or sponsor, was richer than ever. The most notable events included Poreč Open Air Festival, Rabac Open Air Festival, Summer at Valamar, Lanterna Summer

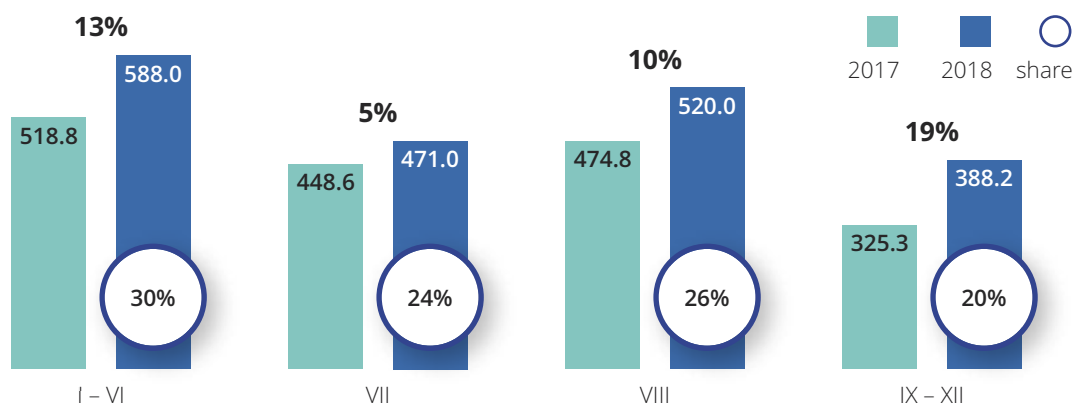
Nights, Offshore World Challenge and Tunalicious Street Food Festival, Istra & Craft Beer Festival, Mitas 4 Island bike race, SportFest fair and many more.

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 organization 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 the gourmet offering, family-friendly amenities and properties, interesting trips etc., they are turned into attractive sales packages directed at specific guest segments in our key markets in the region.

In 2018, 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.

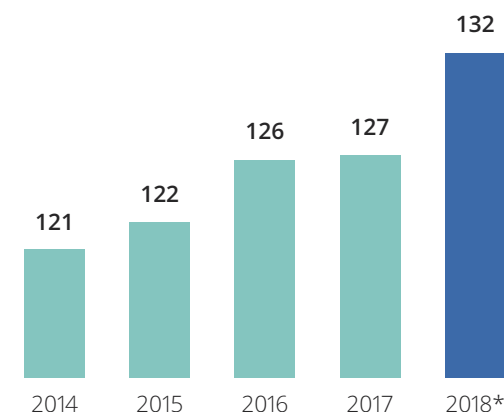
OPERATING REVENUES 2018/2017 (HRK mn)



2017 data includes: VR + IMP.

2018 data includes: VR + IMP+Makarska (Aug-Dec) + OT (Nov-Dec).

FULL OCCUPANCY DAYS



* 2018 data includes Hoteli Makarska (as of 1 Aug) and Valamar Obertauern Hotel (as of 1 Nov).

OUR STRATEGIC PARTNERSHIPS

HOTELS AND RESORTS



SELECTED STRATEGIC DESTINATION EVENTS





GROWTH THROUGH ACQUISITIONS, MERGERS AND PARTNERSHIPS IN LEISURE DESTINATIONS

THE COMPLETION OF HOTELI MAKARSKA D.D. ACQUISITION

In 2018, Valamar Riviera successfully completed the acquisition of a majority stake in Hoteli Makarska d.d. in partnership with AZ mandatory pension funds.

The portfolio of Hoteli Makarska d.d. includes Meteor Hotel 4* (278 keys), Dalmacija Hotel 3* (190 keys) and hotel resort Rivijera 2* (258 keys), representing 43% of the total hotel accommodation in the Town of Makarska. The joint effort to develop the hospitality portfolio in Makarska started with an agreement on the management of hospitality properties between Valamar Riviera and Hoteli Makarska (implemented as of 1/8/2018). This will also contribute to the overall destination development of Makarska which presents a large potential for further growth.

VALAMAR OBERTAUERN HOTEL – IMPORTANT STEP IN INTERNATIONAL EXPANSION

With the acquisition of a hotel in Obertauern, Austria, in August 2018, Valamar Riviera made an important step in international expansion. Valamar Obertauern Hotel 4* offers comfortable rooms with stunning views of the snow-capped Obertauern mountains, along with an excellent culinary offering, a wellness zone (420 m2) and Maro club for families with children. Austria is an important leisure destination, offering several potential synergies for Croatian hospitality companies and therefore represents a logical step in Valamar's cross-border expansion.

BANKRUPTCY PLAN FOR THE INVESTMENT AND RECAPITALIZATION OF HELIOS FAROS ACCEPTED

The Bankruptcy Plan for the Investment and Recapitalization of Helios Faros, a bankrupt company from Stari Grad on Hvar Island was accepted in November 2018, following a joint offer made by Valamar Riviera and PBZ Croatia pension funds in 2017. The offer contains a restructuring plan and a 5-year plan of investments worth HRK 650 million focused on hospitality properties.



KEY INDICATORS FOR THE HOTELI MAKARSKA D.D. ACQUISITION

Acquisition Value	HRK 146 mn (46.93% of shares)
Enterprise Value*	HRK 278 mn
Total Revenues	HRK 91 mn
Adjusted EBITDA	HRK 23 mn

* Enterprise value was calculated as market capitalization based on the acquisition share price and net debt as at 31/12/2018.

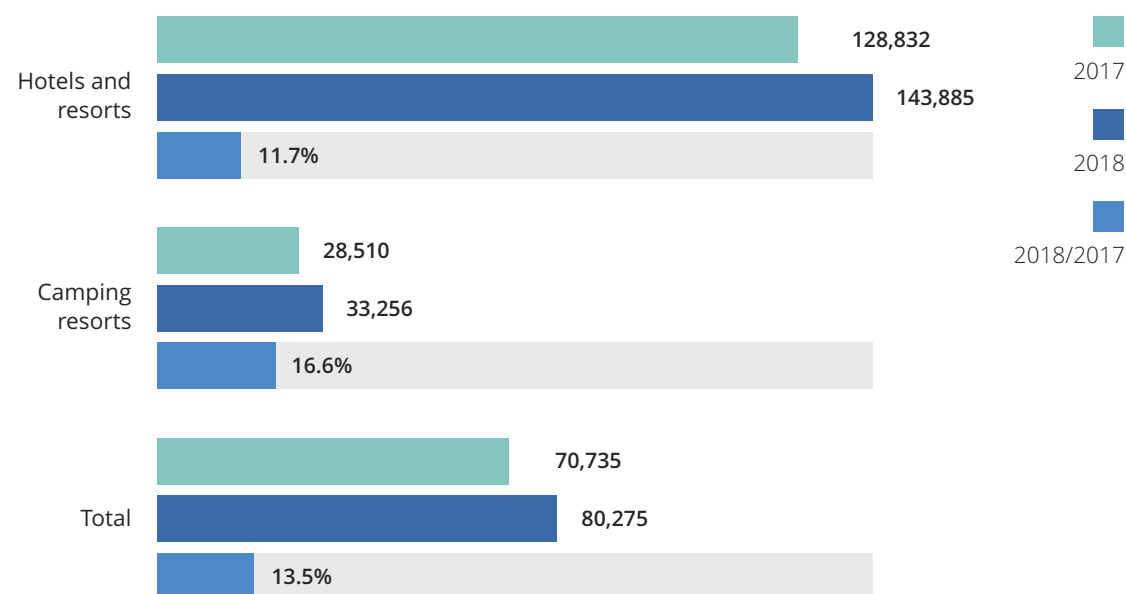


OPTIMIZATION OF PRICES, OCCUPANCY AND DISTRIBUTION TO INCREASE REVENUES

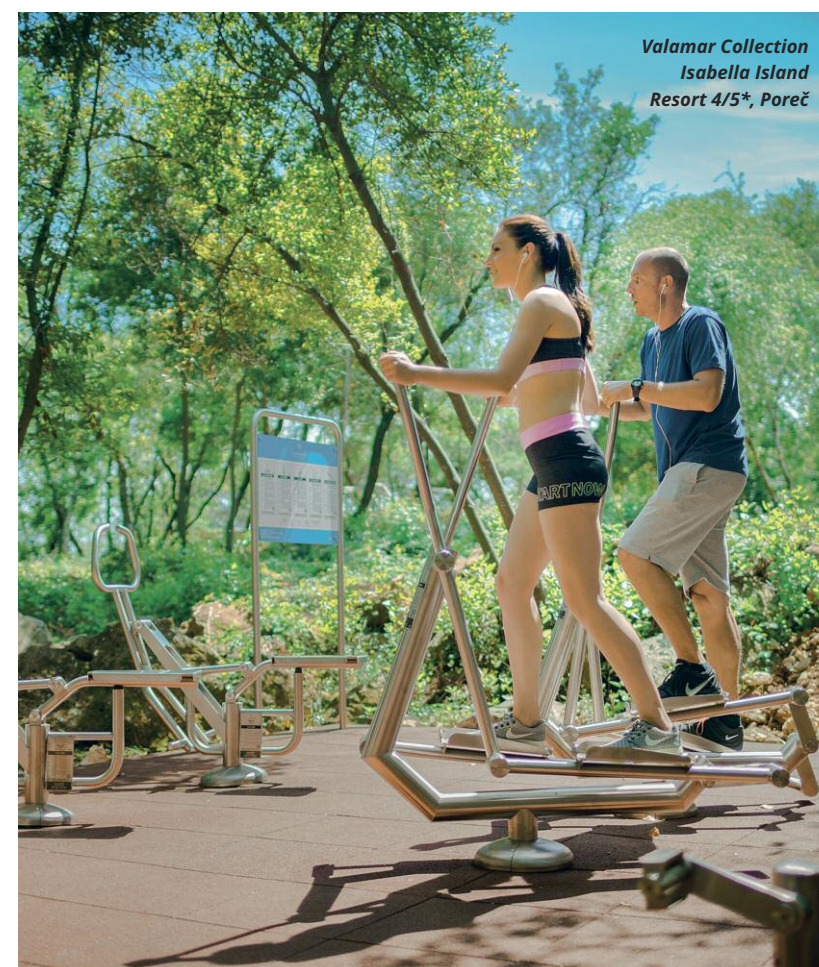
Valamar defines excellence in revenue management as selling the right room to the right client, at the right moment and price, through the right distribution channel with the best efficiency.

The achieved continuous growth in revenues per available room over the last five years as well as the 9.8% increase in revenue per available room in 2018 was largely the result of a 5% increase in the average room rate (as compared to 2017) and an efficient increase in overnights through the strategic choice of distribution channels.

RevPAR GROWTH BY PRODUCTS* (HRK)



* 2017 and 2018 do not include Makarska, Obertauern and Valamar House – Staff Residence accommodation.





FOCUS ON OPERATING EFFICIENCY

Valamar Riviera Group continues to assert its leadership position through strong results and investments in Croatian and Austrian tourism.

2018 saw further double-digit growth in operating revenues and EBITDA, with EBITDA margin reaching over 35%. Valamar Riviera owes its continued success to the concept of sustainable growth and development led by the principles of corporate social responsibility. It is reflected in the following:

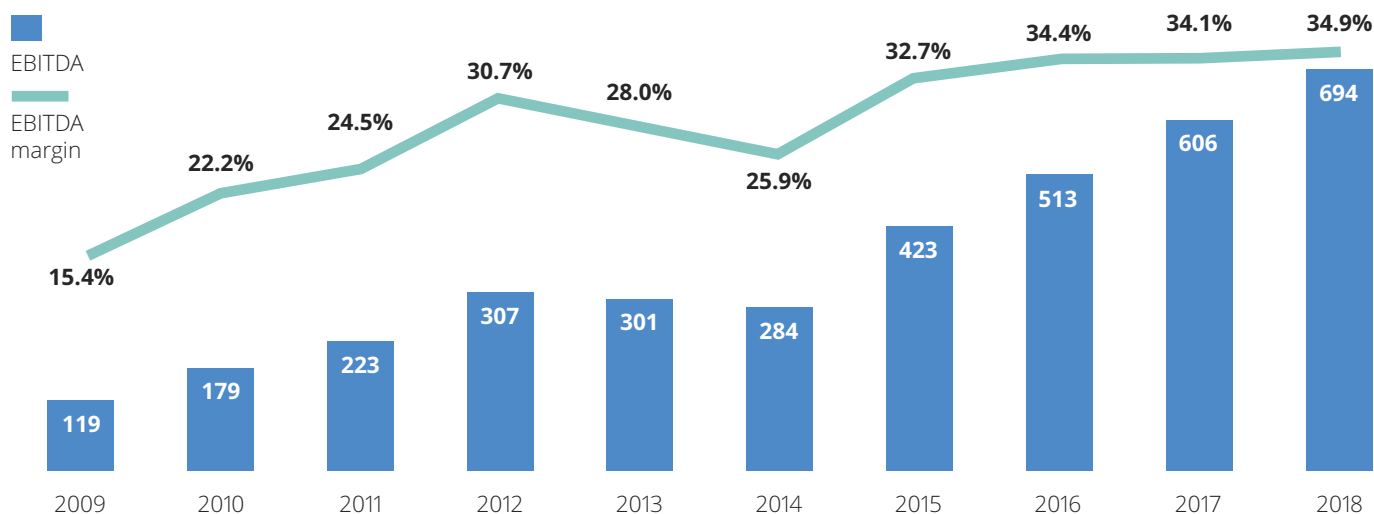
(i) continuous portfolio investments (over HRK 700 million were invested in the preparation for 2018 tourist season, while investments plans for 2019 amount to HRK 793 million), (ii) acquisitions and partnerships (Hoteli Makarska and the first Valamar hotel in Austria were both successfully acquired in 2018) and (iii) the development of our employees and destinations, and (iv) constant efforts to optimize the cost structure and modernize processes at Valamar. Since 2009, we have grown our EBITDA from

HRK 119 million to HRK 694 million and reported a simultaneous operating efficiency growth, as measured by the EBITDA margin going from 15.4% to 34.9% (adjusted: 35.3%).

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



* Financial data until the year 2014 refer to the consolidated financial statements of Valamar grupa d.d., and as of 2014, to the consolidated financial statements of Valamar Riviera d.d.



ACTIVE PARTICIPATION IN ASSOCIATIONS AND INSTITUTIONS TO DEVELOP AND PROMOTE TOURISM

As the leading company in Croatia's tourism, Valamar Riviera is aware of the importance of participating in the work of associations and institutions that contribute to the development of destinations, standards and overall products and services offered.

Valamar considers its memberships in associations to be strategic: by participating in the work of the managing boards, projects and various board activities it can actively represent professional interests.

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

The company also has its representatives in the following associations:

- ▶ Croatian Tourism Association (HUT)
- ▶ Croatian Business Council for Sustainable Development (HR PSOR)
- ▶ Croatian Chamber of Economy (HGK) – including the regional chambers in Pula and Dubrovnik
- ▶ American Chamber of Commerce in Croatia (AmCham)
- ▶ Croatian Association of Corporate Treasurers (HUKR)
- ▶ Croatian Employers' Association (HUP)
- ▶ Croatian Meeting Professionals Association (HUPKT)
- ▶ Croatian Public Relations Association (HUOJ)
- ▶ Croatian Camping Union (KUH)
- ▶ German-Croatian Industrial and Trade Chamber
- ▶ Association of Croatian Restaurateurs
- ▶ Association of Employers in Croatian Hospitality (UPUHH)



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



**Dalmacija Sunny Hotel by
Valamar 3*, Makarska**

5.4 INNOVATION AND DIGITALIZATION

Valamar invests in new technologies following global trends and innovates to make the company and the country's hospitality even more competitive.

With its digital vision and strategy up to 2020, the company wants to fully meet and anticipate guests' needs, make information and learning accessible for employees, simplify operating processes and make a positive contribution to the protection of natural resources. Valamar's vision is to deliver excellent personalized service and improve operating efficiency through continuous innovation and the use of digital technologies. The strategy that will be used to achieve these goals enables the transformation of the whole organization and always focuses on the guest.

There are 4 main strategic themes (guidelines):

- 1) guest attraction and loyalty
- 2) guest engagement
- 3) business processes and IT
- 4) employees: organization and culture

Valamar has set the following strategic goals:

1. Guest attraction and loyalty to Valamar Riviera

- a) A growing number of guests looks for information on the web and mobile apps, so one of the key goals is to enhance accommodation and destination discovery enabled digitally.
- b) The key step in delivering the best possible Valamar experience is to develop lasting, high-value relationships with guests by offering personalized services and products to guests before and after their stay.

- c) Valamar aims to enhance internal knowledge of guests by improving the collection of new data and utilizing existing cross-platform customer data.
- d) Upgrade the existing loyalty program with tailored travel experiences and Valamar services to drive further loyalty.
- e) Improve response speed and quality of information provided to guests (for guests' requests, comments and unfavorable opinions).

2) Guest engagement

- a) Valamar Riviera wants to deliver an unbelievable check-in experience (a simple, fast and efficient check-in process) by leveraging digital tools, customer data and optimizing the process.
- b) Upgrade and upsell products and services to create amazing beach and pool experiences (e.g. by using apps enabling guests to order food and drinks while returning from the beach).
- c) Use technology and digital tools to achieve a "wow" effect in family programs and create an unforgettable child-focused experience.
- d) Deliver authentic, high-quality and unique experiences on a semi-open platform.

3) Business processes and IT

- a) Backoffice processes can be improved and accelerated by increasing the level of automation, thus leading to decreased costs.
- b) Create back-office operations for cashless hotels, thus increasing online and mobile payments and decreasing cash payments.
- c) Valamar Riviera strives for paperless operations in line with global trends.
- d) The company primarily aims at achieving energy efficiency with the support of Valamar's IT Department.
- e) The smarter management of product development and investment projects can be supported by emerging technologies (VR/AR/AI).
- f) HR 2.0 implementation: usage of AI and digital platforms in recruiting, hiring, evaluation and learning processes to simplify them and increase their efficiency.

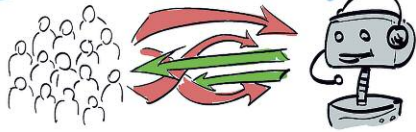
4. Employees – organization and culture

- a) One of Valamar's key goals is setting a digital governance model that includes a new Digital Project Unit and Digital Committee.
- b) Establishing and promoting innovation culture, support the creation of new ideas and innovation across the company and departments.
- c) Establishing an agile organization and start a corporate culture shift to embrace a digital mindset.

VALAMAR DIGITAL STRATEGY ROADMAP

DIGITAL VISION:
DELIVER UNBELIEVABLE PERSONALIZED SERVICE
and IMPROVE OPERATING EFFICIENCY BY CONTINUOUSLY
INNOVATING and LEVERAGING DIGITAL TECHNOLOGY.

IMPROVE RESPONSE SPEED
AND QUALITY OF INFORMATION
PROVIDED TO GUESTS



ENHANCE KNOWLEDGE
OF GUESTS BY COLLECTING
NEW DATA AND UTILIZING
EXISTING CROSS-PLATFORM
CUSTOMER DATA



UPGRADE EXISTING LOYALTY
PROGRAM WITH TAILORED TRAVEL
EXPERIENCES AND VALAMAR
SERVICES TO FURTHER
DRIVE LOYALTY



USE TECHNOLOGY
AND DIGITAL TO ACHIEVE
"WOW" EFFECT
IN FAMILY PROGRAMS



DEVELOP LASTING
HIGH-VALUE RELATIONSHIPS WITH GUESTS
BY OFFERING PERSONALIZED SERVICES
AND PRODUCTS TO GUESTS BEFORE
AND AFTER THEIR STAY



GUEST ATTRACTION and LOYALTY

ENHANCE ACCOMMODATION
AND DESTINATION DISCOVERY
ENABLED BY DIGITAL EVEN
BEFORE GUESTS' ARRIVAL



GUEST ENGAGEMENT

UPGRADE AND UPSSELL
PRODUCTS and SERVICES TO CREATE
AMAZING BEACH and
POOL EXPERIENCE



DELIVER
UNBELIEVABLE
CHECK-IN EXPERIENCE
BY LEVERAGING DIGITAL TOOLS
AND CUSTOMER DATA



DELIVER AUTHENTIC,
HIGH-QUALITY AND UNIQUE
DESTINATION EXPERIENCES,
ON A PEC PLATFORM



DIGITAL VISION:

DELIVER UNBELIEVABLE PERSONALIZED SERVICE
and IMPROVE OPERATING EFFICIENCY BY CONTINUOUSLY
INNOVATING and LEVERAGING DIGITAL TECHNOLOGY.

SMARTER MANAGEMENT
OF PRODUCT DEVELOPMENT
AND INVESTMENT PROJECTS
SUPPORTED BY EMERGING
TECHNOLOGIES (VR/AR)



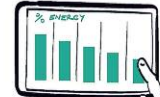
IMPLEMENT
HR 2.0: USAGE OF AI
AND DIGITAL IN RECRUITING,
HIRING AND LEARNING PROCESS



STRIVE FOR
PAPERLESS
OPERATIONS



ACHIEVE FURTHER
ENERGY EFFICIENCIES
ENABLED BY DIGITAL



CREATE
BACK-OFFICE
OPERATIONS
FOR CASHLESS HOTEL
WITH A SINGLE
"VALAMAR DIGITAL WALLET"



DECREASE COSTS
BY INCREASING LEVEL OF
AUTOMATION OF BACK
OFFICE PROCESSES



**OPERATIONAL EFFICIENCY
and IT**



VALAMAR DIGITAL
KITCHEN



DIGITAL STRATEGY and PEOPLE



2018 DIGITALIZATION PROCESSES AT VALAMAR RIVIERA



VALAMAR DIGITAL & INNOVATION

VALDI
Valamar Digital & Innovation



At Valamar Riviera, we established our digital unit named VALDI – Valamar Digital & Innovation to support digital projects, promote Valamar’s digital strategy implementation, digital transformation and more agile operations.

This will support the development of digital skills, enable a cultural shift and a smarter management of technology as well as software architecture consolidation and upgrades.

DIGITAL PROJECTS AND INNOVATION

There were 46 digital projects launched in the business years of 2018 and 2019 and they can be divided in two groups:

1. Revolutionary – 6
2. Evolutionary and Innovation – 40

At Valamar, revolutionary projects create new value and innovate standard processes, while evolutionary projects improve existing solutions and processes as upgrades for current systems and standardized tools.

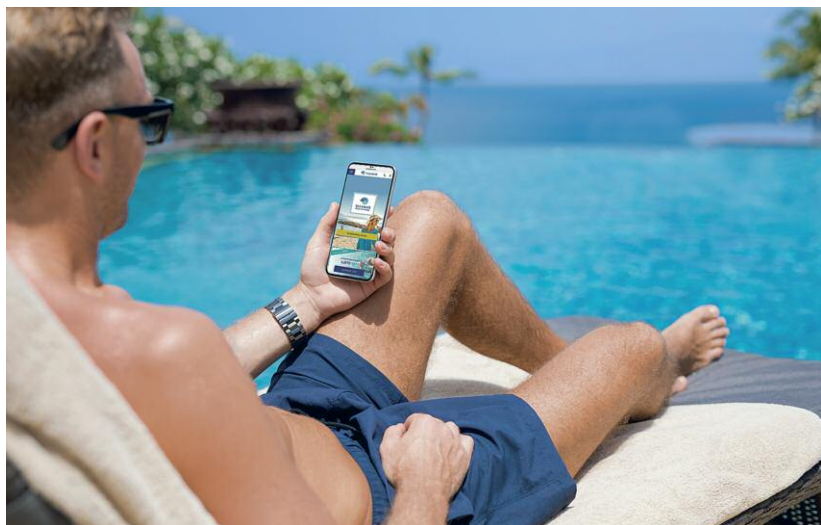
REVOLUTIONARY DIGITAL PROJECTS

- 1 Valamartist app – 2019
- 2 Online education platform
- 3 Unbelievable Check-in
- 4 E-registration card
- 5 Selfie
- 6 Robotization of processes

EVOLUTIONARY DIGITAL PROJECTS AND INNOVATION

- 7 CRS Update
- 8 Web Valamar
- 9 Web analysis
- 10 CIS update
- 11 GDPR
- 12 DM
- 13 CRM
- 14 Loyalty

- 15 myValamar
- 16 Revenue management
- 17 VEC
- 18 WiFi
- 19 HR Web/HR.net
- 20 Facility management III
- 21 Uplifting Service – digital
- 22 e HACCP upscale
- 23 Towel cop
- 24 TA Point
- 25 Manča
- 26 Cash free
- 27 Beach digitalization
- 28 Integration billing with PMS
- 29 Software for the treasury
- 30 Accounting digital
- 31 HR office
- 32 B2B Platform (Purchasing)
- 33 Planning & forecasting
- 34 Q-BI
- 35 Bike website
- 36 Corporate web
- 37 EMIS
- 38 VEC sales
- 39 Kužina
- 40 Farma
- 41 Cage football
- 42 Boardwalk
- 43 Order on the beach
- 44 Ambulance
- 45 Bike Centar/Bike Trails
- 46 Bike Share



VALAMARTIST APP 2019

It is a cloud solution for communicating with employees that includes a cloud web intranet, a mobile application for communicating with employees and the integration with the existing human resources department and other systems. It enables an efficient, timely and targeted information provision to all employees in order to increase work efficiency and information sharing, and it also enables a better understanding of the key company goals. It builds a two-way communication and the desired corporate culture, while also boosting Valamar's image as top employer in tourism.

ONLINE EDUCATION PLATFORM

It is a project that introduces LMS in Valamar and enables online learning for all Valamar employees.

BUSINESS PROCESS ROBOTIZATION

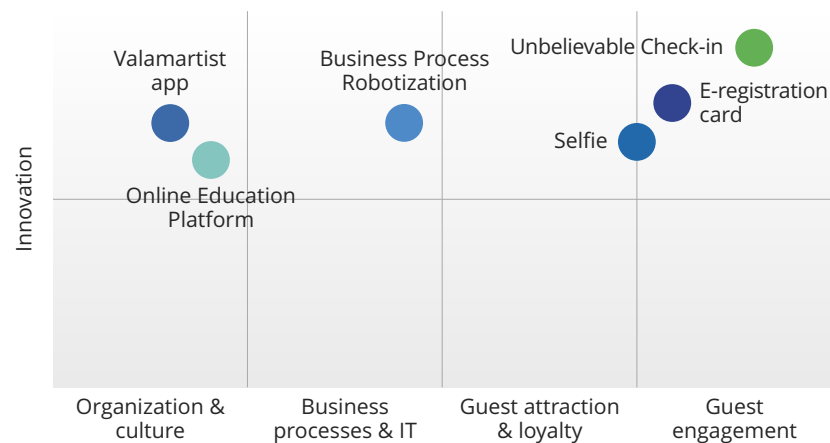
This pilot project involves the platform creation and robotization of the business process, to be followed by the robotization of other business processes according to priority.

ONLINE COLLABORATION TOOL

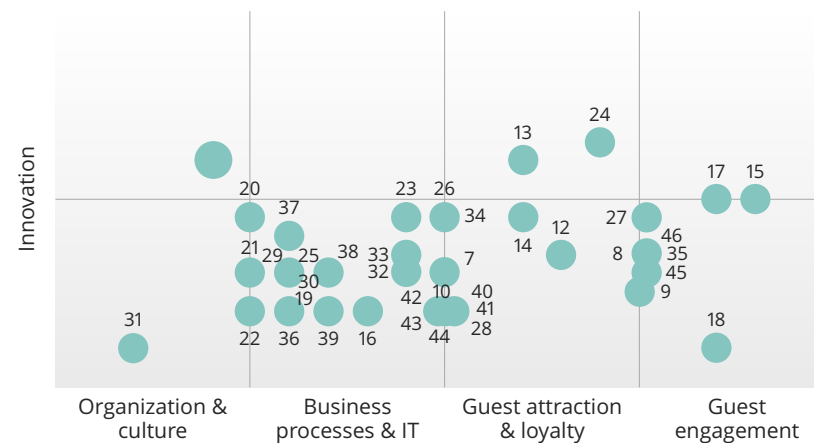
(MS Office 365 - MS Teams, Planner, Forms)

We have launched a pilot project focusing on the use of a cloud platform for online project and team collaboration. Initially, this pilot project covers the work of HR teams, IT department and Digital Tribe, with planned expansion across the whole company. The implementation of this online communication tool enables a modern online collaboration, interaction and collaboration between teams as well as document/photo/ video sharing and the consolidation of all the project files.

REVOLUTIONARY PROJECTS BY STRATEGIC TOPICS



EVOLUTIONARY PROJECTS BY STRATEGIC TOPICS



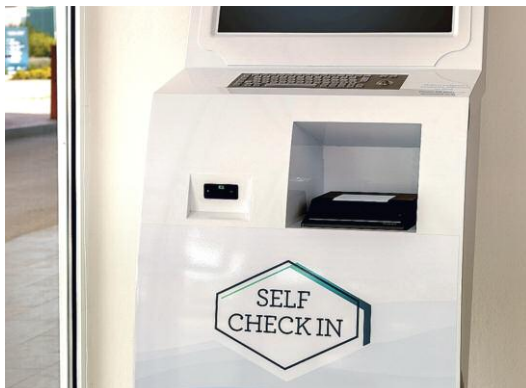


DIGITAL PROJECTS IN 2018

There were 6 digitalization projects realized at Valamar in 2017 and 20 ongoing projects in 2018. The projects are either external (focusing on guest experience) or internal (focusing on upgrading and digitalizing business processes at the company).

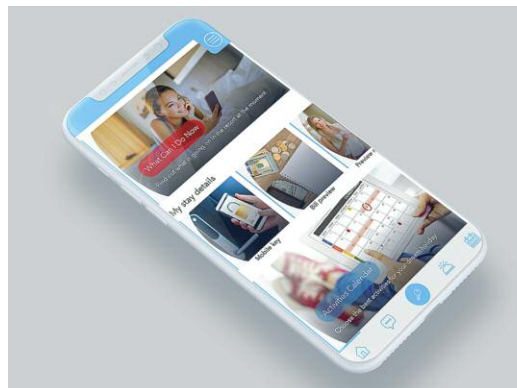
SELFIE

- ▶ Another successful technological project at Valamar that was started in 2015 to simplify the check-in process for guests and decrease front office workload. This app became available at all Valamar destinations in 2018. Thanks to this innovation, our guests can enjoy their holiday without wasting time on paperwork. This kind of self-registration has become common in global tourism, enabled by technological advances.
- ▶ Besides enabling a time-saving experience for the guest, Valamar can receive guests' data before their actual arrival, which enables the creation of a personalized and direct communication.



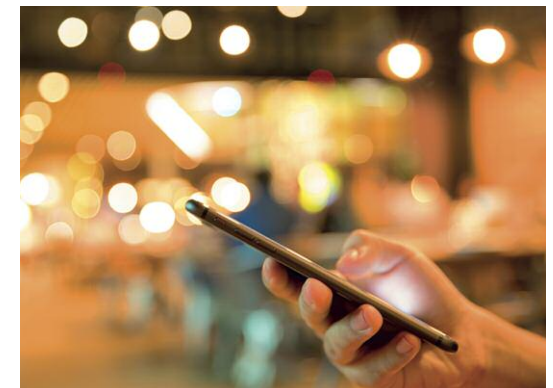
myValamarApp

- ▶ This solution was started in 2017 to support our guests during the whole customer journey: from their arrival, services and amenities to be used during their stay to their departure. Nowadays, when a growing number of people (especially young generations) use apps when travelling, Valamar has again confirmed to lead technological innovation in the sector.
- ▶ My Valamar App offers many features such as: fast check-in, mobile key, interactive calendar of destination events, live chat with the concierge, overview of F&B orders (room service) and restaurant menus, booking destination experiences and many more other features. This app has been implemented in 14 Valamar properties so far and we plan to implement it in 3 more properties by summer 2019.



TA POINT

- ▶ This is another useful Valamar application to make our guests' stay more comfortable and easier. With this mobile app, guests can scan the QR code or use the NFC tool on their phones to make an online order with the waiter. This is very useful when guests want to order from a bar or restaurant that is located away from the beach.



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



5.5 DESTINATION DEVELOPMENT AND RESPONSIBILITY TO THE LOCAL COMMUNITY

Social responsibility steers each segment of Valamar's business – it shapes our approach to corporate governance, market positioning, the environment and the community as well as employee relations. Valamar's corporate social responsibility (CSR) umbrella programs are closely related to the company's core business.

CSR 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. Furthermore, they guide our consistent approach to environmental preservation and Adriatic Sea quality protection, as well as corporate transparency and responsibility to our stakeholders, investors and shareholders.

CSR INDEX AWARD

Valamar Riviera won the CSR Index for its socially responsible diversity policy and human rights protection, awarded by the Croatian Business Council for Sustainable Development and the Croatian Chamber of Economy. Valamar received this valuable award during the 10th CSR Conference.



The success of Valamar Riviera's hotels, resorts and campsites depends on the development of its destinations. Thus, Valamar Riviera takes an active role in their 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. As an active contributor to social development, Valamar can offer a more intensive and more authentic guest experience.

At the event called "Croatian Acts of Kindness" organized by M.E.P. and under the auspices of the Ministry of Economy, Entrepreneurship and Crafts, Valamar Riviera received the Silver Efficient Manager (Srebrni UM), awarded for the promotion of social values and a successful business collaboration. The awardees are renowned companies and individuals, and the awarding ceremony marked the 25th anniversary of Efficient Manager.

VALAMAR'S NINE CORPORATE SOCIAL RESPONSIBILITY UMBRELLA PROGRAMS

Valamar Riviera has developed nine CSR umbrella programs and is committed to investing at least 2.5% of annual revenues in them.

In 2018, it invested 4.9% (HRK 101 million) of revenues or HRK 5.3 million more than in 2017.

INVESTMENTS BY PROGRAM

Enriching the Destination: HRK 5.6 million

Building Tourism Infrastructure:
HRK 42.8 million

Good Job at Valamar: HRK 25.4 million

ValamART: HRK 81 thousand

Valamar's Big Heart: HRK 749 thousand

Promoting Sports: HRK 4 million

Green Valamar: HRK 22 million

Our Retired Colleagues: HRK 30 thousand

Little Tourism: HRK 30 thousand





ENRICHING THE DESTINATION



Over
60
events

Over
530,000
guests, visitors
and participants

As Croatia's leading company in tourism, Valamar Riviera is responsible for the development of its destinations as the 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 5.6 million were invested to enrich destinations in 2018.

Valamar continued supporting a large number of destination events in 2018, such as Offshore World Challenge, Tunalicious Street Food Festival, Wine Nights, Oktoberfest by Valamar, Poreč Dolphin, Istra & Craft Beer Festival, Sport Fest and Lanterna Summer Nights in Poreč, the Rabac Carnival, the races Valamar Terra Magica and Valamar Trail, Summer at Valamar in Dubrovnik, Black Sheep Festival, Krk Music Festival and Baška International Guitar Festival on Krk Island, as well as destination events in the Christmas-New Year 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 organizes independent projects that attract numerous tourists and residents.





*Black Sheep
Regatta*



POREČ OPEN AIR AND RABAC OPEN AIR

Two large events initiated by Valamar were especially important in 2018: the third edition of Poreč Open Air Festival and the second edition of Rabac Open Air.



Poreč Open Air is the longest national festival with the most event-packed program. During the 69 program days in the period between 1 July and 15 September, the festival attracted over 50,000 visitors from Croatia and abroad. It included 11 varied entertainment programs at 17 different venues in

Poreč, 218 performers and 138 events. Among others, the festival featured live music nights, movie projections under the stars, street performances and theater shows. All the festival events were free for visitors.

Music and family events were particularly popular. The programs of Street Music and Special Events featured 124 hours of various music genres – from jazz to electronic music. The Princesses' Ball and theatre shows by Istra Inspirat became the favorite events of families with little children and the hallmark of Poreč Open Air Festival.

World Stage was also a popular program segment featuring top tribute bands (Queen, The Beatles, Red Hot Chili Peppers, ABBA, Beyonce, James Brown and David Bowie) playing on Poreč's waterfront promenade.

The festival revitalized the town center of Poreč, and the increasingly positive feedback confirmed 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 was among the three finalists in the category of "Tourist Event of the Year" at the Days of Croatian Tourism on Lošinj in



2017, and in 2018 it was a finalist for the Conventa 2018 Best Event Award in the category of B2C events.

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 22 sponsors.

POREČ OPEN AIR IN NUMBERS



218
performers



69
festival days



50,000+
visitors



14,000+
Facebook fans



138
events



124
hours of music



17
venues



RABAC OPEN AIR FESTIVAL OF LIFE



The second edition of Rabac Open Air Festival turned Rabac into a favorite summer destination for all the fans of music, theater and other entertainment programs. During the three summer months, Rabac's residents and their guests could enjoy entertainment programs for all ages almost every day.

Following Valamar's initiative, Rabac Open Air was organized by MPG and supported by the Town and Tourist Board of Labin as well as numerous sponsors headed by Valamar. The festival lasted from 16 June to

30 August 2018 and was organized in partnership with Labin Art Republic, another arts and culture festival. Together they attracted more than 31,000 visitors to 66 events in 76 days: concerts and movie projections, edutainment events for the youngest visitors, theater shows and attractive street performances.

The 160 performers, 15 programs and 12 different venues enriched summer entertainment in Rabac and the festival became the favorite destination event during the summer.



RABAC OPEN AIR IN NUMBERS



160
performers



76
festival days



66
events



31,000+
visitors



116
hours of music



12
venues



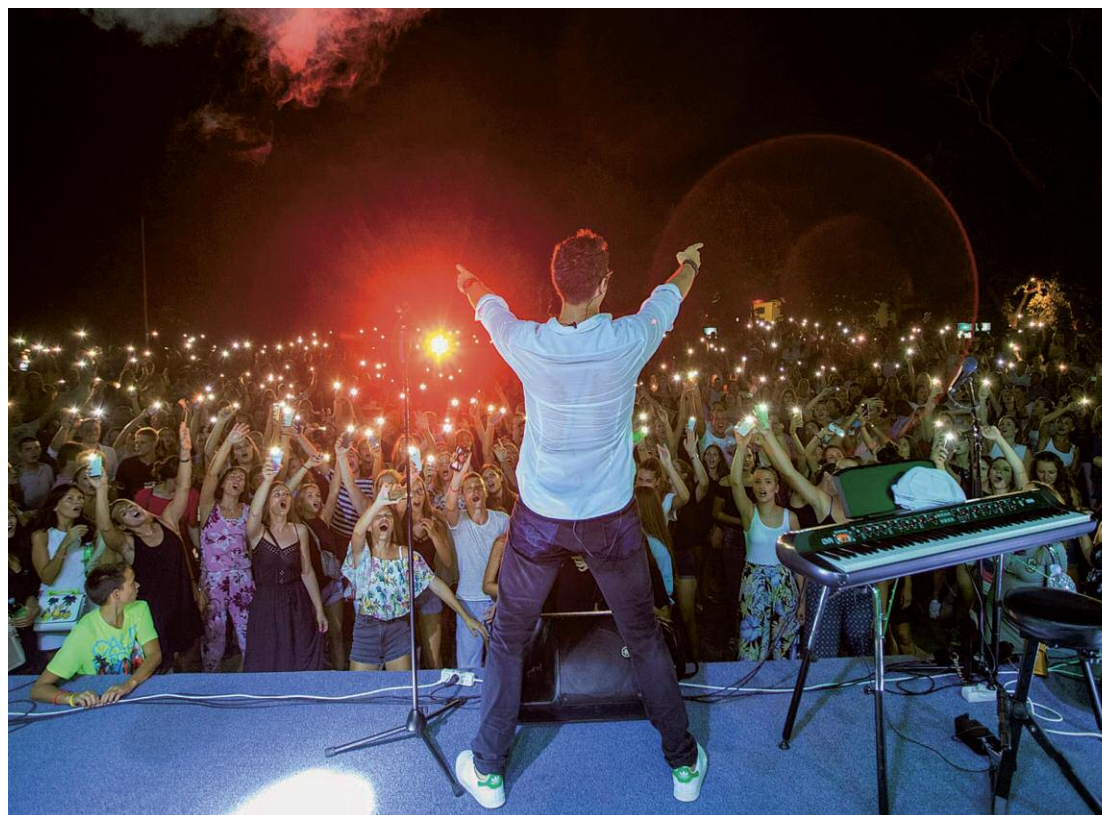
SUMMER AT VALAMAR

After the successful first edition of the festival in 2017, Valamar Riviera organized Summer at Valamar, the most event-packed festival in Dubrovnik, for the second year in a row.

From 15 June to 14 September 2018, Babin Kuk was once more turned into a huge open-air stage and became the favorite venue for all the fans of good movies, music and fun, while locals and tourists loved the events offering entertainment for all ages and preferences.

During the 91 festival days, more than 20,000 people visited the various programs of this year's edition of Summer at Valamar that was held at 4 different venues.

The festival started on 15 June with the Dubrovnik Craft Beer Festival and a free concert featuring Jura Stublić & Film and closed with a spectacular concert by Prljavo kazalište that was held at the same location- Solitudo campsite. During the three festival months, Babin Kuk offered numerous events to visitors, such as 18 open air movie projections, the 2-day Street Art Festival, concerts featuring 17 different performers, more than 40 hours of great music, 3 stand-up shows and 2 editions of the Dubrovnik Craft Beer Festival.



SUMMER AT VALAMAR IN NUMBERS



91

festival days



18 free

movie projections



40 hours

of various music

KEY DESTINATION EVENTS

POREČ

3 Mar	Poreč, Valamar Diamant	Poreč Trophy
8 – 11 Mar	Poreč, Valamar Diamant	Istrian Spring
10 – 18 Mar	Poreč, Valamar Diamant, Pical	Istrian Riviera
24 – 27 Apr	Poreč, Valamar Isabella, Valamar Diamant	WinDays
27 Apr – 1 May	Poreč, Lanterna	Spring Break Collegium
5 – 12 May	Poreč	Wine Nights
30 May – 3 June	Poreč, Lanterna	Lighthouse Festival
2 Jun – 30 Aug	Poreč, Lanterna	Lanterna Summer Nights
16 – 17 June	Poreč, Lanterna	SUPer Surfers Challenge Poreč – Lanterna
23 Jun – 7 Jul	Poreč	Xbash by DocLX
1 Jul – 15 Sept	Poreč	Poreč Open Air Festival
1 Jul – 10 Aug	Poreč	Artist on Vacation
1 Sept	Poreč	Poreč Dolphin
8 – 15 Sept	Poreč	Offshore World Challenge & Tunalicious Street Food
15 – 22 Sept	Poreč	Art Colony
21 – 29 Sept	Poreč, Lanterna	Oktoberfest by Valamar
5 – 7 Oct	Poreč	Istra & Craf Beer Festival
12 – 14 Oct	Poreč	Sport Fest
6 Dec – 6 Jan	Poreč	Poreč Advent and New Year's Eve

KRK ISLAND

11 – 14 Apr	Baška	4 Islands
13 – 15 Apr	Baška	B2B Trail
18 – 20 May	Baška	Black Sheep Festival
19 – 20 May	Krk	Krk Bike Story
21 – 23 Jun	Krk	Krk Music Festival
17 – 20 Aug	Baška	Baška International Guitar Festival
13 – 15 Aug	Krk	Krk Sails
12 – 14 Oct	Baška	Baška Outdoor Festival

PULA

29 Aug – 2 Sept	Puntižela	Dimensions Festival
5 – 9 Sept	Puntižela	Outlook Festival

RABAC & LABIN

17 – 22 Apr	Rabac	Tour of Croatia
19 May	Labin	Labin Republic
16 Jun – 30 Aug	Rabac	Rabac Open Air Festival
30 Jun – 30 Aug	Labin	Labin Art Republic
15 – 16 Sept	Rabac	Valamar Terra Magica
29 Sept	Rabac	Valamar Trail
20 – 22 Dec	Labin	Christmas in Labin

RAB ISLAND

11 – 14 Apr	Rab	4 Islands
12 – 16 Jun	Lopar	Sand Sculpture Festival
21 – 24 Jun	Town of Rab	Kantuni
19 Jul	Lopar	Samba Festival
3 – 7 Aug	Town of Rab	Kantuni
25 Jul – 27 Jul	Town of Rab	Rab Fair
12 Aug	Lopar	Lopar Night
6 – 9 Sept	Town of Rab	Rab Jazz Festival
22 Sept	Rab – Lopar	Rab Island Trail
1 Dec – 6 Jan	Rab	Advent on Rab Island

DUBROVNIK

25 Jan – 4 Feb	Dubrovnik	Festa Dubrovnik
4 – 8 Apr	Dubrovnik	Tomo Udovičić Memorial Water Polo Tournament
6 – 8 Apr	Dubrovnik	Aklapela
28 – 29 Apr	Dubrovnik	DU Motion – Runners' Days Dubrovnik
26 – 29 Apr	Dubrovnik	Valamar Junior Open
20 Jun	Dubrovnik	Sentimento Festival
15 Jun – 14 Sept	Dubrovnik, Babin kuk	Summer at Valamar
20 Jun – 4 Jul	Dubrovnik	Midsummer Scene Festival
10 Jul – 25 Aug	Dubrovnik	Dubrovnik Summer Festival
28 Aug – 1 Sept	Dubrovnik	Dubrovnik in Late Summer International Music Festival
18 – 21 Oct	Dubrovnik	Good Food Festival
1 Dec – 6 Jan	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 Valamar Riviera's destinations.

Various tourism infrastructure projects of improvement and construction received an HRK 42.8 million investment in 2018. One of the key investments in 2018 was the completion of Valamar Collection Girandella Resort in Rabac where the first Kinderhotel in Valamar's portfolio was opened, Valamar Girandella Maro Suites 5*. The investments included the improvement of beaches and promenades, and landscape redesign. Families loved the family-friendly beach and beach bar and numerous water attractions. Maro Beach is great for children and it features a special attraction – an inflatable water park with obstacle course.

Poreč Bike Share was launched in 2017. It is an automatic bike rental system that soon won the hearts of residents and tourists. In the first year of operation, there were over 5,000 bike rentals so an additional number of bikes was introduced in 2018, along with the 6th bike point in the town center.

In 2018, Valamar invested HRK 7.3 million in building children's playgrounds and sports facilities that are also open to local children and young people.



HRK 7.3 million

invested in **children's playgrounds** and **sports grounds** in 2018



HRK 20.2 million

invested in **beach improvements** in 2018

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





GOOD JOB AT VALAMAR



Valamar Riviera is the largest scholarship provider in Croatian tourism and hospitality. In 2018, the company continued offering an attractive scholarship program for jobs in hospitality (chefs, waiting staff, pastry chefs) as well as scholarships for students enrolled in 4-year programs in hotel management and hospitality. The scholarship holders can do their traineeship in one of Valamar's attractive destinations from Istria and Krk to Dubrovnik. When they finish school, they have their first employment secured with the leading employer in Croatian hospitality.

Valamar's scholarship program aims at motivating and supporting young people in Croatia to qualify for a job in hospitality and tourism. Another important goal is to establish a stronger relationship with vocational schools across Croatia and become an active partner to educational institutions in forming future competence centers. Valamar is also carrying on the Erasmus+ project on mobility for students and teaching staff in vocational education. In the summer of 2018, Valamar hosted two groups of students from a Hungarian secondary school from Kaposvár (45 students in total) who did their summer traineeship, i.e. work-based learning at Valamar's properties, where they improved their skills with Valamar's waiting staff, chefs and pastry chefs.

Trainees at Valamar are involved in the provision of numerous services and take part in workshops that teach them about improving service quality, Valamar standards and they prepare students for future employment.

Similarly, Valamar hosted a group of students and teachers from the International summer school of the Faculty of Economics at the University of Rijeka who had the opportunity to learn about business operations at the company.

Valamar signed a Collaboration Agreement with the Association of Hospitality Schools of the Republic of Croatia. The participants learned about employment, scholarship and traineeship opportunities at Valamar during a two-day visit. This was also an opportunity to announce an initiative called "Knowledge to Excel" calling for a collaboration between Valamar and vocational schools in hospitality.

When visiting Valamar properties, students gain valuable knowledge of the way hospitality is managed and learn about business operations at Valamar, all with the help of Valamar professionals who guide them throughout their visit. It is also a great opportunity to make new contacts for one's future career and personal development.



HRK 25.4 million

invested in **Good Job at Valamar** umbrella program in 2018



500 students

from 27 Croatian schools visited Valamar under the **Knowledge to Excel project** in 2018





VALAMART



In 2018, 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 81,000 in 2018, as part of the ValamART umbrella program.

The exhibition of the artists participating in the 35th Riviera Art Colony Poreč was held in March 2018 at the Zuccato Art Gallery in Poreč. The exhibition was organized by Valamar Riviera, the Lapidarium Museum from Novigrad and the Poreč Open University. The exhibition showcased the works by renowned academic artists from Spain, France, Slovenia, Croatia and Austria.

The Art Colony was started in 1983 in Poreč. It is a long-standing project during which the participants stay at Valamar's properties where they create their artwork and afterwards leave it with Valamar Riviera. The value of this project is confirmed by the fact that numerous works of art from the Riviera collection are borrowed to be displayed at exhibitions in this

part of Europe. The 2016 sculpture by Dušan Džamonja's was lent to be exhibited in Graz, while works by Ivan Picelj were displayed at the National Museum of Montenegro in Cetinje and the Dubrovnik Art Gallery.

The 36th Riviera Art Colony was held in September in Poreč. In its 36 years of activity, numerous versatile artists participated in the Art Colony. Many of them were international artists whose artistic activity and great experience during their stay contributed to the promotion of Croatia and Poreč as destinations not to be missed.

Valamar supported the activity of the dancing association Convivo and their project "Let's Bring Fairy Tales Back" in 2018. This valuable project aims at reconnecting children with fairy tales and teach them about the importance of theaters as well as presenting them the morals that were once taught in traditional fairy tales. The project included 5 workshops of interactive theatrical reading, directing, screenwriting and choreographing the "Cinderella" dance show.

The 7th edition of the well-known project Artist on Vacation has contributed to making Poreč one of the most important cultural destinations on the Adriatic and an ideal destination for artists. Numerous artists from all parts of Europe participated in this project in 2018. Artist on Vacation is a project by collector Marinko Sudac and is organized in collaboration with Valamar Riviera and the Institute for the Research of the Avant-Garde and the Marinko Sudac Collection. Its mission is to present the heritage of various radical arts through the participation of world-known avant-garde artists who spend a week at Valamar and meet other artists, theorists, art historians and museum experts in July and August.

Valamar Riviera also continued to collaborate with Poreč Open University and donated to support the activity of various other associations and institutions.



Artist on Vacation

70 artists participated so far



Art Colony

228 artists participated so far







PROMOTING SPORTS



Valamar Riviera directly organizes or sponsors numerous sports events that contribute to the development of its destinations and the promotion of sports and active living. The company invested more than HRK 4 million in 2018 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 destinations.

Valamar has been investing in its destinations to develop sport-related tourism, such as cycling

tourism, for quite some time. The world-known bike producer Specialized recognized Valamar's efforts and invited journalists from around the world as well as companies specializing in cycling to their event in Rabac. This reinforced Rabac's status as a cycling destination.

A valuable feature offered by Valamar Collection Girandella Resort is Bike Center Rabac – a top cycling destination for professional and recreational cyclists and active families. The Bike Skills park features a training track, four single trails and two flow loop trails of various difficulty levels. There is also a bike shop, rental and service, children's courses, a family trail (4 km) and 10 new trails for beginners and advanced users (12 km). Bike Center Rabac is the first center offering this kind of facilities in Croatia and more than 20 km of specialized trails.

Two famous races take place in Rabac: the MTB race Valamar Terra Magica and the trail running race Valamar Trail. Rabac is also one of the stages in the well-known bike event Tour of Croatia, and also a

venue of numerous bike camps throughout the year. Manuel Fumić, one of the world's biggest MTB stars, chose Rabac to train for races. There are 7 specialized bike-friendly hotels in Valamar's portfolio providing top standards and services to cyclists.

Valamar was the proud sponsor of the Croatian trail running team that competed on the world championship in Spain.

Valamar was the chief partner of Sport Fest in Poreč, a new sports fair combining educational elements (conference) and entertainment through an area dedicated to sports gear display and entertainment programs. Sport Fest is the only fair of this kind in Croatia.

Valamar also supported the Istrian Riviera, an ITF Futures tournament. It is the oldest international tournament in Croatia with a 46-year tradition. This tournament became a very important sports event in the region, and a fact contributing to its fame is that it is the place where well-known players such as Goran Ivanišević, Boris Becker, Thomas Muster, Goran Prpić and many others started their career.

Valamar also supported the organization of the 19th edition of the traditional swimming marathon known as Poreč Dolphin that gathers numerous participants.

Besides supporting large sports events, Valamar Riviera also supported through donations many sports clubs in the local communities where it operates.





*Bike Skills Park,
Bike Center Rabac*



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 22 million were invested in 2018 in projects included in this program. HRK 11.2 million were invested in energy efficiency projects.

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 fifth consecutive year. The largest coast and seabed cleanup activities at Valamar destinations involved the Rabac Association for Underwater Activities, Horizont Sailing Club from Poreč, Mladi Rudar Handball Club from Labin and Rabac Football Club.

Valamar joined the global environmental protection initiative to end plastic straw use. As of August, Valamar will no longer be offering conventional plastic straws, but only biodegradable cellulose straws. Valamar is the first Croatian tourism company that will no longer use plastic straws because of their negative impact on the environment. Plastic straws were first removed from all Valamar Collection and Valamar Hotels & Resorts properties as well as from all the



restaurants and bars at Valamar Riviera. It takes only a few seconds to produce a plastic straw that is used only 10 minutes on average and takes as much as 500 years to decompose.

Poreč Bike Share has been in use for a year now and it won the hearts of residents and tourists alike. This automatic bike rental system is a simple, cheap and fast transport option and after registering in Poreč, this service can be used all around the world. In the first year of operation, the system recorded over 5,000 rentals and because of great demand, additional bikes and another bike point in Poreč were added in 2018. There is a total of 35 electric and 42 conventional bikes divided between 6 bike points.



HRK 22 million

total 2018 investment in Green Valamar



HRK 11.2 million

2018 investments in energy efficiency



HRK 6.8 million

2018 investments in horticulture



HRK 580,000

2018 investment 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 to include former colleagues and exchange experiences that could contribute to Valamar's growth.

In 2018, Valamar's retired employees from Rabac met at a gathering in Valamar Sanfior Hotel in Rabac, and our colleagues from the Galija Club in Poreč met at a traditional year-end celebration in Poreč. The retired colleagues from Krk organized a gathering and excursion to Poreč at the start of 2019.



over 250
retired colleagues

participated in gatherings, dinners,
excursions and similar



LITTLE TOURISM



This program is focused on organizing educational visits of local children to Valamar properties 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 third consecutive year.

During these educational visits, in 2018 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.

The children from the "101 dalmatinac" Kindergarten in Poreč visited Valamar Collection Isabella Island Resort on Sveti Nikola Island. The 2 – 4-year-olds loved the boat ride to the island, followed by playtime while exploring all children's activities the island has to offer. The children from Rabac's kindergarten "Pjerina Verbanac" visited Valamar Collection Girandella Resort where they were greeted by Valamar's mascot Maro who invited them to play. This kindergarten has been friends with Valamar Riviera for several years and the kindergarten children inaugurated the opening of the playground in Valamar Collection Girandella Resort where all the children from Rabac and surrounding areas are welcome.

Valamar Club Dubrovnik invited nearly one hundred children from the Župa dubrovačka kindergarten and the entertainment team organized a tour of the hotel, a mini obstacle course and dance-time at the pool.



Over 500 children

visited Valamar in 2018





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 supports numerous other associations in the local community aimed at helping those in need. This program provided about HRK 749 thousand that were distributed through donations in 2018.

Valamar Riviera's most prominent charity project is "A Thousand Days on the Adriatic Sea". Through this donation program, Valamar provides 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. 26 associations nationwide applied in 2018 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 1,000 overnights with full board included. Over the past 5 years, Valamar has donated more than 5,000 room and board overnights and more than 2,000 children and their carers spent their summer holidays at Valamar. For most children, this was their first encounter with the sea, and their first summer holiday ever.

The project became an umbrella platform for carrying out numerous charitable and educational workshops, activities and programs that associations and schools conduct during their stay at Valamar. Many Valamar employees are involved in this charity project. The public recognized the value of this program and at the beginning of 2017, Valamar Riviera received the prestigious Pride of Croatia Award for this initiative where the award winners are elected by public choice for their charitable activities. Valamar also won the Grand Prix awarded by the Croatian PR Association for this project's communication in 2018.

For the third consecutive year, in 2018, we organized the Valamar's Big Heart fundraiser, at Valamar destinations from Istria and Kvarner to Dubrovnik to

promote solidarity and helping the local community. Our guests and partners were able to participate in the fundraiser whose goal was to direct the collected funds to the most vulnerable groups in the community.

Valamar supported the activity of the Rab-based Kocka Association for Children and Young People. The project Valamar supported involved activities directed towards promoting a healthy lifestyle and quality free time for children and young people. The Association of Teachers in Hospitality Education carried out a collaboration project with Valamar in the field of social inclusion for people with disabilities. As part of the project, the members of the association promoted their qualification for cooking and serving.

Valamar supported the summer program of the Poreč-based association "Naša djeca" that is organized for the 8th consecutive year and equipped the association's lounge with a foosball table and table tennis.

Valamar Riviera donated to help the Gynecology and Obstetrics Department at Dubrovnik General Hospital to buy the necessary basic equipment. In addition, Valamar provided equipment worth over HRK 100,000 to the Gynecology and Obstetrics Department at Pula General Hospital in order to improve conditions for the hospital staff and patients.

In November, Valamar donated HRK 300,000 for the digitalization and equipment of libraries at two Poreč-based elementary schools – Finida and Poreč. This initiative represents a direct investment in the future and education of children and young people.



over 2,000 children

and their carers have spent
their summer holidays
at Valamar in the past five years



5.6 COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY

Natural resources are limited and the activity of each individual and organization should be directed towards their safeguarding. The environment represents the key resource in tourism, so environmental awareness is crucial in this sector due to its volume and intensity. As the largest tourism company in Croatia, Valamar Riviera is aware of its responsibility to systematically apply high standards to safeguard the environment in a proactive and integral manner.



Valamar Riviera aims to achieve sustainability goals and a balance between economic progress and care for the environment as well as social involvement in the local community. Regulatory compliance is just the first precondition – Valamar works towards a comprehensive and integral approach to environmental protection.

The key areas of concern are pollution prevention, rational resource use, waste reduction and proper waste disposal, staff training in handling potential incidents, as well as the implementation and certification of management systems. Valamar Riviera properties have implemented and certified the Environmental Management System according to ISO 14001, Quality Management System according to ISO 9001 and Energy Management System according to ISO 50001, as well as Food Safety Management System (HACCP) according to Codex Alimentarius.

Numerous surveys have found that a significant number of tourists choose accommodation and destinations oriented towards environmental protection. Based on its own experience, Valamar Riviera can confirm this trend as most of the guests staying at one of Valamar's destinations notice and support Valamar's environmentally-friendly approach to business.

ACHIEVEMENTS IN ENVIRONMENTAL PROTECTION AND SUSTAINABLE TOURISM

Valamar Riviera's 2018 achievements in environmental protection and sustainable tourism are numerous.

- ▶ In 2018, 100% of Valamar Riviera properties and 100% of Imperial properties have ISO 50001 certified energy management systems, ISO 14001 certified environmental management systems, while 75% of accommodation in hotels and resorts is covered by the Travelife certificate, thus confirming the company's intention to have a sustainable management according to the highest international standards.
- ▶ 100% of electricity for Valamar Riviera 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. Greenhouse gas emissions increased in 2018 if compared to prior year results. However, greenhouse gas emissions in 2018 were over three times lower than in 2015 (base year).
- ▶ 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.
- ▶ 10 new electric vehicles and 12 electric scooters worth HRK 1.2 million in total, were purchased in 2018. The total number of electric cars, scooters and carts is now 120.



- ▶ Valamar Riviera opened five new EV charging stations, following an investment of HRK 408,000 in 2018. Together with 2 stations in destination Makarska, the total number of the EV charging stations went up to 18.
- ▶ In 2018, 20 Valamar Riviera hotels received or confirmed their Travelife Gold Award certificates (an international certification system promoting sustainability in the tourism sector).
- ▶ 8 of our hotels have received special recognition for sustainability in the hotel industry – the Sustainable Hotel Certificate: Valamar Sanfior Hotel & Casa 4*, Valamar Koralj Hotel 3*, Valamar Collection Dubrovnik President Hotel 5*, Valamar Zagreb Hotel 4*, TUI Family Life Bellevue Resort 4*, Valamar Padova Hotel 4* and TUI SENSIMAR Carolina Resort 4*.



- ▶ For the fourth consecutive year, we have successfully implemented the We Love the Adriatic Sea project as part of the Green Valamar umbrella program.
- ▶ The photovoltaic cells of the power plant located inside the Atrium Hotel in Baška generated around 20,267 kWh of electrical energy in 2018.
- ▶ Over the past six years we have been working tirelessly on installing solar panels or photovoltaic cells; so far 2,600 panels (around 5,200 m²) have been installed.

Seabed cleanup as part of our project named "We Love the Adriatic Sea"



- ▶ Campsite Krk has a constructed wetland, which treats and recycles waste water, and uses it for horticultural irrigation.
- ▶ We installed high-efficiency heat pumps that replaced electric water heaters at Isabella Island Resort and Lanterna Sunny Resort in an investment worth HRK 800,000 in 2018.
- ▶ The selective waste collection process was also improved, especially in Poreč where the recycling yard was extended and outfitted in an investment worth HRK 2 million.
- ▶ We started implementing EMIS (Energy Management Information System) at all Valamar Riviera properties in 2018. This system enables the automated consumption data collection and analysis for all energy sources.
- ▶ 2018 saw the commencement of the HRK 900,000 project to replace conventional light fixtures with high-efficiency LED lights.
- ▶ We continued with our strategy to decrease fossil fuel use and replace it with renewable sources of energy: we replaced the heating oil boiler in the greenhouse with a biomass boiler; we replaced the boiler with a high-efficiency heat pump at Valamar Club Tamaris Casa Agava in an investment worth HRK 1.2 million.
- ▶ 14 of our beaches hold the Blue Flag certification, an international quality symbol awarded for a preserved environment, clean water and beaches, well-managed beaches and high-quality services.

**Valamar Tamaris
Resort 4*,
Poreč**



**Lanterna Sunny
Resort 2*, Tar**

KEY PROJECTS IN 2018

ENERGY MANAGEMENT INFORMATION SYSTEM (EMIS)

It is an automated system for monitoring energy consumption at all Valamar Riviera properties. The implementation of this system requires the development of a highly sophisticated solution involving both software and hardware elements for an intelligent management of energy systems. It enables the automated data collection and analysis of the consumption of all energy sources. The EMIS software concept complies with the international practice of good energy management (ISO 50001) and is adapted for the remote reading of measuring devices and sensors. This system will enable the analysis and comparison of energy consumption at all properties, the detection of consumption anomalies, a more accurate cost prediction throughout the year and energy cost planning for the following year.

The system implementation will be carried out in the course of three phases or years. When selecting the supplier, we considered the candidates' experience and references.



SELECTIVE WASTE MANAGEMENT SYSTEM

Valamar has been organizing a system for selective waste collection at its destinations. In this process, the company is one step ahead of some local communities and in the forthcoming period we will also strive to rationalize further the waste management costs in all our destinations.

A selective waste management project was launched in Poreč. The project aimed at reducing non-sorted municipal waste at the source, i.e. in the purchasing process, by creating additional conditions for selective collection and raising awareness among employees.

A sorting facility was constructed, and it significantly increased selected waste and reduced municipal waste. We also opened a plant for generating heating energy out of our own biomass (plant waste, i.e. waste generated when clearing and maintaining woods at our properties). In this way we produce heating for the greenhouse (where decorative plants are stored in winter) and adjacent rooms.



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 in order to maintain 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 GHG emission monitoring, rational water consumption, waste generation reduction, recycling, waste water treatment and reuse for irrigation and in laundries, improvement of solar energy use and purchase of environmentally friendly materials, especially in the company's key investments. Other initiatives include raising awareness among guests, employees and the local population about the importance of preserving the Adriatic Sea and coast and organizing beach and seabed cleanups. Since 2016, Valamar Riviera has significantly decreased GHG emissions if compared to previous years.

Its contribution to the fight against global warming comes mainly from the use of ZelEn, i.e. using electrical energy from renewable sources and contracting green electrical energy for the third consecutive year, as well as gradually eliminating heating oil as energy and installing heat pumps.



2018 GREENHOUSE GAS EMISSION REPORT

Valamar Riviera reported higher direct and indirect Scope 1 and 2 greenhouse gas emissions expressed as carbon dioxide equivalent in 2018 vs. 2017, and the increase is 6.66% per overnight.

It was caused by a longer operation period of properties, quality upgrades in services (air conditioning in guest areas, pool heating) that led to increased energy use.

Imperial d.d. reported an increase in direct and indirect Scope 1 and 2 greenhouse gas emissions in 2018 vs. 2017. The emissions grew by 10.36% per overnight. Compared to the previous year, in 2018 there is an increase in the consumption of energy sources due to season prolongation and quality upgrades.

Valamar has been managing Hoteli Makarska d.d. as of 2018, so GHG emission monitoring includes this

company as well. We added GHG emission data for Hoteli Makarska d.d. for earlier years to the consolidated data of Valamar Riviera Group in order to obtain comparable results.

Hoteli Makarska d.d. reported an increase in direct and indirect Scope 1 and 2 greenhouse gas emissions in 2018 vs. 2017, and the same can be observed if we compare 2017 and 2016 emission data. The increase in 2018 vs. 2017 is 9.57% per overnight.

VALAMAR RIVIERA: GREENHOUSE GAS EMISSIONS IN 2015-2018 – 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%
2018		7,094	1.32	↑ 8.90%	↑ 6.66%

VALAMAR RIVIERA GROUP (CONSOLIDATED DATA): GREENHOUSE GAS EMISSIONS IN 2016-2018 – COMPARISON

		(t)	kg/overnight	Change vs. previous year	
				(t)	kg/overnight
2016		10,150	1.68		
2017		10,401	1.67	↑ 2.47%	↓ 0.25%
2018		11,415	1.80	↑ 9.75%	↑ 7.65%

RAISING ENVIRONMENTAL AWARENESS AMONG EMPLOYEES AND GUESTS

The engagement of all stakeholders is crucial for achieving the set goals. Therefore, Valamar has been involving employees and guests in various environmental protection projects.

The employees receive constant and recurring training on how to behave and what to do to safeguard the environment. There are notices for both employees and guests in several key places across the properties 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 recycling.



VALAMAR
All you can holiday

HELP US LOOK AFTER THE ENVIRONMENT

AT VALAMAR, WE are committed to environmental protection and sustainability and we **HAVE** our very own **QUALITY** and Sustainability policy that is displayed on the noticeboard of this accommodation facility. We **STRIVE TO** minimize our properties' operational impact on the environment through best practice implementation and **CAREFUL** resources management. We know you **CARE** about the environment as much as we do so please join us in delivering this **COMMITMENT** by applying some of the following measures, which will not reduce your **COMFORT** at all.

SAVE WATER

We all know water is a scarce resource which has a direct impact on our natural environment so we try to minimise its consumption. You can help too by changing your towels and linen only when necessary, turning off the water while soaping, shampooing or brushing your teeth, or simply by using the economic (short) toilet flush when possible. If you notice that drinking water leaks, please contact our staff immediately.

DECREASE THE USE OF CHEMICALS

The more loads of washing we have to do, the more chemicals we have to use so please ask for a linen change only when you really need it.

SAVE ENERGY

Energy production, however ecological it may be, is one of the causes of global warming. We save energy in our own household so we ask you to help us not to waste energy in this facility too. Please turn off all unnecessary lighting in your room whenever you can. In addition, your room is kept at a comfortable temperature by our automated air-conditioning system. To keep it turned on, please keep your room windows and doors closed. When you leave the room, if the air conditioner does not go off automatically, please turn it off. By doing this we will maintain our commitment to mitigate climate change.

WASTE: REDUCE, REUSE & RECYCLE

Help us protect the beauty of our natural landscape. We always look for ways to control waste production by the hotel, and you can help us by: taking from buffet only as much food you will eat; you can always go for some more; ensuring that all paper, bottles, cans and other waste are placed in designated waste bins in public areas, and your empty batteries are placed on the table. Our housekeeping staff will collect it for recycling.

PREVENT WATER AND SOIL POLLUTION

Please consider some practical measures to help us reduce pollution and handle fuel and grease with great care. In the event of an accident, contact our staff; they will promptly assist you and provide you with oil absorbents.

ANIMAL WELFARE

No matter how cute or cuddly can birds, cats and other animals around our hotel be, please do not feed them as this greatly disrupts their natural habitat and eating habits.

Valamar has certified Environment Management System ISO 14001 and Energy Management System ISO 50001, which is a formal demonstration of our commitment to the continuous improvement of environmental protection and the saving of resources.

Thank you for your contribution.

We invite you to read more about our sustainability efforts in "Integrated Company Annual Report and Corporate Social Responsibility" on our website: <https://valamar-riviera.com>



ENERGY EFFICIENCY

The company is focused on reducing the consumption of fossil fuels (heating oil in particular), drinking water and electrical energy. HRK 10.1 million were invested in energy efficiency projects in 2018, and the planned savings in energy costs amount to HRK 1.2 million a year.

Valamar's initial investments in green technologies were made back in the 1980s when the company invested in the early thermal solar collectors at its campsites. Nowadays, there are around 2,600 thermal solar

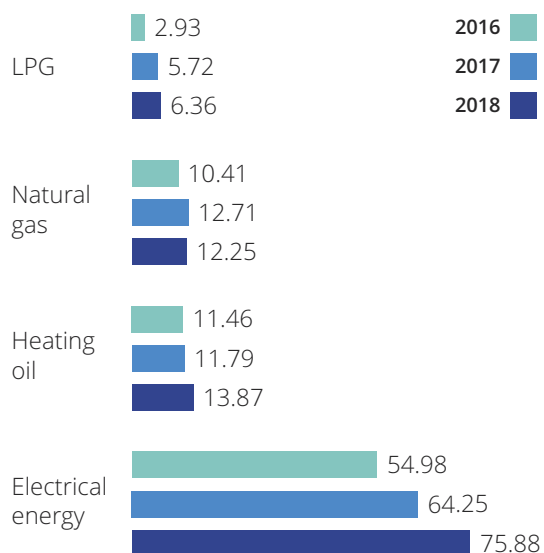
collectors across Valamar properties, covering an area of 5,200 m².

The environmental protection aspect is especially evident in Valamar's investment projects: the company installs energy-saving appliances and replaces conventional light fixtures with high-efficiency 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 to increase energy efficiency. The most significant measures applied for saving energy and water are the following:

- ▶ 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 electrical 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 (2016 – 2018) (GWh)



CONSUMPTION OF ENERGY PRODUCTS IN 2018

	Consumption in unit of measurement	kWh	GWh	kWh/overnight
Electrical energy (kWh)	75,876,183	75,876,183	75.88	11.52
Heating oil (l)	1,386,785	13,867,850	13.87	2.11
Motor fuel (l)	311,687	3,116,872	3.12	0.47
Natural gas [kWh]	12,247,836	12,247,836	12.25	1.86
Propane-butane (kg)	497,205	6,364,228	6.36	0.97
TOTAL		111,472,969	111.47	16.93

1 ENERGY CONSUMPTION, AS SHOWN BY THE FOLLOWING ITEMS:

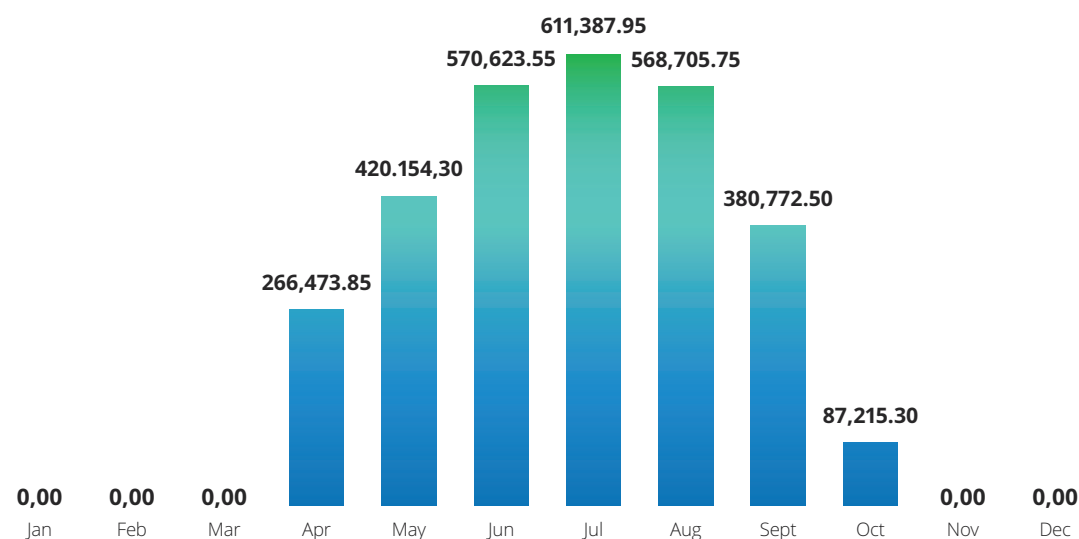
- a) Total consumption of energy from non-renewable sources:
in 2018, out of the total of 111,472,969 kWh of energy spent, 46,050,256 kWh came from non-renewable sources
- b) Total consumption of energy from renewable sources:
65,422,712 kWh
(all electrical energy used by Valamar Riviera properties comes from renewable sources)
- c) Total consumption of electrical energy:
75,876,183 kWh
- d) Total consumption of energy in joules or their derived units:
401,302,688 MJ

2 ENERGY INTENSITY, AS SHOWN BY THE FOLLOWING ITEMS:

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



ENERGY SENT INTO THE SYSTEM FROM QSOL SOLAR COLLECTORS IN 2018 (kWh)





WATER RECYCLING IN 2018

Total water consumption (m ³)	1,724,673
Amount of recycled water for irrigation (m ³)	8,872
Poreč laundry facility (m ³)	28,046
% of used recycled water (out of total consumption)	2.14%

GROUNDWATER AND WATER FROM LOCAL OR OTHER WATER SUPPLY SYSTEMS

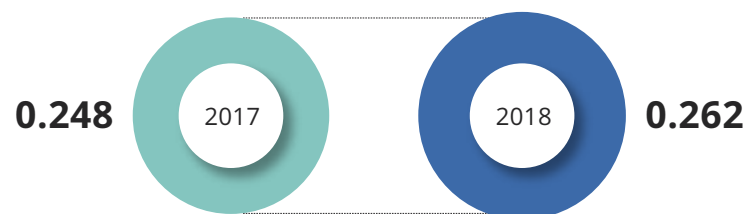
Groundwater supply system (m ³)	16,180
Local or other water supply systems (m ³)	1,708,493

WATER DISCHARGE

Public sewage system (m ³)	1,483,321
Sea (m ³)	86,125
Discharge of water to surrounding terrain (m ³)	8,436

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

WATER CONSUMPTION - COMPARISON BETWEEN 2017 AND 2018 (m³/overnight)*



* The specific water consumption increase is the result of investments in new pools and irrigated green areas, as well as the acquisition of new properties included in the 2018 results.



WASTE DISPOSAL

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

	2016	2017	2018
NON-HAZARDOUS			
Paper and cardboard	459	598	671
Glass	211	285	312
Plastic	160	255	285
Wood	478	469	42
Biodegradable waste	625	1,533	1,759
Used cooking oil	20	32	28
FOG separator waste	712	758	691
Metals	35	14	12
Bulky waste	139	306	102
Other non-hazardous waste	45	6	13
TOTAL	2,884	4,256	3,915
HAZARDOUS WASTE			
Asbestos	-	22	-
Electrical and electronic waste	7	6	18
Contaminated packaging	5	9	8
Other hazardous waste	7	2	14
TOTAL	19	39	40
MIXED MUNICIPAL WASTE	4,292	5,117	5,013
TOTAL WASTE GENERATED	7,195	9,412	8,967



The total waste generated in 2018 was 8,967 t and in 2017 it was 9,412 t. The amounts of glass, plastic, paper and cardboard collected selectively increased, while the amount of mixed municipal waste generated decreased.

In relation to the previously published 2017 values, the amount of mixed municipal waste generated by Imperial d.d. increased due to a calculation method change.

In 2018 the total waste generated decreased because there was no waste generated by the construction sites of Valamar Girandella Resort and Family Life Bellevue Resort.

The waste generated by Hoteli Makarska d.d. was included in 2018.

6

INVESTOR RELATIONS

Our investor relations are based on quality and high transparency in business and financial communication when promoting Valamar Riviera as the leading Croatian share and one of the leading shares in the CEE region. This is how we actively support liquidity, growth in share value and the involvement of investors who can contribute to Valamar Riviera's further value growth for all stakeholders.

We strive to increase the transparency of Valamar Riviera's business as well as the quality of communication with analysts and investors through regular corporate presentations on conferences in Croatia and abroad, group and individual meetings, conference calls and 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 shareholder 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 around 22,000 shareholders, Valamar Riviera organized its third Investors Day on 12 June 2018. Institutional investors attended a presentation where Management Board President Željko Kukurin and Management Board Member Marko Čižmek presented Valamar's formula of sustainable and socially responsible investments in employees, products and destinations.



*Valamar Collection
Imperial Hotel 4*,
Rab Island*

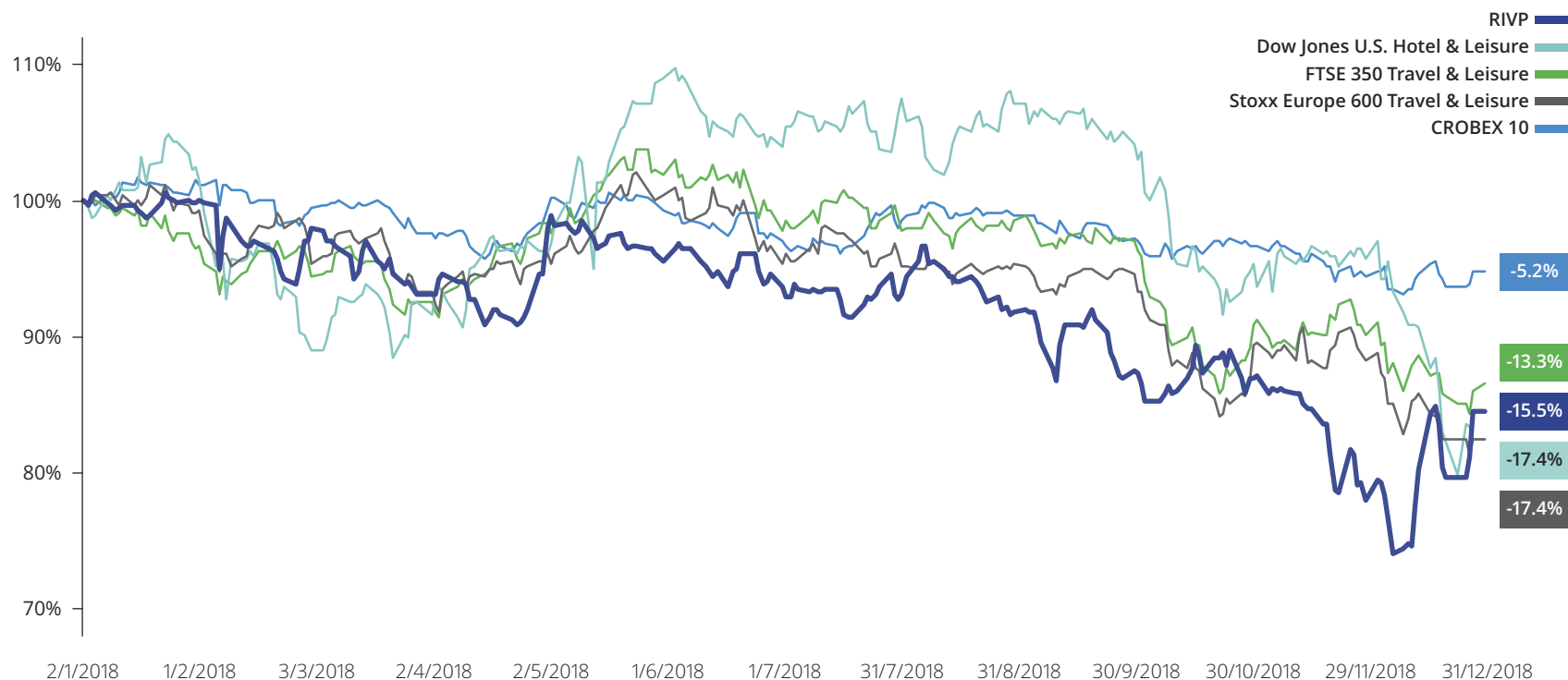
In the period from 1 January to 31 December 2018, the highest achieved share price in regular trading on the regulated market was HRK 43.60, while the lowest was HRK 31.20. Despite strong growth and solid fundamentals, Valamar's share price decreased in 2018 by 15%, very much in line with its international peers and related indices. Although Valamar Riviera was again the most liquid share on the Zagreb Stock Exchange, with a free float of over 50% and an average turnover of HRK 1.1 million per day, this was not enough to keep the share in the International MSCI Frontier Markets 100 Index (composed of 100 most liquid frontier markets companies having the largest

free-float adjusted market capitalization). The exclusion from this index in Q4 resulted in further pressure on Valamar's share price, which partly recovered at the end of the year.

The recent HRK 4.2 billion market capitalization accounts for nearly 3% of the total market capitalization of shares traded on the Zagreb Stock Exchange. Additionally, the share is also listed in the Vienna Stock Exchange indices (CROX¹ and SETX²), SEE Link regional platform indices (SEELinx and SEELinx EWI³) and the world's MSCI Frontier Markets Indexes. Zagrebačka banka d.d. and Interkapital

vrijednosni papiri d.o.o. are responsible for the 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 averaged 25.4%.

THE PERFORMANCE OF VALAMAR RIVIERA SHARE AND NATIONAL AND INTERNATIONAL INDICES



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 company 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) ERSTE Bank d.d., Zagreb
- 2) Fima vrijednosnice bank d.o.o., Varaždin
- 3) Interkapital vrijednosni papiri d.o.o., Zagreb
- 4) Raiffeisenbank Austria d.d., Zagreb
- 5) UniCredit Group - Zagrebačka banka d.d., Zagreb.

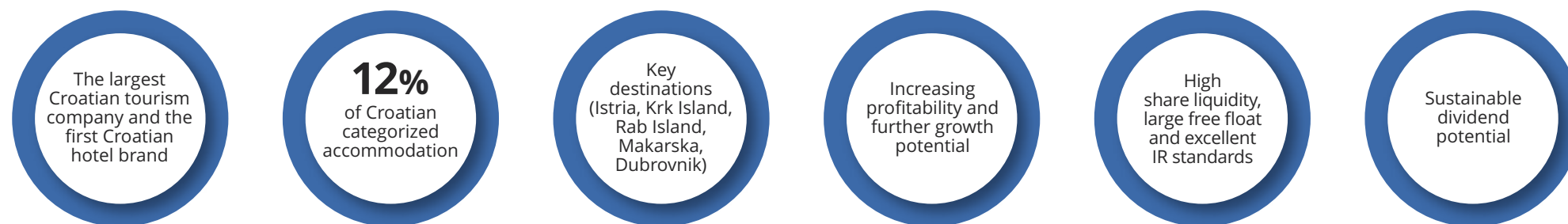
¹ Croatian Traded Index (CROX) is a capitalization-weighted price index and is made up of the 12 most liquid and highest capitalized shares of the Zagreb Stock Exchange.

² South-East Europe Traded Index (SETX) is a capitalization-weighted price index consisting of blue-chip stocks traded on stock exchanges in the region of South East Europe (shares listed in Bucharest, Ljubljana, Sofia, Belgrade and Zagreb).

³ SEE Link is a regional platform for securities trading. It was founded by the Bulgarian, Macedonian, and Zagreb Stock Exchange. SEE LinX and SEE LinX EWI are two "blue-chip" regional indices composed of the ten most liquid regional companies listed on three stock exchanges: five from Croatia, three from Bulgaria, and two from Macedonia.

INVESTMENT PROPOSITION

VALAMAR RIVIERA



CROATIAN TOURISM



AWARDS IN 2018

- ▶ Share of the Year by public choice for the 7th consecutive time
- ▶ Top Turnover Share 2018 on the Zagreb Stock Exchange
- ▶ Investor Relations in Croatia awarded by "Poslovni dnevnik" and the Zagreb Stock Exchange



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



**Valamar Argosy
Hotel 4*, Dubrovnik**

MEETINGS WITH INVESTORS IN 2018

In 2018, meetings were held at the following venues: London Stock Exchange, Zagreb and Ljubljana Stock Exchange conferences in Zagreb, Erste Consumer Conference 2018 in Warsaw, Wood&Co in Bucharest, Erste Group conference in Stegersbach, Wood&Co in Belgrade and Prague, Auerbach Grayson in New York and other European financial centers.

Meeting locations:

- | | |
|----------------------|--------------------------|
| ▶ Belgrade, Serbia | ▶ Prague, Czech Republic |
| ▶ Bucharest, Romania | ▶ Rabac, Croatia |
| ▶ Budapest, Hungary | ▶ Stegersbach, Austria |
| ▶ London, UK | ▶ Warsaw, Poland |
| ▶ New York, USA | ▶ Zagreb, Croatia |
| ▶ Poreč, Croatia | |

COMMUNICATION WITH SHAREHOLDERS AND THE INVESTMENT COMMUNITY IN 2018

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 Zvonimir
Hotel 4*, Krk Island



AWARDS AND RECOGNITIONS

Valamar Riviera is the leader in hospitality and tourism. The company's constant efforts to improve service and product quality did not go unnoticed in 2018, as evidenced by the numerous awards and recognitions that kept coming in this year.

Valamar hotels, resorts and camping resorts in each destination and segment receive the highest guest ratings every year. Similarly, the company receives numerous professional awards and recognitions. These excellent results are the outcome of Valamar's clearly defined vision and mission, strategy and continual investments to improve its destinations, properties and services and develop new and innovative concepts and features for guests and the local community. At Valamar, guest satisfaction and employee satisfaction come first. The company is especially focused on caring for its employees and is proud to be the top employer in tourism.

The most important awards in this year are: Share of the Year by public choice (7th consecutive year) traditionally awarded by the Zagreb Stock Exchange, World Luxury Hotel Awards, World Travel Awards, Grand Prix (for 1000 Days on the Adriatic Sea project communication), CSR Index (for the socially responsible policy of diversity and human rights protection), Zlatna Koza – Golden Goat Award, Zlatni ključ – Golden Key Award, numerous awards received at the Days of Croatian Tourism (Family Hotel of the Year, Best Adriatic Beach), EU Ecolabel and many more.

Ivana Budin Arhanić, Vice President of Business Development and Corporate Affairs at Valamar

Riviera was awarded by MBA Croatia as Businesswoman of the Year 2018. Valamar's employees received numerous awards at Croatian professional competitions confirming their professionalism, dedication and commitment to continual improvement and career development.



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



INTERNATIONAL AWARDS AND RECOGNITIONS IN 2018

ANWB	ANWB TOP 2019	Lanterna Premium Camping Resort by Valamar, Krak Premium Camping Resort by Valamar, Solaris Camping Resort by Valamar
ADAC	ADAC Superplatz	Lanterna Premium Camping Resort by Valamar, Krak Premium Camping Resort by Valamar, Baška Beach Camping Resort by Valamar
MBA Croatia	Businesswoman of the Year	Ivana Budin Arhanić
TUI	Best wi-fi	TUI Family Life Bellevue Resort
	Best Room Conditions	TUI Family Life Bellevue Resort
	Best Conditions – Cleanliness	TUI Family Life Bellevue Resort
Gault&Millau	Gault&Millau 2018	Miramare and Spinnaker Restaurant
World Travel Awards	Croatia's Leading Business Hotel	Valamar Lacroma Dubrovnik Hotel
	Croatia's Leading Hotel	Valamar Collection Dubrovnik President Hotel
	Croatia's Leading Resort	Valamar Collection Girandella Resort
	Croatia's Leading Boutique Hotel	Valamar Riviera Hotel & Residence
Camping2be.com	Camping2be 2018 Award	Lanterna Premium Camping Resort by Valamar
Trip Advisor	Certificate of excellence 2018	18 hotels
	Traveller's choice 2018	Valamar Collection Dubrovnik President Hotel
Kult plave kamenice	Six Most Important Local Food and Wine Festivals	Istra&Craft Beer festival
World Luxury Hotel Awards	Best Croatian Luxury Resort	Valamar Collection Isabella Island Resort
	Best Luxury Beach Resort	Valamar Collection Dubrovnik President Hotel
avtokamp.si	Large Istrian Campsites, Croatian Campsites with the Best Mobile Homes, Large Kvarner Campsites	Lanterna Premium Camping Resort by Valamar, Ježevac Premium Camping Resort by Valamar, Krak Premium Camping Resort by Valamar
Leading Campings of Europe	Leading Campings of Europe	Lanterna Premium Camping Resort by Valamar, Krak Premium Camping Resort by Valamar
Greenovation	Green Mark	Lanterna Premium Camping Resort by Valamar
F.I.C.C.	Best 100 Campsites in Europe	Krak Premium Camping Resort by Valamar, Lanterna Premium Camping Resort by Valamar

NATIONAL AWARDS AND RECOGNITIONS IN 2018

Croatian Camping Union	Croatia's Best Campsite	Krk Premium Camping Resort, Lanterna Premium Camping Resort, Ježevac Premium Camping Resort, Marina Camping Resort, Bunculuka Camping Resort, San Marino Camping Resort, Baška Beach Camping Resort, Padova Premium Camping Resort, Orsera Camping Resort by Valamar, Solaris Camping Resort by Valamar, Istra Premium Camping Resort
	Village for All	Baška Beach Camping Resort
UPUHH	Sustainable Hotel	Valamar Sanfior Hotel & Casa, Valamar Collection Dubrovnik President Hotel, Valamar Koralj Hotel, Valamar Zagreb Hotel, TUI Family Life Bellevue Resort
Tourism and Hospitality Management Faculty Rijeka	Professional base status of Rijeka University	Valamar Riviera d.d.
Croatian PR Association	Grand Prix for 1000 Days on the Adriatic Sea project communication	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	Golden Goat	Terra Magica Adventure Mini Golf
Association of Croatian Exporters	Golden Key	Valamar Riviera d.d.
Croatian Chamber of Economy	Among the best 4-star hotels	Valamar Diamant Hotel
	Best Beach on the Adriatic	Val Sundance Sandy Family Beach
	One of the three best congress hotels	Valamar Lacroma Dubrovnik Hotel
	Among the best 3-star hotels	Valamar Koralj Hotel
	Family Hotel of the Year	Valamar Collection Isabella Island Resort
	One of the best stories hotels	Valamar Collection Isabella Island Resort
	One of the best three large campsites on the Adriatic	Krk Premium Camping Resort by Valamar
Poslodavac partner d.d.	Employer Partner	Valamar Riviera d.d.
7 th Kvarner and Istria Sommelier Championship 2018	1st place Zoran Gregorović	Valamar Collection Isabella Island Resort
Association of Employers in Croatian Hospitality (Bartender section)	Best Hotel Bartender	Nino Karlovčec, Alen Muratović, Luka Fafija (dvije nagrade), Dominik Šanko, Marko Dumičić
Association of Employers in Croatian Hospitality (Bartender section) and Croatian Sommelier Club	Best Mixologist	Melisa Okić, Nino Karlovčec, Alen Muratović, Denis Španjol, Jugo Penda
Croatian Business Council for Sustainable Development and Croatian Chamber of Economy	CSR Index for socially responsible policies of diversity and human rights protection	
M.E.P. and Ministry of Economy	Silver Efficient Manager	Valamar Riviera d.d.



CERTIFICATES AND STANDARDS IN 2018

HACCP	Codex Alimentarius	Valamar Diamant Hotel & Residence, Valamar Crystal Hotel, Rubin Sunny Hotel, Valamar Collection Isabella Island Resort, Valamar Collection Marea Suites, Pical Sunny Hotel, Valamar Riviera Hotel & Residence, Valamar Tamaris Resort, Solaris Camping Resort, Valamar Sanfior Hotel & Casa, Valamar Collection Girandella Resort, TUI Family Life Bellevue Resort, Valamar Koralj Hotel, Valamar Zagreb Hotel, Valamar Lacroma Dubrovnik Hotel, Valamar Collection Dubrovnik President Hotel, Valamar Argosy Hotel, Bunculuka Camping Resort, Marina Camping Resort, Valamar Padova Hotel, Valamar Collection Imperial Hotel, Valamar Carolina Hotel i Villas, Eva Sunny Hotel & Residence, San Marino Sunny Resort, San Marino Camping Resort, Valamar Zvonimir Hotel & Villa Adria, Valamar Atrium Baška Residence, Corinthia Hotel, Restoran La Pentola, Lanterna Premium Camping Resort
ISO	ISO 14001	All Valamar properties
	ISO 9001	All Valamar properties
	ISO 50001	All Valamar 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 & Residence
EU Ecolabel	EU Ecolabel	Lanterna Premium Camping Resort, Solaris Camping Resort, Istra Premium Camping Resort, Krk Premium Camping Resort, Ježevac Premium Camping Resort, Orsera Camping Resort



1 Marko Čižmek and Filip Močibob, Share of the Year awarded to Valamar Riviera for the 7th consecutive time

2 Seven awards for Valamar properties at the Days of Croatian Tourism

3 Ivana Budin Arhanić received the award MBA Croatia – Businesswoman of the Year 2018



4 Recognition for the best Croatian campsites

5 Grand Prix awarded for the communication of Valamar Riviera's donation program "1000 Days on the Adriatic Sea"

6 The prestigious World Travel Awards for four Valamar hotels



7 Employer Partner certificate awarded to Valamar Riviera

8 Valamar Riviera premium campsites among the best in Europe

9 First place award at Best Hotel Barmen competition



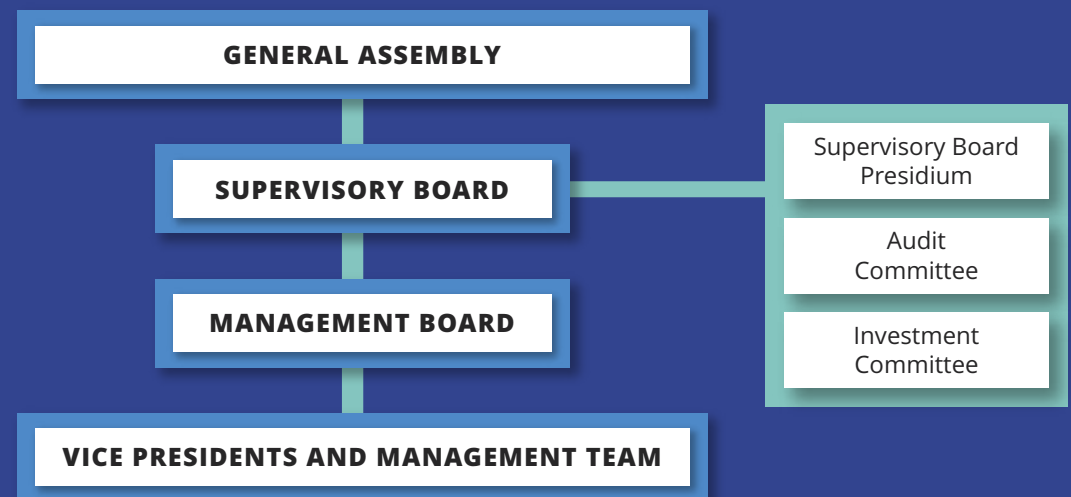
CORPORATE GOVERNANCE



CORPORATE STRUCTURE

As a joint-stock company with around 22,000 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.





*Valamar Collection
Dubrovnik President
Hotel 5*, Dubrovnik*



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 4 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.

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

MANAGEMENT BOARD

The Management Board consists of two members:

- ▶ Management Board President: Željko Kukurin
- ▶ Management Board Member: Marko Čižmek

The Management Board President 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, Management Board Member, is primarily and individually responsible for finance, accounting, treasury, IT and institutional investor relations.

Term of office from 7/7/2017 to 6/7/2021				Supervisory Board	Supervisory Board Presidium	Audit Committee	Investment Committee
Gustav Wurmböck	Chairman	from 7/7/2017 to 6/7/2021	Proprietary	■	■	■	■
Franz Lanschützer	Deputy Chairman	from 7/7/2017 to 6/7/2021	Proprietary	■	■	■	■
Mladen Markoč	Deputy Chairman	from 7/7/2017 to 6/7/2021	Independent	■	■	■	
Georg Eltz Vukovarski	Member	from 7/7/2017 to 6/7/2021	Proprietary	■		■	■
Vicko Ferić	Member	from 7/7/2017 to 6/7/2021	Proprietary	■		■	■
Hans Turnovszky	Member	from 7/7/2017 to 6/7/2021	Independent	■		■	■
Valter Knapić	Member	from 7/7/2017 to 6/7/2021	Employee Representative	■			
Meetings held in 2018				14*	13	4	2

* The Supervisory Board held fourteen (14) meetings in the course of 2018, out of which nine (9) were held via correspondence, pursuant to the Company's Statute.

SENIOR MANAGEMENT

The strategic corporate business functions are organized in 4 divisions that are led by 4 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 performs 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, human resource strategies and policies)
- ▶ **Purchasing & Partnerships Committee** (strategic partnerships and purchasing agreements)
- ▶ **HR Development and Business Excellence Committee** (investment strategy for human resource development and education)

	Position	CAPEX Committee	Project Committee	Business Experience Committee	Purchasing and Partnerships Committee	HR Development and Business Excellence 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 Strategic Planning and Controlling	■				
Andrea Štifanić	Director of Asset Management and General Affairs	■			■	
Marko Vusić	Director of Internal Audit and Project Management		■			
Dragan Vlahović	Director of Purchasing				■	
Miroslav Dinčić	Director of Human Resources (until 31/12/2018)			■		
Ines Damjanić Šturman	Director of Human Resources (as of 1/1/2019)			■		
Tea Cergna	Director of Human Resource Development					■

BUSINESS EXPERIENCE COMMITTEE

Željko Kukurin,
Committee President

Ivana Budin Arhanić,
Committee Vice President

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 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
- ▶ deciding on human resource strategies and policies
- ▶ managing the portfolio, service concepts and brands
- ▶ analyzing other activities and projects of strategic importance for the company

CAPEX COMMITTEE

Željko Kukurin,
Committee President

Alen Benković,
Committee Vice President

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

PURCHASING AND PARTNERSHIPS COMMITTEE

Željko Kukurin,
Committee President

David Poropat,
Committee Vice President

Marko Čižmek, Member

Dragan Vlahović, Member

Alen Benković, Member

Andrea Štifanić, Member

Dario Kinkela, 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
- ▶ preparing and developing guidelines for the outlet management strategy
- ▶ analyzing and developing guidelines for the leasing policy

PROJECT COMMITTEE

Željko Kukurin,
Committee President

Marko Vusić,
Committee Vice President

Marko Čižmek, Member

Ivana Budin Arhanić, 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

HR DEVELOPMENT AND BUSINESS EXCELLENCE COMMITTEE

Željko Kukurin,
Committee President

Tea Cergna,
Committee Vice President

Ivana Budin Arhanić, Member

David Poropat, Member

Davor Brenko, Member

Alen Benković, Member

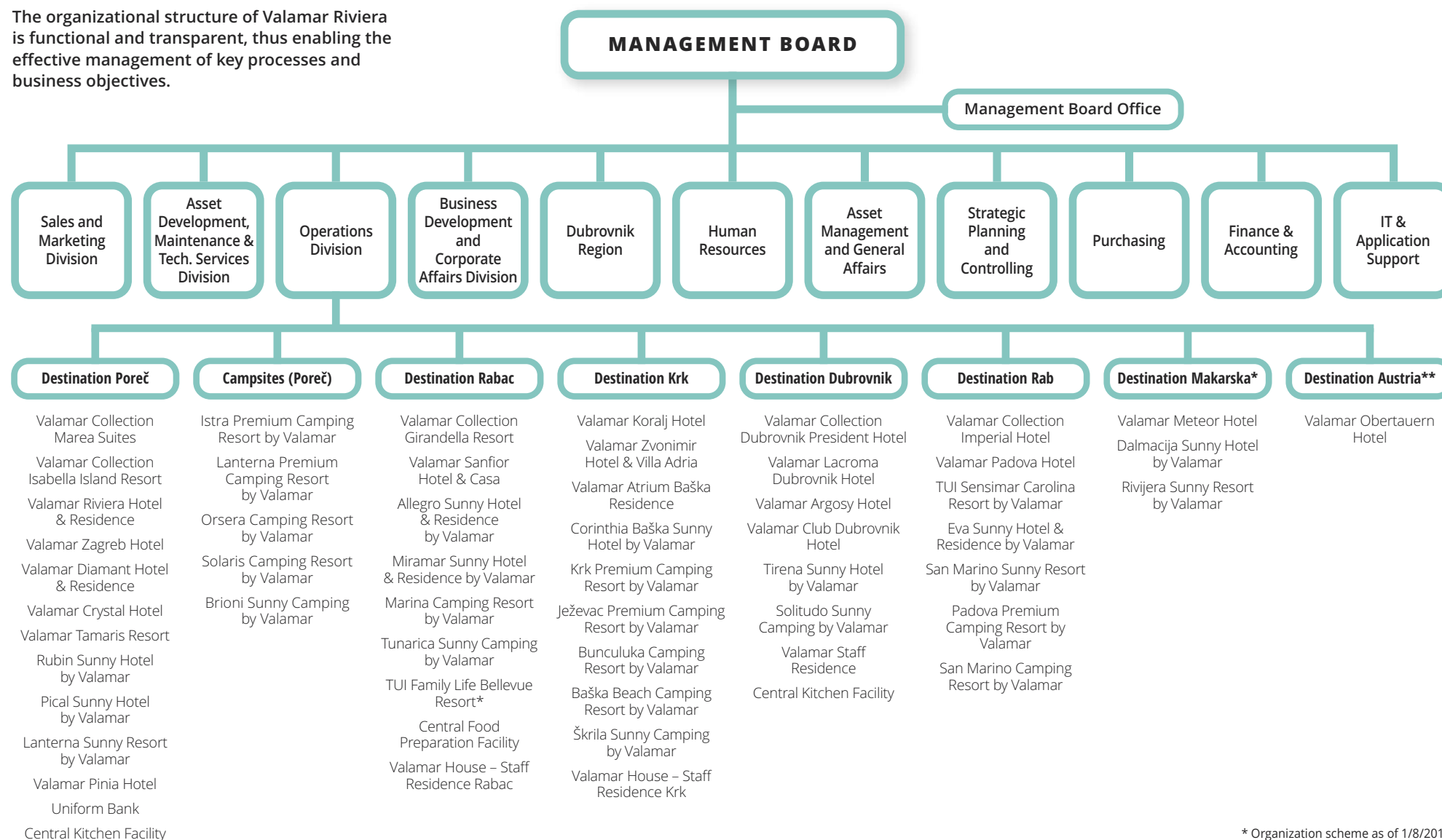
Tasks of the Committee:

- ▶ creating 3- and 5-year strategies and plans for investing in human resource development and education
- ▶ defining the annual education and training budget
- ▶ adopting education and training programs as well business course programs
- ▶ selection and confirmation of candidates to be enrolled in a program
- ▶ strategic collaboration

* Miroslav Dinčić was substituted by Ines Damjanić Šturman as of January 2019.

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 as of 1/8/2018.

** Organization scheme as of 1/11/2018.



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. Dr. Lanschützer is a managing partner at EPIC Goldscheider und Wurmböck Unternehmensberatungsgesellschaft m.b.H. from Vienna. For the last twenty-five years, Dr. 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.

Dr. 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 CEO and management board president at Valamar Grupa d.d. (2011-2014) 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).

Dr. Lanschützer was CEO and 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 the Zagreb Stock Exchange Academy and, occasionally, at the Judicial Academy.

He started his career in law in 1988 as legal apprentice. 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, then at the joint law office of Mladen Markoč and Ivan-Krešimir Tomić and since 2018, at the joint law office of Mladen Markoč, Ivan-Krešimir Tomić and Relja Pečina. 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 boards of Valamar Riviera d.d., Imperial d.d., Ingra d.d., ICF d.d., Hotel Laguna d.d. and Proficio d.d. He is member of the management board of the Magdalena Clinic for Cardiovascular Diseases at the Faculty of Medicine of J.J. Strossmayer University in Osijek.

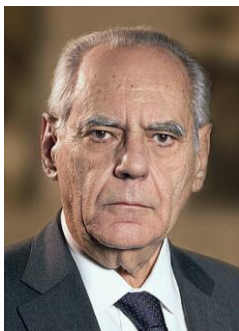


GEORG ELTZ VUKOVARSKI,
Supervisory Board Member

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.

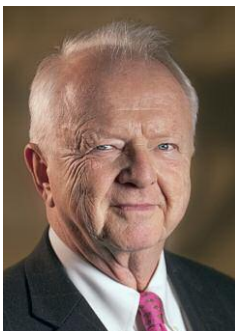


VICKO FERİĆ,
Supervisory Board Member

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 boards 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 boards at Valamar Grupa d.d. and Valamar Adria holding d.d. and is currently Member of the Supervisory Board of 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 member of the Business Premises, Public Areas and Real Estate Sales Committee and of the Spatial Planning, Municipal Economy, Ecology and Environmental Protection Board and also councilman 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 developing 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



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 including 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 Umag to head development, asset maintenance and technical services for the company.

In 2015, he joined Valamar Riviera d.d. as Vice President of Asset Development, Maintenance and Technical Services, where he is responsible for managing investments and development in tourism asset portfolio, providing investment project management services to the managed portfolio and supporting company growth and development through the CAPEX Committee. Together with his team he successfully led the largest annual investment cycle in Valamar's history worth over 900 million kuna which included the successful opening of Valamar Girandella Collection Resort, the winner of the Investment of the year award at Croatian Tourism Days.



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 the former Riviera in Sales and Marketing. In 2002 he became project manager for research into guest satisfaction and guest relations management, while in 2004 he oversaw 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. At the beginning of 2010, he joined Istraturist Umag d.d., where he headed Business Development and implemented strategic marketing and destination management initiatives, aimed at raising the quality and competitiveness of the company and its destination.

As of 2015, Davor Brenko has been appointed Vice President of Sales and Marketing at Valamar Riviera d.d., where he is responsible for the growth and development of sales, marketing and revenue management. At Valamar he has led numerous strategic initiatives focused on the development and implementation of a new Valamar brand strategy, repositioning and successfully marketing portfolio properties after investment, digitalization of sales and marketing, improving the tourism offer, destination management and raising the attractiveness of Valamar's destinations for visitors.



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

Ms. Budin Arhanić received her economics degree from Middlebury College (USA) in 1999 and an MBA from Harvard Business School in 2007. After completing her studies, she spent three years as a strategy management consultant in Boston and New York. Following this, she successfully led Lura d.d. group expansion on the Serbian market. In 2007, she joined Valamar Group where she served as management board member at Valamar grupa d.d., Valamar Adria holding d.d. and Valamar Riviera d.d. Ms. Budin Arhanić became Vice President of Business Development and Corporate Affairs at Valamar Riviera in 2015.

At Valamar she is responsible for acquisitions and expansion, strategic development through digitalization and innovation, service quality management, corporate social responsibility, corporate communications and relations with industry associations and the public sector. In 2013, she developed a framework for achieving high quality service at Valamar that enabled a continual growth in guest satisfaction and the creation of a unique service excellence culture. She also led a number of initiatives to grow the tourism portfolio through acquisitions, including Valamar's first international acquisition in Austria. Since 2015, Valamar has received numerous awards for corporate social responsibility practices such as Ponos Hrvatske and CSR Index and two Grand Prix awards for excellence in corporate communication.



DAVID POROPAT,
Vice President of Operations

David Poropat, D.Sc. 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 company Riviera Holding d.d. in Poreč as Head of Operations and until 2006 he was in charge of all Valamar tourism properties. From 2007 to 2011, he served as a management board member at Valamar hoteli i ljetovališta d.o.o., and from 2012 to 2014 he headed Valamar poslovni razvoj d.o.o.

At the end of 2014 he became Vice President of Operations at the leading Croatian tourism company Valamar Riviera d.d. where he is responsible for service management and operations in the entire tourism portfolio, further development of products and service concepts in key product areas such as food and beverage, accommodation, sport, pools, beaches, wellness, entertainment and animation and numerous other key initiatives driving Valamar's business growth. 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.



INTERNAL AUDITS AND CONTROLS WITHIN VALAMAR RIVIERA

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. 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 trust in its governance systems.

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 2018 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 2018, accompanied by the regular Project Committee meetings. PMO oversees 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 50 projects at the company in 2018 and they included various business segments. They were mostly related to hotel operations, sales and marketing, human resources, finance, IT, etc.

In the course of 2018, certain changes were introduced in the work of the Project Committee, such as project prioritization through three key categories, in order to efficiently assess the project portfolio. Besides, several Committees were held in the course of the year, focusing on strategic projects, in order to gain a detailed insight into projects from various business areas.

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
- ▶ 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 audits and 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 auditor of financial reports (including the nature and scope of the audit), the auditor's independence and effectiveness, audit fees and other 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
- ▶ 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 and ranking.

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 the operation at a property, small inventory management, assets, cash transactions, tax compliance, bill issuance, etc.

We started to test IT system safety in 2018 in order to raise awareness among employees about the related risks in both corporate departments and at properties. The tests will continue in the forthcoming period (or future), especially due to Valamar Riviera's exposure to digital threats and we will focus on the maximum protection of personal information.



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

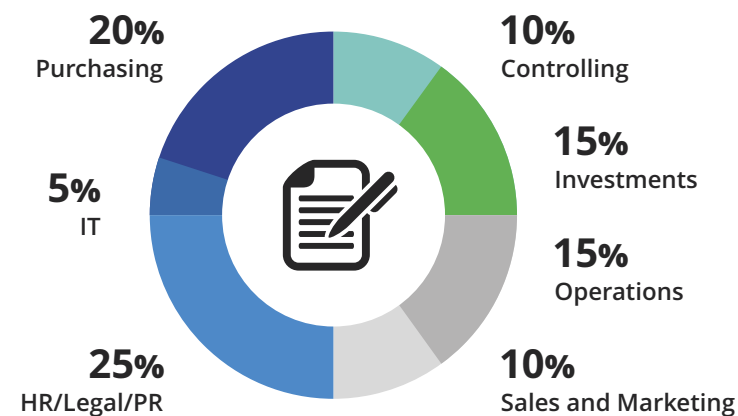
MEDIUM (2 – YELLOW):

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 2018



GENERAL DATA PROTECTION REGULATION

In 2018, PMO continued implementing the project of harmonizing business operations with the General Data Protection Regulation, which defines the necessary measures for establishing the required compliance level. The regulation defines what personal data of private individuals in the European Union can be stored and processed and also defines the time periods and purposes. 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 (May 2018)

POLICY AND RULES

Internal audit activities are performed within organizations that vary in purpose, size, complexity, and structure and involvement 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 in the organization is the result of the application of the rules and standards adopted by the company, but also of the manner in which these rules are interpreted and accepted in practice among the individuals and members of the organization.





THE RISKS OF THE COMPANY AND THE GROUP

Tourism is a global industry, closely connected with the real and financial economy, geopolitical position and environmental sustainability. The integrity of this industry will determine its future growth.

Given the importance of tourism and its overall impact on society, the Company and the Group monitor and assess risks at micro and macro levels. Moreover, when defining the strategy, particular attention is given to the 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.

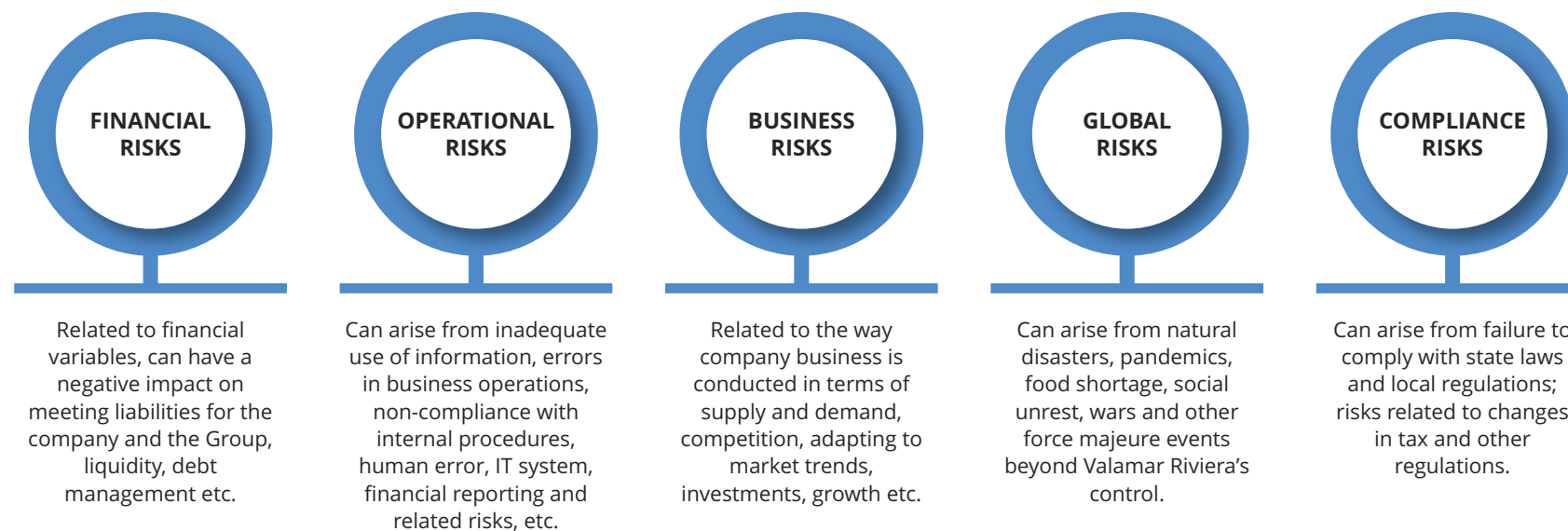


THERE ARE FIVE KEY STEPS IN A RISK MANAGEMENT PROCESS:





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 have a proactive approach in mitigating interest rate and foreign exchange risks, 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 the sales revenue generated abroad is denominated in euros, and so is the major part of long-term debt. 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.

2) INTEREST RATE RISK

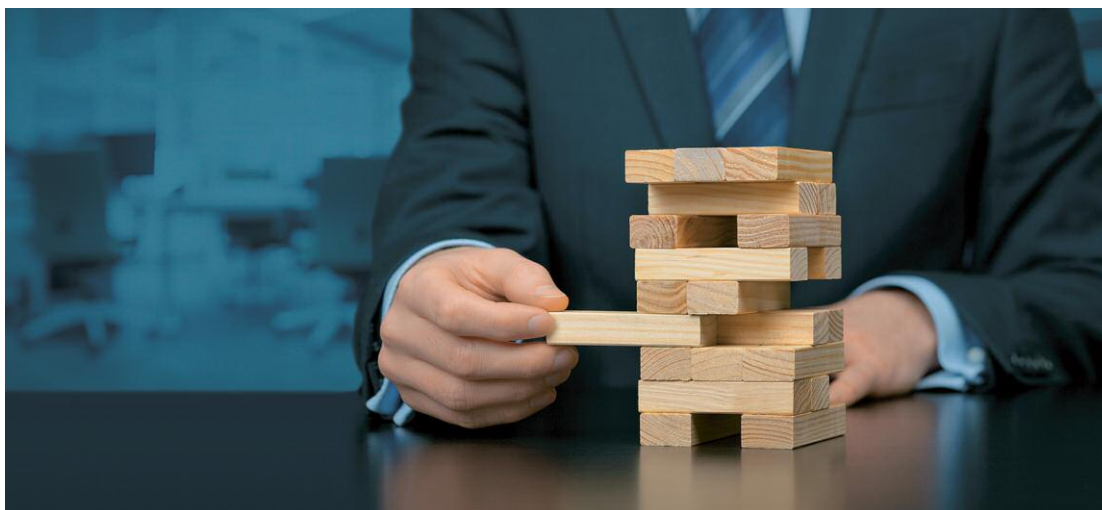
Variable rate loans expose the Company and Group to cash flow interest rate risk.

Actively, the Company and Group resort to derivative instruments in order to hedge cash flow and interest rate 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. Therefore, almost the entire loan portfolio is comprised of long-term fixed interest loans or, respectively, loans hedged by a derivative instrument (IRS). 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.

According to the Company and Group sales policy, business transactions are conducted only with customers with suitable credit history, i.e. by agreeing advances, bank securities 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, promissory notes) in order to reduce bad debt risks related to services provided.



4) PRICE RISK

The Company and Group hold equity securities and are exposed to equity price risk due to security price volatility.

Valamar Riviera is not an active participant in the market trade in terms of trading in equity and debt securities. However, with investments in buying Imperial and Hoteli Makarska shares, 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. Credit lines in 2019 were arranged with reputable 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. From there the funds are invested in interest-bearing current accounts, time deposits, money market deposit accounts 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 and analysis of financial reporting data (also known as “financial reporting risk”) and also the potential insufficient and inadequate internal and external information sharing. When implementing the system of operational risk management, the Company and Group focused on its continuity and complexity due to the size of the organization. The benefits of the system include i) defining and identifying the Company and Group risk profile in relation to the operating risk ii) identifying and managing the known risk occurrences in order to decrease 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 of IT business solutions and safety in the cyber world. Hence, they continually upgrade, develop and implement 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 upgrade of the current business systems and implementation of new ones.



BUSINESS RISK

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, delay the end of construction works, as well as the 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 in the competitive Mediterranean environment. Stable domicile countries macroeconomic indicators 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, GNP 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 vacation 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 also the most desirable employer in Croatian tourism. It continually invests in employee education and training as well as the development of its employees. 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, reward systems, career development, employees' wellbeing and cooperation with training institutions from all parts of Croatia.



GLOBAL RISKS

Despite improved security and political conditions, which have encouraged to a certain extent 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 and political 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 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:

- ▶ In March 2012 the standard VAT rate grew from 23% to 25%, in January 2013 a new 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 (a la carte) services;
- ▶ In May 2012 the health insurance employer contribution rate fell from 15% to 13% and then in April 2014 it grew back to 15%;
- ▶ Frequent increases in various fees and charges regarding water distribution, waste disposal and the like;
- ▶ Tourist tax increase in 2018 ranging between HRK 2.5 and HRK 8.0 per person per overnight, depending on the class of the destination and utilization period (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

The fundamental characteristics of corporate culture and everyday work and business management at Valamar Riviera are integrity and ethics.

A transparent conduction of business is the company's highest priority. 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.

The fundamental approach of Valamar Riviera's corporate culture includes protecting human rights, promoting fair employment conditions, safe working conditions, responsible environmental management and high ethical standards. Valamar Riviera also complies with its own Code of Ethics in everyday work. It determines conduct guidelines for all employees (including corruption prevention) to promote the common good and public interest. The fundamental principles of Valamar Riviera's business and everyday operations are ethical business, equal opportunities and conditions for all employees, equality and protection of human rights and fostering the culture of diversity.

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. We are committed to implementing the UN principles for business and human rights as well as the fundamental conventions of the International Labor Organization. We are also determined to act in a way that will never have misuse of human rights as its consequence.

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 in Croatia to sign the Diversity Charter in October 2017 during an event organized by the Croatian Business Council for Sustainable Development. The Diversity Charter is a document signed by enterprises and other organizations who commit to enforcing workplace

diversity and non-discrimination policies. Valamar Riviera has integrated these principles in its own policies of diversity and non-discrimination.

With diversity being among the most important values in modern society, Valamar Riviera adopted its Diversity policy in 2018 in line with the signed Charter. 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 innovation.

Valamar Riviera firmly believes that with their diversity, skills, creativity and innovation, female and male employees are the key to each organization's success in the long term.



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 CSR umbrella programs and reporting on them.



Valamar Collection
Imperial Hotel 4*,
Rab Island

9

2018 BUSINESS RESULTS

This chapter contains the summary of 2018 consolidated financial results, as reported in our consolidated audited 2018 Annual Report that was published in February 2019.

According to Valamar Riviera's 2018 audited annual report, Croatia's largest tourism company achieved HRK 2.048 billion in total revenues or 11.2% more than in 2017.

Revenue growth mainly consisted of board revenues, up by 11.5% or HRK 181 million, and a 10% increase in F&B outlet revenues. Adjusted EBITDA, marked by strong double-digit growth, reached HRK 703 million. The increase of HRK 80 million (+12.9%) is the result of a further increase in operating efficiency through the growth of the adjusted EBITDA margin from 35.0% to 35.3%, as well as the continuation of the large investment cycle focused on improving competitiveness and the quality of properties and services, the acquisition of Hoteli Makarska in Makarska and the optimization of the distribution and price management in line with increased demand, particularly for properties in which new investments were made.

Valamar Riviera Group continues to assert its leading position through outstanding results and investments in Croatian and Austrian tourism. The year 2018 was marked by double-digit growth in operating revenues and EBITDA. Valamar Riviera owes its continual success to the concept of sustainable growth and development led by the principles of corporate social responsibility. It is reflected in: (i) continuous portfolio investments (over HRK 700 million were invested in the preparation for the 2018 tourist season, while planned investments for the year 2019 amount to HRK 793 million), (ii) acquisitions and partnerships (the processes of acquiring Hoteli Makarska d.d. in Croatia and the first Valamar hotel in Austria were successfully completed in 2018) and (iii) the development of our employees and destinations.



VALAMAR
All you can holiday

VALAMAR OBERTAUERN

Valamar Obertauern
Hotel 4*, Austria



RESULTS OF THE GROUP

KEY FINANCIAL INDICATORS ¹	2017	2018	2017/2018
Total revenues	1,842,036,109	2,047,774,770	11.2%
Operating income	1,778,395,862	1,990,984,717	12.0%
Sales revenues	1,755,286,721	1,961,413,631	11.7%
Board revenues (accommodation and board revenues) ²	1,447,866,807	1,628,991,417	11.5%
Operating costs ³	1,145,185,720	1,264,286,140	10.4%
EBITDA ⁴	606,042,467	694,453,630	14.6%
Extraordinary operations result and one-off items ⁵	-16,566,528	-8,441,326	-49.0%
Adjusted EBITDA ⁶	622,608,995	702,894,956	12.9%
EBIT	259,502,687	283,546,818	9.3%
Adjusted EBIT ⁶	276,069,214	291,988,144	5.8%
EBT	238,643,759	258,081,503	8.1%
Net profit	245,087,385	239,187,507	-2.4%
EBT margin	13.4%	13.0%	-40 bp
EBITDA margin	34.1%	34.9%	80 bp
Adjusted EBITDA margin ⁶	35.0%	35.3%	30 bp

	31/12/2017	31/12/2018	2017/2018
Net debt ⁷	1,772,353,634	2,169,067,569	22.4%
Net debt / Adjusted EBITDA	2.85	3.09	8.4%
Cash and cash equivalents	287,836,954	261,842,353	-9.0%
Capital investments (details in chapter "2018 Investments")	877,743,649	703,559,000	-19.8%
ROE ⁸	9.7%	8.5%	-120 bp
Adjusted ROCE ⁹	6.4%	5.9%	-50 bp
Market capitalization ¹⁰	5,420,289,760	4,468,823,546	-17.6%
EV ¹¹	7,192,643,394	6,637,891,115	-7.7%
EPS ¹²	1.96	1.90	-3.1%
DPS ¹³	0.80	0.90	12.5%

KEY BUSINESS INDICATORS ¹⁴	2017	2018	2017/2018
Number of accommodation units (capacity)	20,852	21,371	2.5% ¹⁵
Number of beds	56,662	58,023	2.4% ¹⁵
Full occupancy days	127	132	4.5%
Annual occupancy (%)	35%	36%	100 bp
Accommodation units sold	2,639,755	2,827,338	7.1%
Overnights	6,173,142	6,459,734	4.6%
ADR ¹⁶ (in HRK)	548	576	5.0%
RevPAR ¹⁷ (in HRK)	69,435	76,224	9.8%

REVENUES

In 2018, total revenues were HRK 2,047.8 million, up by 11.2% (HRK +205.7 million). The total realised revenues were affected by:

i) strong growth in sales revenues, up by 11.7% (HRK +206.1 million), amounting to HRK 1,961.4 million. The increase of sales revenues was largely driven by 11.5% higher board revenues (HRK 181.1 million) and 10% higher F&B outlet revenues. All marketing segments grew in the January-March period, individuals and allotments in particular. Although Easter holidays occurred in March, strong growth was reported in April as well, especially in the individual and M.I.C.E.¹⁸ segment. Due to the earlier occurrence of holidays in the DACH¹⁹ market, an expected growth was reported in all the segments in May. The active management of channels and prices drove the strong market feedback reported by all channels in June, except for O.T.A.²⁰, which maintained a controlled growth. During peak season (July-September), growth in board revenues was mainly due to high increase in the direct sales channel, along with controlled decrease of the O.T.A. sales channel's share. Shoulder season (October-December) saw higher group and allotment numbers, as well as an increase in the M.I.C.E. segment in Dubrovnik. Market feedback during the Christmas / New Year period was equally strong, with an increase in the number of American guests in Dubrovnik. 2018 saw 6.5 million overnights (+4.6% as compared to 2017), while the average daily rate grew by 5.0% to HRK 576.

Domestic sales revenues were HRK 180.5 million and represented 8.8% of total revenues (8.1% in 2017). They grew by 20.3% compared to the previous comparable period. International sales revenues were HRK 1,780.9 million, up by HRK 175.7 million and represented by 87.0% of total revenues (87.1% in 2017).

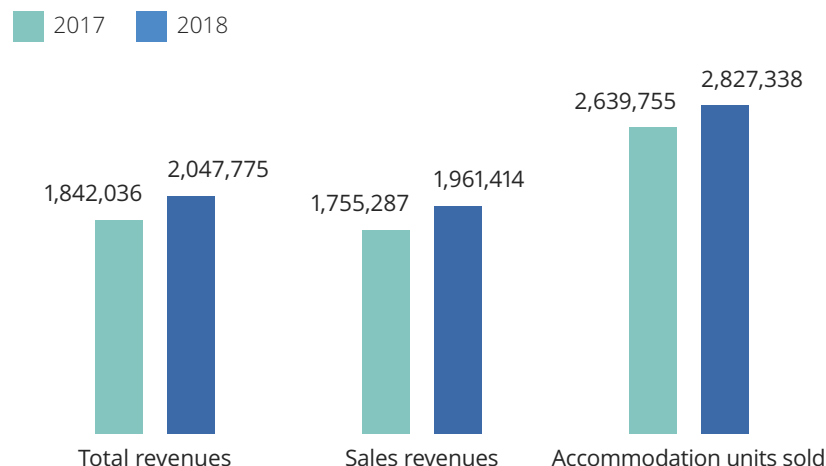
REVENUES (in HRK thousands) AND ACCOMMODATION UNITS SOLD

(ii) other operating revenues²¹ grew by 28.0% (HRK +6.5 million) to HRK 29.6 million, mainly due to the cancelling of long-term provisions for Imperial's litigations.

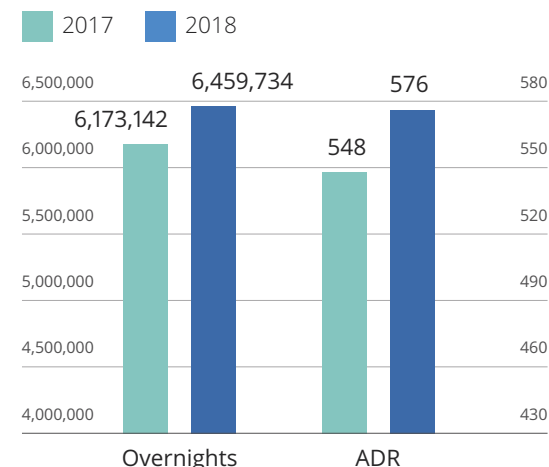
(iii) financial income fell by -10.8% (HRK -6.9 million) to HRK 56.8 million, mainly due to a lower appreciation of HRK vs. EUR in Q4 2018 compared to last year's comparable period.

(iv) consolidation of Hoteli Makarska and Valamar Obertauern with 2 and 0.1 percentage point contribution to the Group's total revenues, respectively.

Other operating and financial income represented 4.2% of total revenues (4.7% in 2017).



OVERNIGHTS AND ADR (in HRK)



¹ Classified according to the Annual Financial Statement (GFI POD-RDG). EBIT, EBITDA 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 oneoff items.

⁴ EBITDA (eng. 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 23.8 million in 2018, and HRK 11.0 million in 2017), (ii) extraordinary expenses (in the amount of HRK 28.7 million in 2018, and HRK 26.5 million in 2017), and (iii) termination benefit costs (in the amount of HRK 3.5 million in 2018, and HRK 1.0 million in 2017).

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 + noncurrent and current liabilities to banks and other financial institutions - cash and cash equivalents - long-term and short-term investments in securities - loans given, deposits, etc.).

¹⁰ The number of shares as at 31 December 2017 net of treasury shares amounts to 124,233,091, while per 31 December 2018 amounts to 122,904,938.

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 2018: 123,968,146. Weighted average number of shares as at 31 December 2017: 124,207,204.

¹³ DPS refers to dividends per share.

¹⁴ 2017 key business indicators of Valamar Riviera Group do not include data of Hoteli Makarska and Valamar Obertauern.

¹⁵ The change in the number of accommodation units and beds is mostly due to the acquisition of Hoteli Makarska (726 additional accommodation units, or 1,416 beds) and Valamar Obertauern (82 accommodation units, or 161 bed) and decrease in capacity resulting from investment in the San Marino Camping Resort by Valamar 4* (the conversion of 3 camping plot zones into a parking lot and the installation of premium mobile homes), as well as the conversion of camping plots into premium mobile homes in the other campsites undergoing investment.

¹⁶ Average daily rate is recorded on the basis of board revenues (accommodation and board's food and beverage revenues)

¹⁷ Revenue per accommodation unit is recorded on the basis of cumulative board revenues (accommodation and board's food and beverage revenues).

¹⁸ M.I.C.E. = Meetings, incentives, conferencing, exhibitions.

¹⁹ DACH market represent Germany (D), Austria (A) and Switzerland (CH).

²⁰ O.T.A. = Online travel agencies.

²¹ Other operating revenues include revenues from the usage of own products, goods and services in the amount of HRK 0.4 million and other operating revenues of HRK 29.2 million.



TOTAL OPERATING EXPENSES OF VALAMAR RIVIERA GROUP²²

(in HRK)	2017	2018	2018/2017
Operating costs ²³	1,145,185,720	1,264,286,140	10.4%
Total operating expenses	1,518,893,175	1,707,437,899	12.4%
Material costs	519,753,525	552,089,395	6.2%
Staff cost	480,161,466	541,715,389	12.8%
Depreciation and amortisation	346,413,599	410,521,539	18.5%
Other costs	143,755,460	174,686,587	21.5%
Provisions and value adjustments	9,612,565	7,511,545	-21.9%
Other operating expenses	19,196,560	20,913,444	8.9%



TOTAL OPERATING EXPENSES

Total operating expenses were HRK 1,707.4 million and grew by 12.4% (HRK +188.5 million). Excluding the operations of Hoteli Makarska and Valamar Obertauern for reasons of comparability, total operating expenses grew by 9%. Breakdown of total operating expenses:

(i) material costs represented 32.3% (34.2% in 2017). Up by 6.2% (HRK +32.3 million) to HRK 552.1 million due to an increase in (a) direct costs of raw materials and consumables (especially food and beverage costs and energy consumption costs) driven by a larger business volume and (b) consolidation of Hoteli Makarska and Valamar Obertauern.

(ii) staff costs represented by an almost equal share in the total operating expenses (31.6% in 2017, 31.7% in 2018). They grew by 12.8% (HRK +61,5 million) to HRK 541.7 million due to the consolidation of Hoteli Makarska and Valamar Obertauern, which accounts for 3% of growth, and due to the efforts invested in securing competitive salaries and other material and non-material work conditions, as well as new staff hired

to ensure service quality for the new Premium and Upscale products. Valamar Riviera is thus the first company in Croatia guaranteeing a minimum net income between HRK 5,000 and 7,500 for all its employees.

(iii) amortization costs represented 24.0% (22.5% in 2017). Its 18.5% growth (HRK +64.1 million) to HRK 410.5 million is mainly due to the earlier large investment cycle and consolidation of Hoteli Makarska and Valamar Obertauern.

(iv) other costs represented 10.2% (9.5% in 2017). 21.5% growth (HRK +30.9 million) amounting to HRK 174.7 million is, among others, due to (a) an increase in the costs of lodging, meals and transportation for employees, (b) an increase in insurance and design, technical and other documentation (for investment purposes) costs, and (c) the consolidation of Hoteli Makarska and Valamar Obertauern operations.

(v) provisions and value adjustments with a share of 0.4% (0.6% in 2017). A decrease of HRK 2.1 million to the

amount of HRK 7.5 is due to lower-scale provisions for Imperial's litigations.

(vi) other operating expenses represented 1.2% (1.3% in 2017). An increase of HRK 1.7 million to HRK 20.9 million was mainly due to the finalisation of Imperial's litigations.

OPERATING COSTS²³

Operating costs amounted to HRK 1,264.3 million. Pressure on growth of operating costs was successfully reduced by a high level of operative efficiency. Their controlled increase of 10.4% was due to (i) the increase in material costs driven by larger business volume, (ii) the increase in other costs (previously explained), (iii) the increase in staff costs (previously explained), and (iv) the consolidation of Hoteli Makarska and Valamar Obertauern. Excepting the operations of the aforementioned companies for reasons of comparability, operating costs grew by 9%.

EBITDA AND EBITDA MARGIN

Adjusted EBITDA²⁴, marked by strong double-digit growth, reached HRK 702.9 million (HRK 622.6 million in 2017). The increase of HRK 80.3 million (+12.9%) is the result of a further increase in operating efficiency through the growth of the adjusted EBITDA margin from 35.0% to 35.3%, as well as the continuation of the large investment cycle focused on improving competitiveness and the quality of properties and services, the acquisition of Hoteli Makarska and optimization of the distribution and price management in line with increased demand, particularly for properties in which new investments were made. The consolidation of Hoteli Makarska and Valamar Obertauern was initiated in August 2018 and November 2018, respectively, resulting in a 4 percentage point growth in adjusted EBITDA. Stronger operating results were also reflected in the unadjusted EBITDA that soared by 14.6% to HRK 694.5 million. Please note that the strong growth of adjusted and unadjusted EBITDA is influenced by the 2018 negative impact of the lower seasonal EUR/HRK exchange rate.

PROFIT

Profit before tax grew by HRK 19.6 million to HRK 258.1 million. The 8.1% growth was achieved despite higher amortization costs, due to excellent operating results. The Group's net profit amounted to HRK 239.2 million in 2018. The decrease of HRK 5.9 million was primarily a result of lower tax revenues (HRK -24.7 million), reflecting a lower one-time recognition of deferred tax assets²⁵. The EBT margin fell by 40 basis points to 13.0% (13.4% in 2017).

²² Classified according to Annual Financial Statements (GFI POD-RDG).

²³ Operating costs include material costs, staff costs, other costs, and other operating costs reduced by extraordinary expenses and one-off items.

²⁴ Adjustments were made for (i) extraordinary income (in the amount of HRK 23.8 million in 2018, and HRK 11.0 million in 2017), (ii) extraordinary expenses (in the amount of HRK 28.7 million in 2018, and HRK 26.5 million in 2017), and (iii) termination benefit costs (in the amount of HRK 3.5 million in 2018, and HRK 1.0 million in 2017).

²⁵ In 2018 deferred tax assets was recognized mainly due to tax incentives prescribed by the Act on Investment Promotion and Investment Improvement which amounted to HRK 25.8 million, in respective to HRK 54.1 million in 2017.

FINANCIAL RESULT

In 2018, the Group reported a financial result of HRK -25.5 million (HRK -20.9 million in 2017). The financial result, down by HRK 4.6 million compared to the previous year, is mainly due to: (i) higher net (positive) foreign exchange differences amounting to HRK 10.2 million, (ii) the net effect of the HRK 7.7 million increase in financial expenses related to interest on long-term loans for financing large investments, (iii) lower unrealised gains from financial assets amounting to HRK 2.8 million due to a lower positive fair value of FX forwards, and (iv) increase in unrealised expenses from financial assets amounting to HRK 4.0 million, driven by spreading the scope of protection and increased liabilities related to the fair value of interest rate swaps.

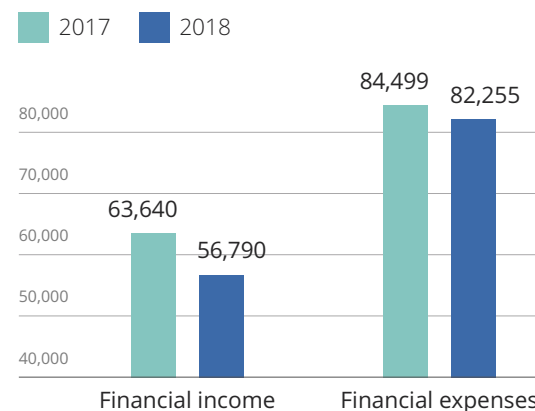
Financial income

In 2018, financial income amounted to HRK 56.8 which is HRK 6.9 million lower than in 2017. Foreign exchange differences and other financial income amounted to HRK 47.7 million, down by HRK 4.7 million primarily due to the absence of positive exchange rate differences on deposits in the last quarter of 2018, as a consequence of the appreciation of the Croatian Kuna. Unrealised gains (income) from financial assets amounted to HRK 4.7 million and fell by HRK 2.8 million due to a lower positive fair value of FX forwards compared to the last year due to the lower appreciation of HRK vs. EUR in 1H 2018. Other financial income amounted to HRK 4 million and increased by HRK 0.9 million.

Financial expenses

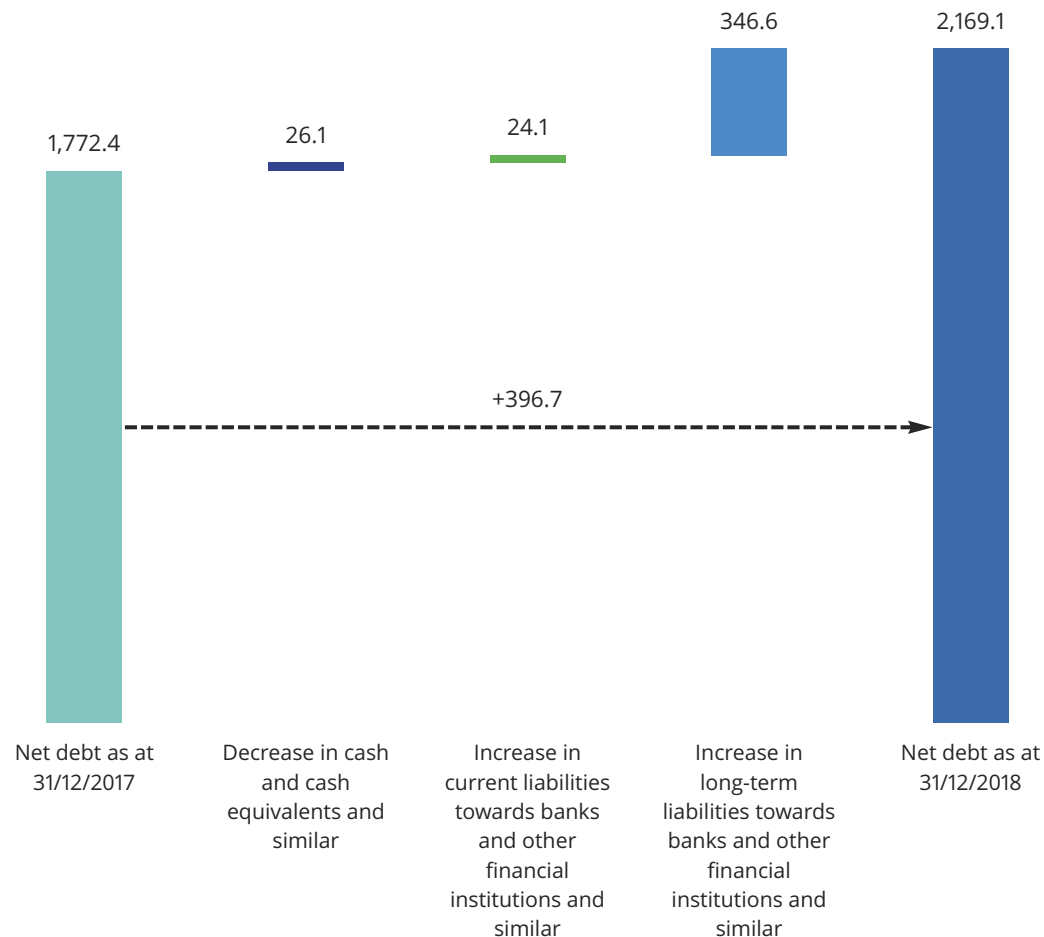
The Group's financial expenses amounted to HRK 82.3 million and, compared to the previous period, they fell by HRK 2.2 million. The negative foreign currency differences are down by HRK 15.0 million due to the lower HRK vs. EUR depreciation in 2H of 2018 compared to the same period in 2017. Due to an increase in credit liabilities for the financing of large investment cycles in 2017 and 2018, financial expenses related to interest grew by HRK 7.7 million, amounting to HRK 49.9 million. Unrealised expenses from financial assets increased by HRK 4.0 million, driven by spreading the scope of protection and increased liabilities related to the fair value of interest rate swaps. Other financial expenses amounted to HRK 2.7 million, an increase of HRK 1.1 million.

FINANCIAL INCOME AND EXPENSES (in HRK '000)





NET DEBT²⁶ (in HRK million)



ASSETS AND LIABILITIES

As at 31 December 2018, the total value of the Group's assets was HRK 5,669.0 million, up by 13.5% compared to 31 December 2017.

Total share capital and reserves grew by 9.6% and totalled HRK 2,758.5 million. Total long-term liabilities grew from HRK 1,915.7 million to HRK 2,284.1 million due to loans contracted to finance this year's investment cycle and, to a smaller part, as a result of the consolidation of Hoteli Makarska and Valamar Obertauern. Almost the entire loan portfolio is comprised of long-term fixed interest loans or, respectively, loans hedged by a derivative instruments (IRS) for protection against interest rate risk.

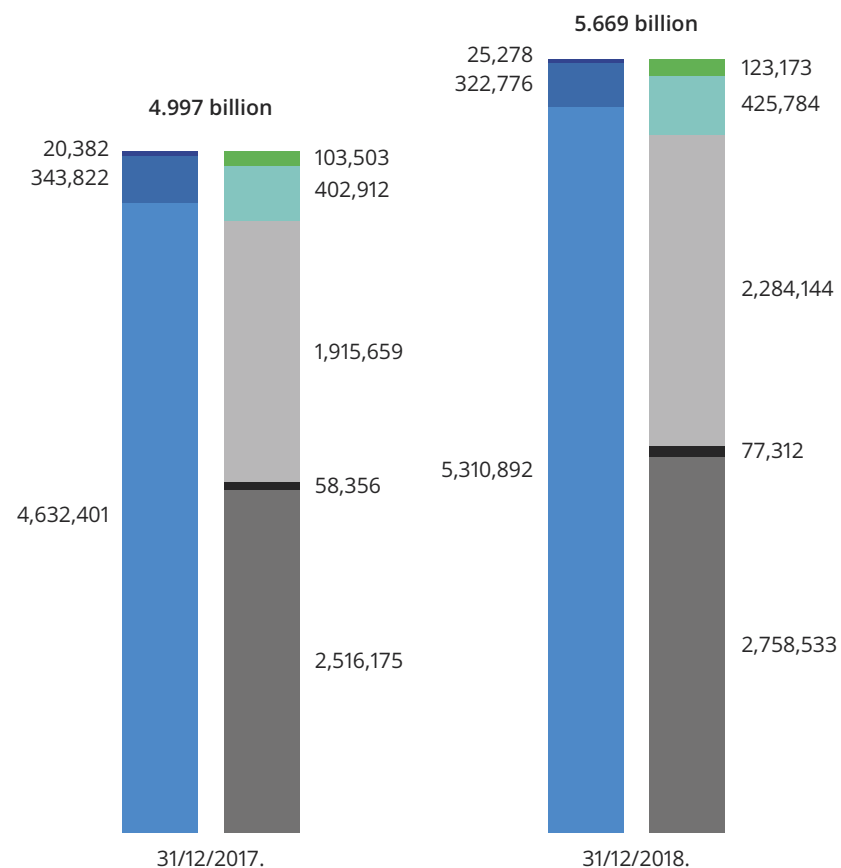
Total short-term liabilities were HRK 425.8 million, up by 5.7% compared to 31 December 2017. The aforementioned is mainly a result of (i) lower trade payables (down by HRK 19.7 million) given the smaller size of 2017/18 investments, (ii) the current repayment of the 2018 long-term debt (up by HRK 24.1 million), (iii) higher liabilities related to advance payments from customers (up by HRK 7.6 million), and (iv) liabilities related to employees (up by HRK 5.9 million due to a larger consolidation scope and the increased number of employees vs 31/12/2017).

Cash and cash equivalents as at 31 December 2018 amount to HRK 261.8 million. The contracted credit lines for investments and the strong cash potential from business activities ensure a smooth continuation of future investments and potential acquisitions.

²⁶ 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)



LT Asset

ST Asset

Prepayments And
Accrued Income

Capital And Reserves

LT Liabilities

ST Liabilities

Accrued Expenses And
Deferred Income

Provisions

PROFITABILITY INDICATORS OF VALAMAR RIVIERA GROUP

	2017	2018	2018/2017
EBITDA margin	34.1%	34.9%	80 bb
Adjusted EBITDA margin	35.0%	35.3%	30 bb
EBIT margin	14.6%	14.2%	-40 bb
Adjusted EBIT margin	15.5%	14.7%	-80 bb
EBT margin	13.4%	13.0%	-40 bb
Net profit margin	13.8%	12.0%	-180 bb
ROA	4.9%	4.2%	-70 bb
ROE	9.7%	8.5%	-120 bb
Adjusted ROCE	6.4%	5.9%	-50 bb

VALUATION OF VALAMAR RIVIERA GROUP

	31/12/2017	31/12/2018	2018/2017
Average share price per (in HRK)	43.63	36.36	-16.7%
Market capitalization (in HRK)	5,420,289,760	4,468,823,546	-17.6%
EV (in HRK)	7,192,643,394	6,637,891,115	-7.7%
EPS (in HRK)	1.96	1.90	-3.1%
DPS (in HRK)	0.80	0.90	12.5%
EV / Sales revenues	4.1x	3.4x	-17.4%
EV / EBITDA	11.9x	9.6x	-19.5%
EV / Adjusted EBITDA	11.6x	9.4x	-18.3%
EV / EBIT	27.7x	23.4x	-15.5%
EV / Adjusted EBIT	26.1x	22.7x	-12.7%



KEY OPERATING INDICATORS OF VALAMAR RIVIERA GROUP PER SEGMENTS²⁷

HOTELS AND RESORTS

Total hotels and resorts

Hotels and resorts reported a strong +12.6% growth (HRK +140.4 million) and achieved HRK 1,249.9 million in board revenues. The high increase resulted from the earlier large investment cycle, the optimization of the marketing mix and prices, as well as the demand-driven larger number of operating days, especially in the Premium and Upscale segment, and acquisition of Hoteli Makarska and Valamar Obertauern.

Premium hotels and resorts

Premium hotels and resorts reported a 30.6% increase in board revenues that totalled HRK 361.3 million. The HRK 84.6 million growth was mostly driven by the following: (i) larger number of operating days of the Girandella Family Hotel 4*, taking into account 2017 investment, (ii) the newly opened Girandella Maro Suites 5*, (iii) excellent placement of preseason events and post season M.I.C.E. channel, and growth in all segments in peak season, especially in the individual channel at the Valamar Collection Isabella Island Resort 4*/5*, (iv) earlier opening and increase in the direct and group channels at the Valamar Collection Dubrovnik President Hotel 5*, especially M.I.C.E. and groups in preseason accompanied by a great feedback of the allotments in the post season, (v) stable growth in M.I.C.E. during the preseason and post season period, as well as increase in the direct and allotment channels in the Valamar Lacroma Dubrovnik Hotel 4* in the fourth

quarter, and (vi) repositioning of the Valamar Collection Imperial Hotel 4* in the Premium segment.

Upscale hotels and resorts

Upscale hotels and resorts reported HRK 345.1 million in board revenues. The strong growth (HRK 29.7 million) was primarily driven by larger volumes, i.e. 781,326 overnights achieved (+7.2%). The drivers of 9.4% growth in board revenues were: (i) larger number of operating days of the TUI Family Life Bellevue Resort 4* as a result of last year's investment, (ii) the Valamar Argosy Hotel 4* due to very strong feedback by the individual channel and very successful placement of groups and M.I.C.E., (iii) good feedback by the direct sales channel as well as good placement of groups during the preseason and in the post season period at the Valamar Hotel & Casa Sanfior 4*, (iv) increase in all segments with notable increase in groups during the preseason at the Valamar Zagreb Hotel 4*, and (v) the Valamar Padova Hotel 4*, due to excellent feedback by the direct channel resulting from the synergy of Valamar Riviera's management of operations as determined by the provisions of the concluded Hotel management contract.

Midscale hotels and resorts

The midscale segment reported HRK 412.4 million in board revenues and is mostly influenced by the repositioning of the Valamar Collection Imperial Hotel

4* as Premium accommodation, and consolidation of the Valamar Meteor Hotel 4* and the Dalmacija Sunny Hotel by Valamar 3* in Makarska as from August 2018, as well as Valamar Obertauern Hotel 4* from November 2018. If we exclude the results achieved by these facilities, board revenues went up by 3.9%. The drivers of growth were: (i) better operating results of the Valamar Club Dubrovnik Hotel 3*, especially in the individual segment, (ii) increase of the average price and accommodation units sold at the Corinthia Baška Sunny Hotel by Valamar 3*, (iii) the Valamar Crystal Hotel 4*, primarily due to increased physical volumes especially by the placement of group and M.I.C.E. Events in the post season period, (iv) stronger market feedback received by the allotment and M.I.C.E. channels at the Valamar Diamant Hotel 4*, (v) growth in the allotment channel at the Valamar Rubin Hotel 3*, (vi) the repositioning of the Valamar Pinia Hotel 3* into an all-inclusive facility, and (vii) increase in all channels, except for the group channel, at the Valamar Zvonimir Hotel 4*, the Valamar Atrium Baška Residence 4*/5* and the Valamar Villa Adria 4*.

Economy hotels and resorts

Economy hotels and resorts achieved HRK 131.1 million in board revenues. The economy segment shows a decrease by 2.7%, primarily due to the conversion of Pical apartments and Marina hotel in Rabac into accommodation for employees.

²⁷ According to the classification under the USALI international standard for reporting According to the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry). Economy segment includes non-commercial segment (accommodation for employees). Business operations of Hoteli Makarska and Valamar Obertauern are not included in 2017.

HOTELS AND RESORTS

	TOTAL			PREMIUM			UPSCALE			MIDSCALE			ECONOMY		
	2017	2018	2018/ 2017	2017	2018	2018/ 2017	2017	2018	2018/ 2017	2017	2018	2018/ 2017	2017	2018	2018/ 2017
Number of accommodation units	8,982	9,973	11.0%	1,269	1,554	22.5%	1,980	1,964	-0.8%	3,493	3,771	8.0%	2,240	2,684	19.8%
Full occupancy days	162	163	0.8%	174	177	2.0%	158	171	8.5%	163	149	-8.5%	156	168	7.7%
Annual occupancy rate (%)	44%	45%	0.8%	48%	48%	2.0%	43%	47%	8.5%	45%	41%	-8.5%	43%	46%	7.7%
Accommodation units sold	1,452,014	1,625,278	11.9%	220,226	275,063	24.9%	312,618	336,327	7.6%	569,159	562,286	-1.2%	350,011	451,602	29.0%
Overnights	3,115,692	3,386,892	8.7%	463,667	607,008	30.9%	729,117	781,326	7.2%	1,193,419	1,215,124	1.8%	729,489	783,434	7.4%
ADR ¹⁶	764	769	0.6%	1,257	1,314	4.5%	1,009	1,026	1.7%	672	733	9.1%	385	290	-24.6%
Board revenues (in HRK)	1,109,581,848	1,249,936,599	12.6%	276,758,965	361,346,559	30.6%	315,357,057	345,096,367	9.4%	382,724,084	412,415,854	7.8%	134,741,742	131,077,819	-2.7%
RevPAR ¹⁷ (in HRK)	123,534	125,332	1.5%	218,092	232,527	6.6%	159,271	175,711	10.3%	109,569	109,365	-0.2%	60,153	48,837	-18.8%
Adjusted EBITDA ²⁸ (in HRK)	642,958,760	723,000,739	12.4%	162,000,898	220,585,212	36.2%	182,909,049	199,921,567	9.3%	224,461,891	236,609,302	5.4%	73,586,921	65,884,658	-10.5%

²⁸ 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 -304.1 million in 2018, i.e. HRK -270.0 million in 2017. Other segments include business of central operations, laundry, sport, central kitchen, strategic rentals, etc. The data for 2017 are not comparable to those published in the 2017 Annual Report due to a internally different segmental overview.

CAMPING RESORTS

Total camping resorts

Camping resorts achieved a total of HRK 379.1 million in board revenues. Successful optimization of the average rate for mobile homes and camping pitches (+10.6%) resulted in a strong growth in total board revenues by 12.1% (HRK +40.8 million).

Premium camping resorts

Premium camping resorts reported HRK 188.7 million in board revenues. A 41.5% increase (HRK +55.4 million) is driven by ADR of HRK 393 (+14.5%) and 480,597 accommodation units sold (+23.6%). The high growth rates in physical indicators and ADR are mainly due to: i) excellent business results reported by the Lanterna Premium Camping Resort by Valamar 4* (17% higher board revenues, also due to strong market feedback received by this year's investments in new products and guest amenities, especially mobile homes), and ii) the Ježevac Premium Camping Resort by Valamar 4* going from Upscale to Premium. The rest of the growth is attributed to the strong performance of the Krk Premium Camping Resort by Valamar 5*.

Upscale camping resorts

Upscale camping resorts reported a 58.2% increase in board revenues. The HRK 84.1 million in board revenues were because: (i) the Ježevac Premium Camping Resort by Valamar 4* went from Upscale to Premium, (ii) the San Marino Camping Resort by Valamar 4* went from Midscale to Upscale, and (iii) the Zblaće Camping Resort by Valamar 4* went from Midscale to Upscale. Excluding the influence of the segmentation shift for the said campsites, the comparable growth was 6% because two campsites reported better operating results: the Marina Camping Resort by Valamar 4* and the Bunculuka Camping Resort by Valamar 4*.

Midscale camping resorts

Midscale campsites reported a 38.3% decrease to HRK 74.4 million because the San Marino Camping Resort by Valamar 4* and the Zblaće Camping Resort by Valamar 4* went from Midscale to Upscale. The comparable growth in board revenues was 5% thanks to the stronger results achieved by the other Midscale camping resorts.

Economy camping resorts

Economy campsites reported HRK 31.9 million in board revenues. Despite the earlier closure of Istra Sunny Camping by Valamar 2* due to the investment, the Economy segment recorded HRK 0.7 million higher board revenue as a result of better business operations of Brioni Sunny Camping by Valamar 2*.



**Baška Beach
Camping Resort by
Valamar 4*, Krk**

CAMPING RESORTS

	TOTAL			PREMIUM			UPSCALE			MIDSCALE			ECONOMY		
	2017	2018	2018/ 2017	2017	2018	2018/ 2017	2017	2018	2018/ 2017	2017	2018	2018/ 2017	2017	2018	2018/ 2017
Number of accommodation units	11,870	11,398	-4.0% ²⁹	3,466	4,053	16.9%	1,434	2,157	50.4%	5,150	3,293	-36.1%	1,820	1,895	4.1%
Full occupancy days	100	105	5.4%	112	119	5.7%	117	112	-4.7%	93	95	2.0%	83	89	6.3%
Annual occupancy rate (%)	27%	29%	5.4%	31%	32%	5.7%	32%	31%	-4.7%	25%	26%	2.0%	23%	24%	6.3%
Accommodation units sold	1,187,741	1,202,060	1.2%	388,757	480,597	23.6%	168,264	241,267	43.4%	479,060	312,336	-34.8%	151,660	167,860	10.7%
Overnights	3,057,450	3,072,842	0.5%	1,135,715	1,380,392	21.5%	398,631	653,798	64.0%	1,153,982	675,563	-41.5%	369,122	363,089	-1.6%
ADR ¹⁶	285	315	10.7%	343	393	14.5%	316	349	10.3%	252	238	-5.4%	206	190	-7.8%
Board revenues (in HRK)	338,284,959	379,054,818	12.1%	133,352,887	188,714,620	41.5%	53,156,811	84,084,654	58.2%	120,533,212	74,356,730	-38.3%	31,242,049	31,898,815	2.1%
RevPAR ¹⁷ (in HRK)	28,499	33,256	16.7%	38,475	46,562	21.0%	37,069	38,982	5.2%	23,405	22,580	-3.5%	17,166	16,833	-1.9%
Adjusted EBITDA ²⁸ (in HRK)	249,621,643	283,951,633	13.8%	101,669,058	147,343,042	44.9%	41,528,065	65,094,264	56.7%	86,505,421	51,179,211	-40.8%	19,919,099	20,335,116	2.1%

²⁹ Decrease in capacity is mainly due to investment in the San Marino Camping Resort by Valamar 4* (the conversion of 3 camping plot zones into a parking lot and the installation of premium mobile homes), as well as the conversion of camping plots into premium mobile homes in the other campsites undergoing investment



KEY OPERATING INDICATORS OF VALAMAR RIVIERA GROUP PER DESTINATIONS²⁷

DESTINATIONS

Destination Poreč

Destination Poreč reported HRK 659.8 million in board revenues. The HRK 35.0 million increase in board revenues was mostly due to the strong performance of Valamar Collection Isabella Island Resort 4*/5*, Valamar Tamaris Resort 4*, Valamar Zagreb Hotel 4*, Valamar Pinia Hotel 3*, Valamar Crystal Hotel 4* and Lanterna Premium Camping Resort by Valamar 4*.

Destination Rabac

Destination Rabac reported HRK 255.6 million in board revenues. The 30.5% growth was mostly driven

by: (i) earlier opening of the Girandella Family Hotel 4* and the TUI Family Life Bellevue Resort 4* as regards 2017 investment, (ii) the newly opened Valamar Collection Girandella Maro Suites 5* and (iii) the increased physical volumes at the Valamar Hotel & Casa Sanfior 4*.

Destination Krk Island

This destination reported HRK 212.5 million in board revenues that were driven by 1,106,948 overnights achieved, and the average daily rate going up by 6.5% to HRK 460. The main contributors to the total growth are the destination's campsites, especially Krk Premium Camping Resort by Valamar 5*, Ježevac

Premium Camping Resort by Valamar 4* and Zablaće Camping Resort by Valamar 4*, along with Corinthia Baška Sunny Hotel by Valamar 3*.

Destination Rab Island

Although the Valamar Collection Imperial Hotel 4* had fewer operating days because of the investments, board revenues in 2018 grew by HRK 15.0 million to HRK 146.9 million. Most of the growth was driven by Valamar Padova Hotel 4* due to successful feedback of the direct channel and Valamar Carolina Hotel & Villas 4*, as well as San Marino Camping Resort by Valamar 3* and Padova Camping Resort by Valamar 3*.

DESTINATIONS	POREČ			RABAC			KRK ISLAND		
	2017	2018	2018/2017	2017	2018	2018/2017	2017	2018	2018/2017
Number of accommodation units	10,584	10,511	-0.7%	1,971	2,124	7.8%	3,577	3,496	-2.3%
Full occupancy days	121	127	4.8%	156	162	3.8%	126	132	4.6%
Annual occupancy rate (%)	33%	35%	4.8%	43%	44%	3.8%	35%	36%	4.6%
Accommodation units sold	1,282,228	1,335,131	4.1%	308,369	344,957	11.9%	451,987	462,244	2.3%
Overnights	3,075,877	3,084,331	0.3%	673,169	777,279	15.5%	1,063,850	1,106,948	4.1%
ADR ¹⁶	487	494	1.4%	635	741	16.6%	432	460	6.5%
Board revenues (in HRK)	624,793,941	659,806,559	5.6%	195,916,080	255,585,586	30.5%	195,074,956	212,477,386	8.9%
RevPAR ¹⁷ (in HRK)	59,032	62,773	6.3%	99,399	120,332	21.1%	54,536	60,777	11.4%
Adjusted EBITDA ²⁸ (in HRK)	393,293,569	416,934,989	6.0%	95,161,189	132,217,344	38.9%	129,928,462	143,515,370	10.5%

Destination Dubrovnik

Destination Dubrovnik reported HRK 319.0 million in board revenues. The HRK 18.8 million increase in board revenues was mostly due to stronger operating results reported by Valamar Collection Dubrovnik President Hotel 5*, Valamar Lacroma Dubrovnik Hotel 4*, and Valamar Argosy Hotel 4* and Valamar Club Dubrovnik Hotel 3*.

Destination Makarska

The hotel and resort consolidation in Makarska from August 2018 contributed HRK 32.9 million to board revenues. In comparison to the comparable

previous year period, Makarska reported an increase by 4% in board revenues.

Destination Obertauern

The hotel and resort consolidation in Obertauern from November 2018 contributed HRK 2.4 million to board revenues. In comparison to the comparable previous year period, Obertauern reported an almost 10% increase in board revenues.



DESTINATIONS	RAB ISLAND			DUBROVNIK			MAKARSKA	OBERTAUERN
	2017	2018	2018/2017	2017	2018	2018/2017	2018	2018
Number of accommodation units	2,759	2,466	-10.6%	1,961	1,966	0.3%	726	82
Full occupancy days	96	116	21.3%	170	175	2.9%	/	/
Annual occupancy rate (%)	26%	32%	21.3%	47%	48%	2.9%	/	/
Accommodation units sold	264,114	286,252	8.4%	333,057	343,719	3.2%	53,722	1,313
Overnights	716,510	726,183	1.4%	643,736	653,266	1.5%	108,710	3,017
ADR ¹⁶	499	513	2.8%	901	928	3.0%	612	1,827
Board revenues (in HRK)	131,842,656	146,864,366	11.4%	300,239,175	319,007,455	6.3%	32,851,352	2,398,715
RevPAR ¹⁷ (in HRK)	47,786	59,556	24.6%	153,105	162,262	6.0%	45,250	29,253
Adjusted EBITDA ²⁸ (in HRK)	80,715,170	88,956,420	10.2%	193,482,014	211,142,776	9.1%	16,456,329	-2,270,855



OPINION OF THE MANAGEMENT BOARD COMMITTEE OF THE CROATIAN BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT ON THE 2018 INTEGRATED REPORT OF VALAMAR RIVIERA

The Management Board Committee of the Croatian Business Council for Sustainable Development has reviewed the new 2018 Integrated Report of Valamar Riviera d.d. where sustainability issues were elaborated using GRI Standards for the first time. We hereby confirm that the Report contains all the elements required by the core option of GRI Standards. Sustainability topics were integrated in Valamar's comprehensive report that also presents information on the company's business and financial results.



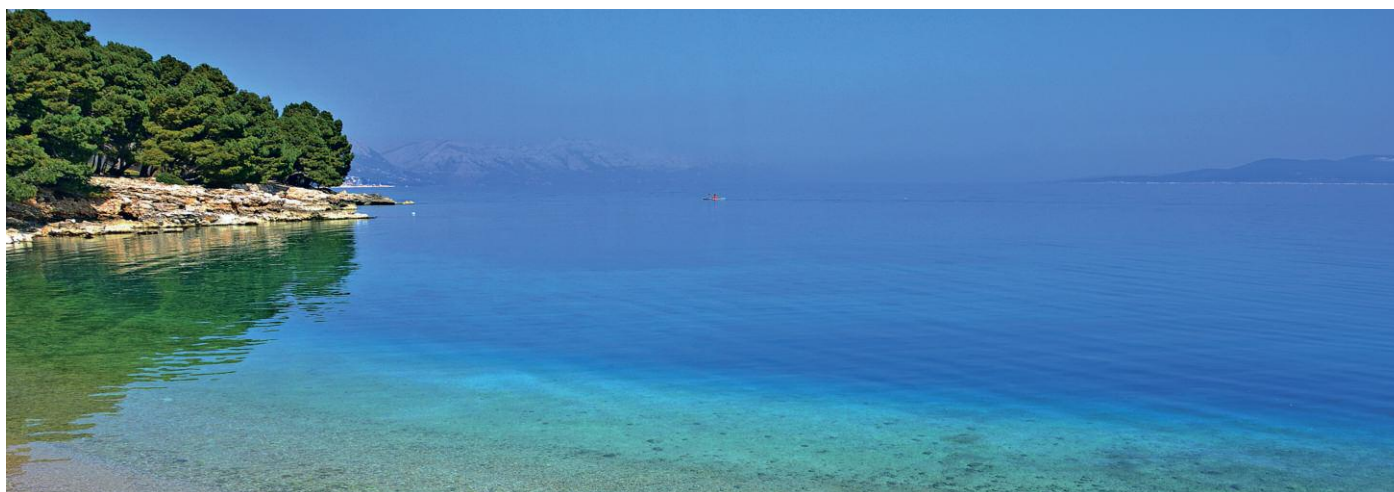
Hrvatski poslovni savjet za održivi razvoj
Croatian Business Council for Sustainable Development

At the very beginning, Valamar informs of the way the company communicates with guests. There are many ways in which this communication is encouraged, resulting in a large amount of feedback by guests. The information received is used to tailor the services offered which drive higher guest satisfaction, an area Valamar constantly improves. This year as many as 167,710 guests completed the satisfaction survey, and the number of surveys received in 2018 was 25% (one in four Valamar guests completed the survey). Among the guest satisfaction results, the Unbelievable rating (the highest rating guests can give to Valamar staff) jumped by 13 percentage points to 71% in 2018.

According to a 2018 research by MojPosao, conducted on 10,000 subjects, Valamar is the only tourism company among the top 20 employers in Croatia. Besides ranking 12th on this prestigious list, the company was also recognized as the 4th most desirable employer in Istria in the same year.

In 2018, the employees' average gross salary outgrew the average salary in Valamar's industry by 31.5%. All employees are assessed, no matter where their position is – operations or corporate departments. This can be viewed as a confirmation of Valamar stating its focus on career development, education and training.

Valamar offers numerous rewarding models to its employees, and nearly one in two people employed



has year-long income secured. For seasonal workers coming to work at Valamar's destinations, Valamar provides quality accommodation and meals at its staff residences known as Valamar Houses. This is just one part of the interesting data provided in the report, confirming that Valamar is aware that the quality of services in hospitality primarily depends on the quality and motivation of employees, so the company utilizes numerous benefits to attract and retain the best of them.

Moreover, by adopting its Diversity Policy in 2018, Valamar Riviera confirmed to understand the importance of respecting diversity and ensuring equal opportunities regardless of sex, age, religion, ethnicity, disability and other factors. In this way, the company committed to promoting and enforcing workplace diversity and non-discrimination policies and reporting regularly on its activities in this area. Valamar Riviera's commitment and persistence were honored by the CSR Index Award in 2018 for the socially responsible policies of diversity and human rights protection given by the Croatian Business Council for Sustainable Development and the Croatian Chamber of Economy. The 41.6% of female managers at Valamar confirms that the company enforces the policy of gender equality.

Valamar makes significant investments in destination development. It would be impossible to name all the festivals and bike races supported, playgrounds built, or beaches improved. Through its

CSR program called "Valamar's Big Heart" and its initiative "A Thousand Days on the Adriatic Sea", so far Valamar has provided summer holidays for over 2,000 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. The company received the Pride of Croatia Award for this program.

Valamar also makes large investments in environmental protection, energy efficiency, horticulture and similar. The company also follows and introduces new trends in environmental protection as seen in their elimination of plastic straws immediately after the EU strategy for plastic was announced therefore showing that they want to lead the implementation of new knowledge and care for the environment.

Despite efforts made to reduce its environmental impact, due to the inclusion of GHG emissions from related companies and quality upgrades (air conditioning, pool heating) the amount of CO₂ emissions per overnight grew significantly. The increase averaged 7.6% if compared to last year.

Valamar holds the sustainability certificate for 75% of accommodation at hotels and resorts and 6 of its campsites hold the EU Ecolabel recognizing hospitality services that have a lower impact on the environment if compared to the standard.

The excellent business results were marked by numerous awards in 2018- Share of the Year, CSR Index, Businesswoman of the Year for the company's vice president. The number of international awards in its core business activity is even greater.

It can be concluded that the particulars presented in the report speak of a propulsive and dynamic company that continuously improves its financial and non-financial indicators. Therefore, we can only commend the information presented in the report. Regarding the report formatting according to GRI Standards, we recognize that they were used for the first time and we believe that in the following year we will be able to see further improvement in their application, especially in the representation of the strategy of managing non-financial impacts.

Management Board Committee of the Croatian Business Council for Sustainable Development



GRI INDEX

GRI Standard	Report Chapter
GRI 102: GENERAL DISCLOSURES	
ORGANIZATIONAL PROFILE	
Disclosure 102-1 Name of the organization	About Valamar Riviera
Disclosure 102-2 Activities, brands, products, and services	About Valamar Riviera
Disclosure 102-3 Location of headquarters	About Valamar Riviera
Disclosure 102-4 Location of operations	About Valamar Riviera
Disclosure 102-5 Ownership and legal form	About Valamar Riviera
Disclosure 102-6 Markets served	About Valamar Riviera
Disclosure 102-7 Scale of the organization	About Valamar Riviera
Disclosure 102-8 Information on employees and other workers	Valamar's Corporate Strategy - Employees and Organization
Disclosure 102-9 Supply chain	Engagement of Key Stakeholders and Material Aspects
Disclosure 102-10 Significant changes to the organization and its supply chain	About Valamar Riviera
Disclosure 102-11 Precautionary Principle or approach	Corporate Governance
Disclosure 102-12 External initiatives	Corporate Governance
Disclosure 102-13 Membership of associations	Valamar's Corporate Strategy - Growth Strategy
STRATEGY	
Disclosure 102-14 Statement from senior decision-maker	Message from the CEO and Message from the Chairman
ETHICS AND INTEGRITY	
Disclosure 102-16 Values, principles, standards, and norms of behavior	Corporate Governance
GOVERNANCE	
Disclosure 102-18 Governance structure	Corporate Governance
Disclosure 102-19 Delegating authority	Corporate Governance
Disclosure 102-20 Executive-level responsibility for economic, environmental, and social topics	Corporate Governance
Disclosure 102-21 Consulting stakeholders on economic, environmental, and social topics	Corporate Governance

GRI Standard	Report Chapter
Disclosure 102-22 Composition of the highest governance body and its committees	Corporate Governance
Disclosure 102-23 Chair of the highest governance body	Corporate Governance
Disclosure 102-24 Nominating and selecting the highest governance body	Corporate Governance
Disclosure 102-25 Conflicts of interest	Corporate Governance
Disclosure 102-26 Role of highest governance body in setting purpose, values, and strategy	Corporate Governance
Disclosure 102-27 Collective knowledge of highest governance body	Corporate Governance
Disclosure 102-28 Evaluating the highest governance body's performance	Corporate Governance
Disclosure 102-29 Identifying and managing economic, environmental, and social impacts	Engagement of Key Stakeholders and Material Aspects
Disclosure 102-30 Effectiveness of risk management processes	Corporate Governance
Disclosure 102-31 Review of economic, environmental, and social topics	Corporate Governance
Disclosure 102-32 Highest governance body's role in sustainability reporting	Corporate Governance
Disclosure 102-33 Communicating critical concerns	Corporate Governance
Disclosure 102-34 Nature and total number of critical concerns	Engagement of Key Stakeholders and Material Aspects
Disclosure 102-35 Remuneration policies	Corporate Governance
Disclosure 102-36 Process for determining remuneration	Corporate Governance
Disclosure 102-37 Stakeholders' involvement in remuneration	Corporate Governance
Disclosure 102-38 Annual total compensation ratio	Corporate Governance
Disclosure 102-39 Percentage increase in annual total compensation ratio	Corporate Governance
STAKEHOLDER ENGAGEMENT	
Disclosure 102-40 List of stakeholder groups	Engagement of Key Stakeholders and Material Aspects
Disclosure 102-41 Collective bargaining agreements	Valamar's Corporate Strategy - Employees and Organization
Disclosure 102-42 Identifying and selecting stakeholders	Engagement of Key Stakeholders and Material Aspects
Disclosure 102-43 Approach to stakeholder engagement	Engagement of Key Stakeholders and Material Aspects
Disclosure 102-44 Key topics and concerns raised	Engagement of Key Stakeholders and Material Aspects

GRI Standard	Report Chapter
REPORTING PRACTICE	
Disclosure 102-45 Entities included in the consolidated financial statements	2018 Business Results
Disclosure 102-46 Defining report content and topic Boundaries	Engagement of Key Stakeholders and Material Aspects
Disclosure 102-47 List of material topics	Engagement of Key Stakeholders and Material Aspects
Disclosure 102-48 Restatements of information	About this Integrated Report
Disclosure 102-49 Changes in reporting	About this Integrated Report
Disclosure 102-50 Reporting period	About this Integrated Report
Disclosure 102-51 Date of most recent report	About this Integrated Report
Disclosure 102-52 Reporting cycle	About this Integrated Report
Disclosure 102-53 Contact point for questions regarding the report	About this Integrated Report
Disclosure 102-54 Claims of reporting in accordance with the GRI Standards	About this Integrated Report
Disclosure 102-55 GRI content index	GRI index
Disclosure 102-56 External assurance	Opinion of The Management Board Committee of The Croatian Business Council For Sustainable Development on the 2018 CSR Report of Valamar Riviera
GRI 103: MANAGEMENT APPROACH	
Disclosure 103-1 Explanation of the material topic and its Boundary	Engagement of Key Stakeholders and Material Aspects
Disclosure 103-2 The management approach and its components	Engagement of Key Stakeholders and Material Aspects
Disclosure 103-3 Evaluation of the management approach	Engagement of Key Stakeholders and Material Aspects
GRI 201: ECONOMIC PERFORMANCE	
Disclosure 201-1 Direct economic value generated and distributed	Engagement of Key Stakeholders and Material Aspects
Disclosure 201-2 Financial implications and other risks and opportunities due to climate change	Corporate Governance
GRI 202: MARKET PRESENCE	
Disclosure 202-1 Ratios of standard entry level wage by gender compared to local minimum wage	Valamar's Corporate Strategy - Employees and Organization
Disclosure 202-2 Proportion of senior management hired from the local community	Valamar's Corporate Strategy - Employees and Organization

GRI Standard	Report Chapter
GRI 203: INDIRECT ECONOMIC IMPACTS	
Disclosure 203-1 Infrastructure investments and services supported	Engagement of Key Stakeholders and Material Aspects
Disclosure 203-2 Significant indirect economic impacts	Corporate Governance
GRI 204: PROCUREMENT PRACTICES	
Disclosure 204-1 Proportion of spending on local suppliers	Engagement of Key Stakeholders and Material Aspects
GRI 302: ENERGY	
Disclosure 302-1 Energy consumption within the organization	Commitment to Environmental Sustainability
Disclosure 302-3 Energy intensity	Commitment to Environmental Sustainability
Disclosure 302-4 Reduction of energy consumption	Commitment to Environmental Sustainability
GRI 303: WATER	
Disclosure 303-1 Interactions with water as a shared resource	Commitment to Environmental Sustainability
Disclosure 303-3 Water withdrawal	Commitment to Environmental Sustainability
GRI 305: EMISSIONS	
Disclosure 305-1 Direct (Scope 1) GHG emissions	Commitment to Environmental Sustainability
Disclosure 305-2 Energy indirect (Scope 2) GHG emissions	Commitment to Environmental Sustainability
Disclosure 305-5 Reduction of GHG emissions	Commitment to Environmental Sustainability
GRI 306: EFFLUENTS AND WASTE	
Disclosure 306-1 Water discharge by quality and destination	Commitment to Environmental Sustainability
Disclosure 306-2 Waste by type and disposal method	Commitment to Environmental Sustainability
GRI 307: ENVIRONMENTAL COMPLIANCE	
Disclosure 307-1 Non-compliance with environmental laws and regulations	Commitment to Environmental Sustainability

GRI Standard	Report Chapter
GRI 401: EMPLOYMENT	
Disclosure 401-1 New employee hires and employee turnover	Valamar's Corporate Strategy - Employees and Organization
Disclosure 401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	Valamar's Corporate Strategy - Employees and Organization
GRI 402: LABOR/MANAGEMENT RELATIONS	
Disclosure 402-1 Minimum notice periods regarding operational changes	Valamar's Corporate Strategy - Employees and Organization
GRI 403: OCCUPATIONAL HEALTH AND SAFETY	
Disclosure 403-4 Worker participation, consultation, and communication on occupational health and safety	Valamar's Corporate Strategy - Employees and Organization
GRI 404: TRAINING AND EDUCATION	
Disclosure 404-1 Average hours of training per year per employee	Valamar's Corporate Strategy - Employees and Organization
Disclosure 404-2 Programs for upgrading employee skills and transition assistance programs	Valamar's Corporate Strategy - Employees and Organization
Disclosure 404-3 Percentage of employees receiving regular performance and career development reviews	Valamar's Corporate Strategy - Employees and Organization
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY	
Disclosure 405-1 Diversity of governance bodies and employees	Valamar's Corporate Strategy - Employees and Organization
Disclosure 405-2 Ratio of basic salary and remuneration of women to men	Valamar's Corporate Strategy - Employees and Organization
GRI 407: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING	
Valamar's Corporate Strategy - Employees and Organization	
GRI 416: CUSTOMER HEALTH AND SAFETY	
Disclosure 416-1 Assessment of the health and safety impacts of product and service categories	Valamar's Corporate Strategy - Focus on the Guest
Disclosure 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	Valamar's Corporate Strategy - Focus on the Guest
GRI 417: MARKETING AND LABELING	
Disclosure 417-3 Incidents of non-compliance concerning marketing communications	Valamar's Corporate Strategy - Focus on the Guest



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



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.



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