

INTEGRATED COMPANY ANNUAL REPORT
AND CORPORATE SOCIAL RESPONSIBILITY
2016

VALAMAR RIVIERA

Life-long Learning And Training

With continued investments in the development of key employee competences and internal programs of expert and management training, in 2016 we introduced a model of life-long learning and development as a new corporate value.

EMPLOYEE DEVELOPMENT, TRAINING AND EDUCATION

The education planning process always begins by identifying training needs and wishes, and that involves more than 3,000 employees. The company continues carrying out training programs.

All employees at Valamar Riviera have the option to receive additional training, depending on job requirements, and in 2016 almost 100% of employees received some form of training, while the number of training hours grew by 37% compared to 2015.

Employees can take various forms of expert programs and professional training organized in Croatia and abroad as well. With the option of one-day and longer courses, employees can take part in professional conferences, fairs, expos and meetings. There is also an option to organize graduate studies and internship, and foreign language courses, in accordance with the business needs and employees' potentials.

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

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

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

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

VALAMAR ACADEMY

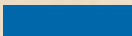
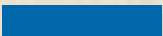
Valamar Riviera gives special attention to the continual development of Valamar Academy programs.

The Valamar Academy education program has helped train a large portion of the company's current management team. Currently, more than 66% of general managers, department heads and assistant managers have completed the Valamar Academy program lasting 12 to 24 months, and they have successfully assumed more demanding positions and responsibilities.

Considering Valamar Riviera's business priorities, developing internal talents has so far been focused on general managers and assistant managers at Valamar's properties, department heads at hotel operations, and specialists and department heads in the sales and marketing sector. In the coming period, the Valamar Academy program will expand to include talents, skills and knowledge of other corporate functions.

Furthermore, we have realized contemporary needs to develop new

NUMBER OF TRAINING HOURS PER EMPLOYEE¹

Year	Total hours	Hours per employee ²
2014	30,312 	12.8 h 
2015	45,410 	17.6 h 
2016	65,408 	21.03 h 

¹ Includes: Valamar Riviera (Dubrovnik, Rabac, Krk, Poreč) Valamar hoteli i ljetovališta.

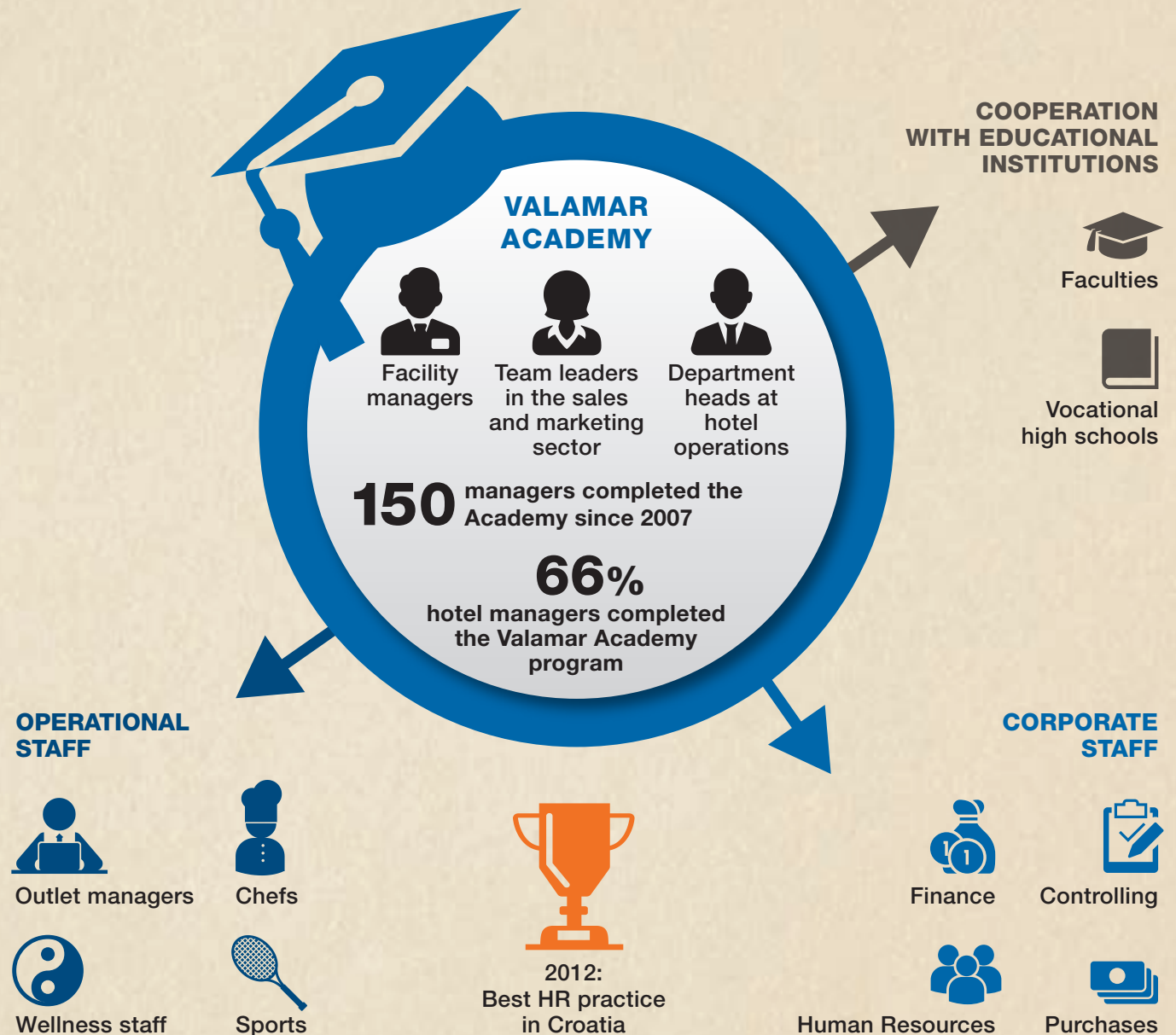
² Calculated according to the average number of employees in that year (2016: 2,953; 2015: 2,555; 2014:2,365 employees). All employees have the possibility to participate in training programs.

concepts and services in sports, pools and beaches by designing a new Valamar Academy program intended for expert training of managers of sports facilities and services. We have chosen the first 10 candidates who are starting the program in 2017.

The many training and education programs for hotel operations' employees will be strategically managed, and the programs will be aligned with the all-encompassing human resource strategy. Such an approach will allow us to additionally improve and standardize all training and education programs, resulting in higher work quality among employees, the key element of every organization focused on guests. With the successful development of employees' key competences, the Valamar Academy program has a strong motivating effect on the nominated and involved students and their perception of acknowledgement, recognition and pride.

Recognition of human potentials and their development through the Valamar Academy program greatly contributes to growing employee satisfaction with the corporate culture and climate, and on their loyalty to the company. Their success stories, word of mouth among colleagues and good practice of internal career development by further promotions and management statuses, successfully recruit new candidates whose numbers keep growing, and are to double in 2017.

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



Valamar's Management

Valamar Riviera strongly promotes a culture of competence development for all the key employees in the company's management. From year to year, considering new investments and increase in work complexity, the number of managers at the company keeps growing. In 2016, there were 426 of them; that is a 10% increase compared to 2015.

Compared to the overall number of employees during peak season, the share of management is a high 11%, so one of the key goals and priorities at Valamar Riviera is to develop and build up competent management that has all the needed knowledge, skills and abilities to lead people towards the realization of the company's strategic goals.

One of the key factors in management development is the company's commitment to internal promotion, so the largest number of current managers (more than 60%) grew and developed in the ranks at Valamar Riviera. All employees are made aware of the options to advance during annual evaluation talks with their direct superiors, and they

receive timely feedback on their performance and career development plan, which includes a plan of education and additional employee training.

In this way the company has secured a long-term, comprehensive and integrated approach to strengthening the company's management competences and a structured process of identification, selection, development and retention of key employees for current and future needs at the company.

At the same time, by developing a sustainable management succession plan, Valamar Riviera creates flexibility of organization and fast reactions to changed working conditions, and strongly

motivates and retains its best employees. In line with the salary and reward policy at Valamar Riviera, key employees in management positions at the company, who realize clearly defined key performance indicators and achieve precisely determined individual goals, have the chance to participate in annual management rewards according to the reward rules. Annual rewards – bonuses to management are expressed as a percentage of annual salaries and paid in accordance with realized goals after the balance sheet is done.

The total number of employees with special rights and responsibilities at the company in 2016 amounted to 432, with 167 women and 265 men.



SHARE OF MANAGERS IN TOTAL NUMBER OF EMPLOYEES IN 2016



Employee Satisfaction and Improvement of Working Conditions

Valamar surveys employee satisfaction among all employees as part of the annual corporate culture and climate survey (the 3C project), which collects employee feedback in seven distinct areas: work organization, management, education and training, attitude toward the employer, career opportunities, salary and work/life balance.

For several years, we have had a stable level of employee satisfaction, graded 3.8 out of 5. In order to get the “real” picture, questionnaires are distributed during peak season, in August. In 2016, 88% of the questionnaires were completed and handed in, and this is a representative sample for the interpretation of results and development of a corrective activity plan.

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

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

Valamar Riviera is extremely proud of the results of the corporate climate and culture survey that the company is achieving in the work organization (4.0) and management (4.1) criteria, as these are much higher than the average. They are key elements in corporate management that secure long-term stable and top-quality employee effort.

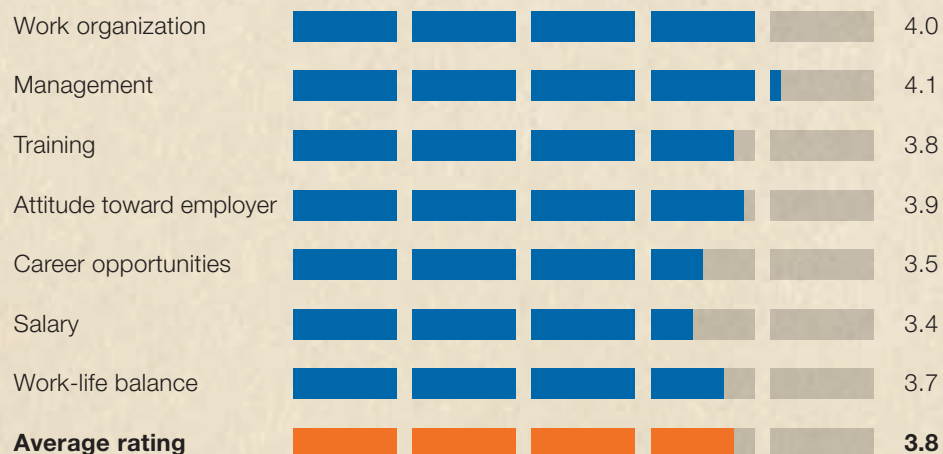
In 2013, Valamar introduced the Uplifting Service project into its operations. The project's aim was to increase the level of excellence by transforming the culture of hospitality, so that the company and our employees would be recognized as the best hosts on the Adriatic. It is a simple approach that uses communication, motivation, education and common employee tools to create an atmosphere completely focused on the guests. This award-

winning project encourages employees to acknowledge one another, and strengthen their sense of community and team spirit.

Since we recognize the value of our employees taking part in business decision and we want to promote the importance of their participation in the company's development and success, we launched a program called My Idea for Valamar. The purpose of this program is to encourage all employees to propose ideas to improve business and ultimately reward the implemented solutions that improve or introduce new, better business practices. The valuation criteria include overall business operations of the company, from lowering costs / raising revenues, improving work processes, service and product quality, to guest satisfaction.

RESULTS OF THE CORPORATE CLIMATE AND CULTURE SURVEY FOR 2016

(average rating between 0 and 5)



Investment In Future Employees And Promoting Jobs In Hospitality and Tourism

An especially important project focusing on investments in promoting jobs in hospitality across the country was realized in the school year 2016/2017 in collaboration with the Ministry of Tourism. It refers to the co-financing of 217 scholarships: with this initiative Valamar Riviera becomes the largest individual scholarship provider in Croatia's hospitality and tourism (Croatia's total: 245, Valamar Riviera: 89%) with a total investment worth HRK 1,085,000.00.

Valamar Riviera's promotion at 24 vocational schools throughout Croatia, where we informed the students about opportunities of scholarships and later employment, has resulted in considerable interest among the students. In 2016, the scholarship program included 217 students from 31 Croatian schools, mostly from

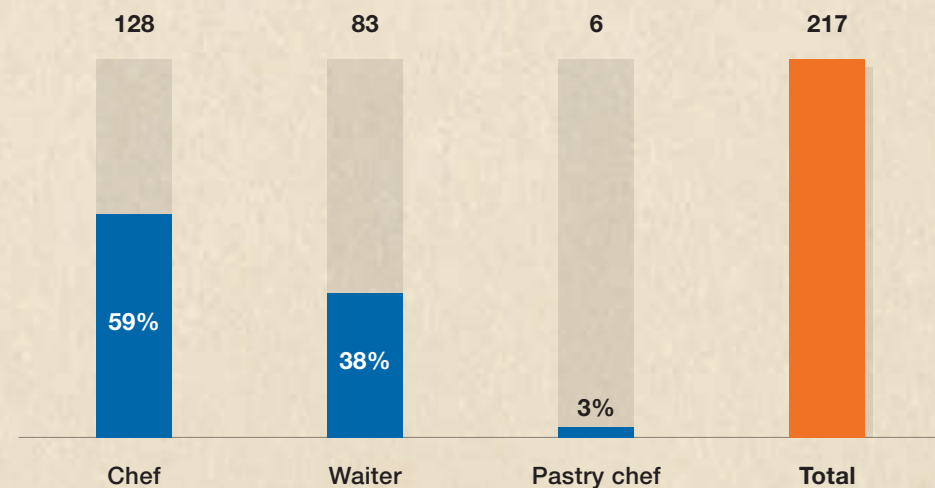
continental Croatia and schools outside the destinations where Valamar Riviera operates (71%).

89 high school graduates are going to get their first job and first work experience in July 2017 at all our destinations. The employer will secure free lodging for the 70 students coming from other parts of Croatia, their first 6-month employment contract and skills

development in a stimulating work environment offering excellent services and working conditions. 41 students from local schools will be included in summer internships at our properties with the expert guidance by our licensed mentors, together with 25 students (scholarship holders) who will arrive with their teachers from high schools in Požega, Nova Gradiška and Slavonski Brod.



OVERALL NUMBER AND STRUCTURE OF NEW SCHOLARSHIP HOLDERS FOR 2016/2017



Valamar's international partner institution is the Kaposvar's vocational school in Hungary through an Erasmus project called „Professional mobility from the Alps to the Adriatic“ that promotes cross-border mobility of vocational school students in Hungary, Croatia and Austria. Pursuant to the agreement, Valamar will offer summer internship opportunities to 45 students in the period between 25/06/2017 to 27/8/2017 in Poreč (Lanterna) and will collaborate with their 6 teachers.

We have also continued our successful collaboration with the Faculty of Tourism and Hospitality management in Opatija (University of Rijeka): from our experts' participation in Career Days, promotion of jobs in hospitality and tourism, trends in the development of human resources and new jobs and careers at Valamar Riviera as well as the 300-hour internship of 15 students at Valamar Riviera.

We have also continued organizing Open Days, aiming to present operations and employment opportunities at Valamar to the local community. This is a part of our continued cooperation with vocational schools and colleges in order to develop knowledge, skills and competences of potential employees, and to promote vocations in tourism, a prerequisite for a long-term sustainable tourism operation.

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

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



SCHOLARSHIP PROGRAM AT VALAMAR

Valamar Riviera is the largest single scholarship provider in the tourism and hospitality sector in the Republic of Croatia:



HRK 1,085,000

An important program related to investments in vocational jobs in collaboration with the Ministry of Tourism covers:



217 scholarships

Valamar Riviera's promotion across the country during autumn 2016 included:



24 vocational schools

5.3 GROWTH STRATEGY

In 2016, we achieved an exceptional increase in both revenue and profit by improving our business processes, developing our own portfolio, increasing the focus on our guests, and developing our business through strategic partnerships and acquisitions.



At the same time, we identified the key factors that will support our aspiration towards the further growth of our revenue and profit. They are:

- 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 offerings in collaboration 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

PORTFOLIO CAPITAL INVESTMENTS AND ASSET DEVELOPMENT

Since 2012, Valamar Riviera has invested around HRK 1.4 billion in the development of its portfolio, thus increasing the share of Premium and Upscale accommodation from 29% to 40%.

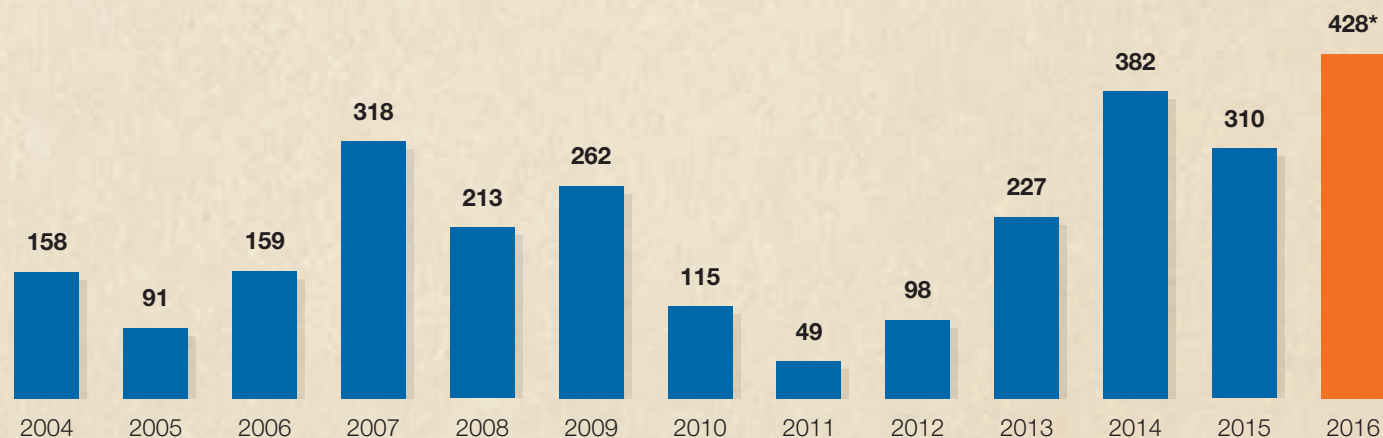
In 2016 began the preparation for Valamar's largest investment cycle planned for 2017, worth HRK 873 million. The value of the single largest investment in this particular cycle is HRK 562 million and it is focused on Rabac, where in October 2016 began the construction of two luxury resorts – Valamar Girandella Resort 4*/5* and Valamar Bellevue Resort 4*. The said investment will reposition Rabac as the leading leisure destination for high-end guests. Moreover, the investment is important for the overall economic development of the local community and will secure more than 350 new jobs. Finally, a number of new features will become available to local residents and visitors alike – from beaches, promenades and playgrounds to new catering establishments and sports activities and venues.

In 2016, on the island of Krk, Croatia's first ever five-star campsite was opened, Camping Resort Krk 5*, while Camping Resort Lanterna 4* received its fourth star and now offers brand new premium camping services and features.

In the period up to 2020, investments in the portfolio will reach HRK 1.5-2 billion, the EBITDA margin will steadily grow to 35-38% and generate premium returns while maintaining a stable balance sheet and a sustainable net debt/ EBITDA ratio.



INVESTMENT CYCLE (capitalized investments, HRK mn)



*In this total of HRK 428 mn, HRK 167 mn represent the 2016-2017 investment cycle.

SALES AND DISTRIBUTION STRATEGY

In 2016, Valamar Riviera achieved significant 26% growth in direct sales, its most lucrative channel. The average daily rate grew by 4.6% at company level. As regards overnights, campsites saw an increase of as much as 10%, while hotels reported a 6.6% increase compared to 2015.

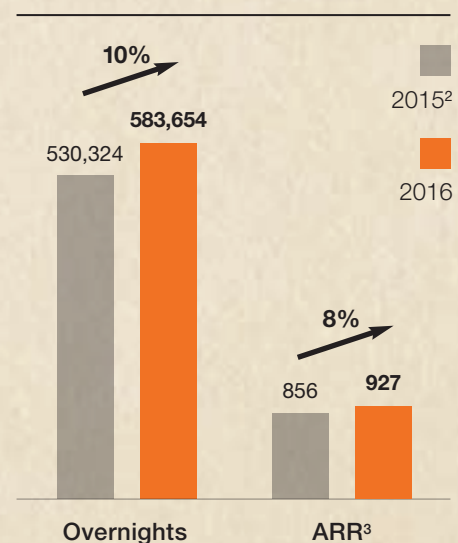
Valamar has seen a continued growth in revenues from direct bookings and continues to work on initiatives directed at increasing loyalty. Furthermore, the company is working on establishing cooperations with key tour operators to diversify its portfolio and prolong the tourist season. In 2016, Valamar hosted a number of large-scale events, including the Daimler Mercedes-Benz Global Training Experience in Dubrovnik, as well as the WinDays

conference and the first Poreč Open Air festival in Poreč.

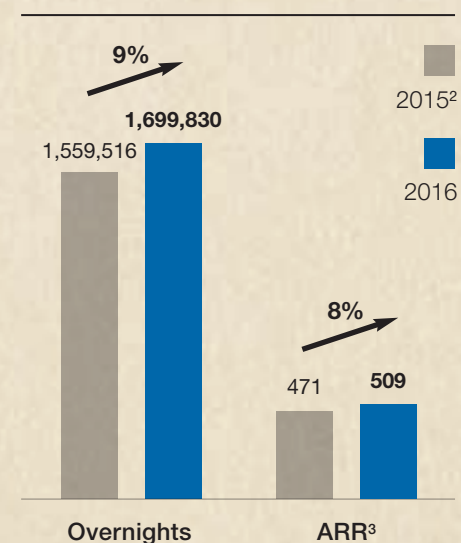
The continual ARR growth in the Premium and Upscale segment in all our destinations validates our orientation to investments in higher category properties. The said ARR and revenue growth is accompanied by an increase in overnights, thus reaffirming the business growth stability of our key products- hotels, resorts and campsites.



AVERAGE RATE GROWTH AND OVERNIGHTS – PREMIUM PROPERTIES¹



AVERAGE RATE GROWTH AND OVERNIGHTS – UPSCALE PROPERTIES¹



The average rate increase in Premium and Upscale properties was 8% , with an increase in the number of overnights for the Premium (10%) and Upscale (9%) products.

Valamar's occupancy grew by 2.9 percentage points. Premium buildings have the highest occupancy (53%). Two destinations, Krk and Dubrovnik, report the highest growth (6 p.p. and 3 p.p., respectively).

Valamar Riviera's goal is to have one property working year-round for each destination. By additionally boosting pre-season and post-season segments, two hotels, Valamar Diamant in Poreč and Valamar Lacroma in Dubrovnik, stayed open throughout 2016. The Valamar Sanfior's preparations for year-long operations have begun as well.

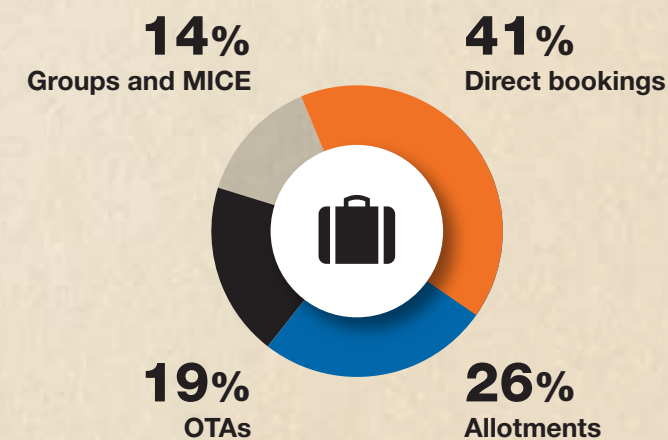
In 2016, the Valamar Lacroma had the longest operating period with a total of 349 operating days, followed by the Valamar Diamant with 345 operating days.



ANNUAL OCCUPANCY OF HOTELS AND RESORTS BY SEGMENTS (units)

	2015	2016	Ix (2016/2015)
PREMIUM	45.6%	53.0%	107.4
UPSCALE	42.9%	43.4%	100.5
MIDSCALE	40.5%	43.5%	103.1
ECONOMY	35.7%	38.0%	102.3
TOTAL	40.2%	43.1%	102.9

DISTRIBUTION CHANNELS IN 2016 (by revenues)



¹ Hotels, resorts and campsites included.

² Baška included as of 1 July to 31 December 2015.

³ The average daily rate has been calculated as board revenue/ accommodation units sold.

MANAGEMENT OF THE VALAMAR BRAND

In 2016, we began the process of redefining the existing brand strategy, based on the Valamar Riviera corporate brand and two key product brands: Valamar Hotels & Resorts and Camping Adriatic by Valamar.

This strategic project aims at improving the efficiency and strength of the

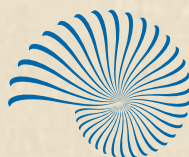
umbrella brand and the overall structure of the corporate, product and service sub-brands in order to harmonize the communication strategy at all levels with the ambitious plans of the company. The new brand strategy is expected to be completed in 2017, while its full implementation in properties and in communication will be achieved in 2018 and 2019.

VALAMAR RIVIERA



MICROFACTS

The intention behind Valamar's logo is to evoke the memory of the sea and vacations. It emulates the shape of a paper nautilus, small creature that inhabits the Adriatic, as well as other world seas. This cephalopod, whose Latin name is Argonauta argo, is a rare species in our sea, the female of which has a beautiful white shell of a wavy surface.



SEGMENTATION AND SELECTION OF TARGET MARKETS

In 2016, Valamar Riviera was determined to position the portfolio to efficiently address the target groups.

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

In 2016, this strategy was best reflected in the development of Valamar Isabella Island Resort, where a special family offer was created, alongside Adults Only and V Level services and facilities. A similar strategy will be implemented at Valamar Girandella Resort, scheduled for opening in 2017. As regards the camping segment of the portfolio, we have developed specific products for luxury camping such as the premium mobile home village and glamping, which resulted in the 18% share of that particular segment, up by 5 percentage points from the previous year.



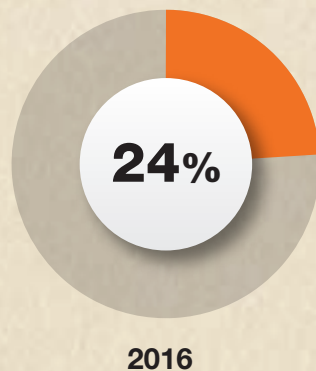
INCREASE IN DIRECT BOOKINGS AND GUEST LOYALTY

Valamar Riviera's loyalty program aims at providing added value for returning guests, and consequently increase revenues through direct bookings.

In 2016, the share of direct bookings in revenues was 41% . They were made through our direct distribution systems: call center, direct web bookings, mobile platform bookings and loyalty program. The share of returning guests was 24%.

We will continue developing our loyalty program in order to create more added value for our clients. Simultaneously, we will develop our web pages, e-marketing and technologies in order to reach a 50% share of direct bookings in revenues and 30% loyal guests by 2020.

RETURNING GUESTS*



* The CRM data base was restructured in 2016.



STRATEGIC PARTNERSHIPS

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

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

- We focus our specialist partners on the existing and new products, through which we generate growth, particularly in the preseason and postseason period. The products on which we focus our activities are cycling, tennis, gastronomy, destination events, and large-scale international conferences.
- In the tour operating segment, we find additional room for growth through new investment projects and focusing our partners on individual projects, thus enabling both product and service optimization and, eventually, greater efficiency.

TUI Group is the world's largest tourism company, with a chain of strong tour operators, 1,500 agencies, six airlines with more than 150 airplanes, 300 hotels with over 214,000 beds, and 14 cruise ships. More than 20 million guests use their services annually.

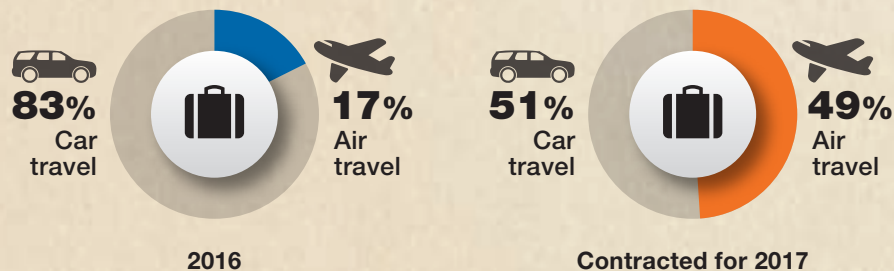
We are nearing a successful completion of the agreement and implementation of the most complex (in terms of product specification) family concept hotel with TUI; in the 2017 season, we will open the first TUI Family Life concept in Croatia. Based on our agreement with TUI, over the next three years, the Family Life Bellevue Resort in Rabac can expect 76,000 new guests from air travel markets in the UK and Scandinavia.

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.

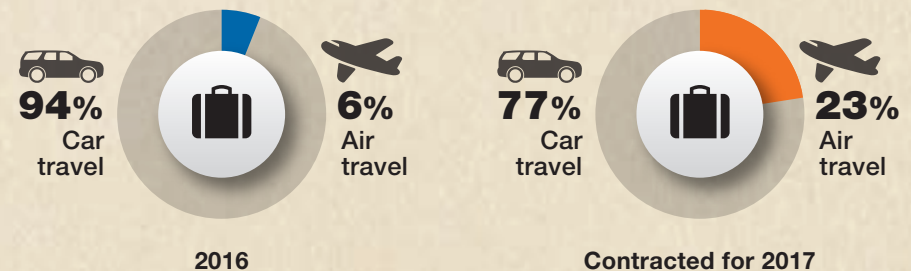
DER Touristik contributes to the successful positioning and sale of new, differentiated "Adults only" and "Family" facilities at Valamar Girandella Resort. DER Touristik consolidates the DACH market (Germany, Austria, Switzerland) and significantly focuses its sales and promotion through this project in Istria and Rabac. In the next three years covered by the agreement, Rabac expects 25,000 guests.

Such cooperation will result in the repositioning of Rabac (from 2*-3* to 4*),

SHARE OF GUESTS BY MANNER OF ARRIVAL AT DESTINATION HOTELS AND RESORTS IN RABAC - TOUR OPERATOR SEGMENT



SHARE OF GUESTS BY MANNER OF ARRIVAL AT DESTINATION HOTELS AND RESORTS IN RABAC - ALL SALES CHANNELS



the introduction of new hotel concepts (TUI Family Life, Adults Only), thus generating Valamar's knowledge base and improving the entire chain of destination services.

Jet2holidays 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.

Jet2holidays grew by 30% by number of occupied units in hotels and resorts in Istrian destinations, while in Dubrovnik it reports a 94% growth when comparing 2015 and 2016. This represents the highest increase in the tour operator segment and these positive trends are continued in the plans for 2017.

Due to the excellent position of Istrian destinations (Poreč and Rabac) and their transport connection with the main source markets, the conventional manner of travelling to the destinations was by car.

Accordingly, in 2016 air travel guests represented only 21% of the entire tour operator segment in hotels and resorts. In comparison, in Dubrovnik the main manner of travelling to the destination is by plane and air travel guests represented 90% in the same year.

Our strategic component is boosting air travel arrivals to Istria through which we will connect with more distant markets and open up towards new ones. The effect of intensifying cooperation with strategic partners can be seen in the increase from 21% of air travel guests in 2016 to more than 35% planned for 2017 for destinations 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 strategic partners and destinations where Valamar Riviera operates, such as TUI and Der Touristik, Jet2Holidays, tennis specialists Zischka and Wagner and ID Riva contribute considerably to the development of the offering in destinations and season prolongation.

One of the key focuses is the expansion of strategic partnerships in order to prolong the season and attract new source markets.

The 2016 event calendar that Valamar is involved in, either as organizer or sponsor was richer than ever. The most important events included the Poreč Open Air festival with MTV Summerblast Music festival, Swatch Beach Volleyball Major, Offshore World Challenge big game fishing competition, Valamar Trail, Baška Four Islands Race and many others. A large number of events took place in

either the preseason or the postseason period, which helped generate tourist arrivals in low-demand periods. The key to the events' successful realization was the synergy between towns, municipalities, tourist boards, hotel companies, catering businesses and other stakeholders of the destination tourism. Eventually, it all contributed considerably to our destinations being included among the most desirable destinations in Croatia.

Over the past years, Valamar's strategic focus has also been on the development

of specific products and programs, particularly cycling and outdoor sports. Together with the other key destination advantages and opportunities, including its gourmet offer, the family-based offer at our properties, and interesting trips, they constitute a number of attractive sales packages directed at specific guest segments in our key markets in the region. In 2016, special focus was put on Germany and Austria, where we realized our promotion and sales through special cooperations with tour operators and Valamar's direct channel.



OUR STRATEGIC PARTNERSHIPS

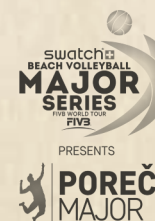
HOTELS AND RESORTS



CAMPING RESORTS



IMPORTANT DESTINATION EVENTS



GROWTH THROUGH ACQUISITIONS, MERGERS AND PARTNERSHIPS IN LEISURE DESTINATIONS



ACQUISITION OF IMPERIAL D.D.

In 2016, Valamar Riviera successfully expanded its business operations to another top-quality tourist destination on the Adriatic Sea by acquiring the majority stake in Imperial d.d. on the island of Rab through a strategic partnership with Allianz ZB d.o.o. a mandatory pension fund management company. Following the conclusion of the takeover bid by the end of 2016, Valamar Riviera and Allianz ZB jointly acquired 88.93% of Imperial's shares. Valamar Riviera purchased 54.71% of shares for HRK 285 million, which meant that, as a company,

Imperial d.d. was valued at HRK 697* million in total.

Allianz ZB and Valamar Riviera acquired the controlling ownership stake in Imperial d.d. in stages, the most significant of which had been the purchase of the company's shares from the Restructuring and Sale Center that concluded the privatization of Imperial d.d.

Today, Imperial's offer of accommodation units accounts for 77% of the categorized, organized tourist accommodation of the island of Rab, with

KEY INDICATORS FOR THE IMPERIAL D.D. ACQUISITION



Acquisition Value	HRK 285 mn (54.71% of shares)
Enterprise value*	HRK 697 mn
Acquired enterprise value	HRK 381 mn
Total revenues	HRK 142 mn
EBITDA	HRK 40 mn

* Enterprise value calculated as market capitalization based on acquisition share price+net debt on 31/12/2016.

properties in the Town of Rab, alongside Rajska Beach in Lopar, and on the Suha Punta peninsula in Kapor, which posted 678,013 overnights in 2016. The accommodation capacity of Imperial d.d. accounts for 15% of Valamar's total capacity. In 2016, Imperial d.d. posted total revenues of HRK 142 million and operating profit of HRK 40 million.

Croatia's leading tourism company and top institutional investor see a great synergy potential in the future joint development of the portfolio of Imperial d.d. and Rab as a destination

through a new model of a strategic partnership between a pension fund and a tourism company.

In line with the agreement on the management of the hotel and tourist facilities and amenities, between Valamar Riviera and Imperial d.d. and in effect since January 4, 2017, the two companies began joint work on the development of the tourism portfolio of not only Rab but also the entire destination, which has been recognized as a destination with considerable potential for further development.



DEVELOPMENT OF A DIFFUSED HOTEL IN POREČ

In 2016, Valamar Riviera launched a project to develop a diffused hotel in Poreč by inviting private accommodation owners to express their interest for such a form of cooperation.

The development of a diffused hotel is in line with the strategy for Valamar's growth and development. One of the key goals is the revitalization of the old town of Poreč. Accommodation in households accounts for a major portion of the total accommodation capacities, and their merger into a diffused hotel will increase

the overall quality of the service and, consequently, the competitiveness. Developing diffused hotels as a new form of accommodation is also one of the priorities of the private accommodation development, as defined in the strategy for the development of Croatian tourism by 2020. In a diffused hotel, accommodation units can include rooms, hotel suites, family rooms, studio apartments and apartments, and the first accommodation units of Valamar's diffused hotel opened in 2016 in the former Kompas building in Poreč.



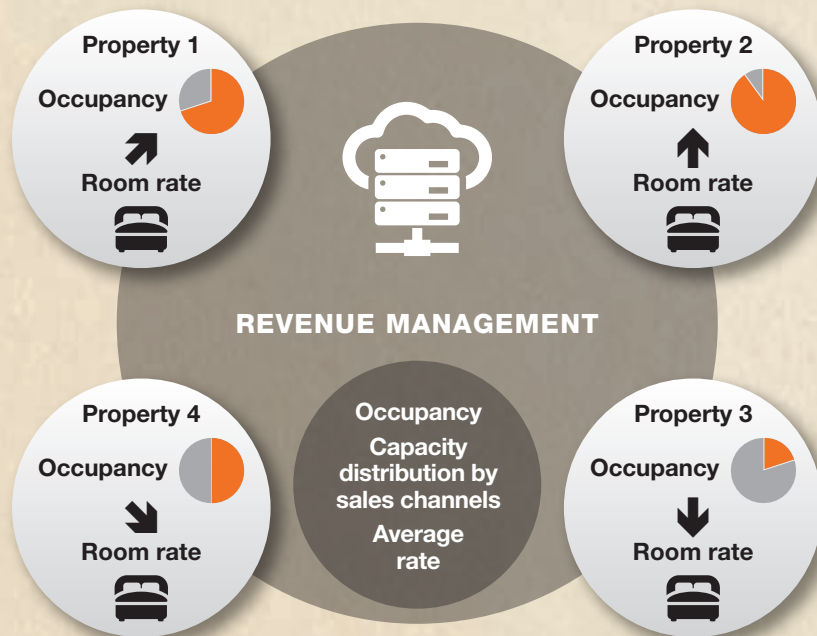
OPTIMIZATION OF PRICES, OCCUPANCY AND DISTRIBUTION TO INCREASE REVENUES

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

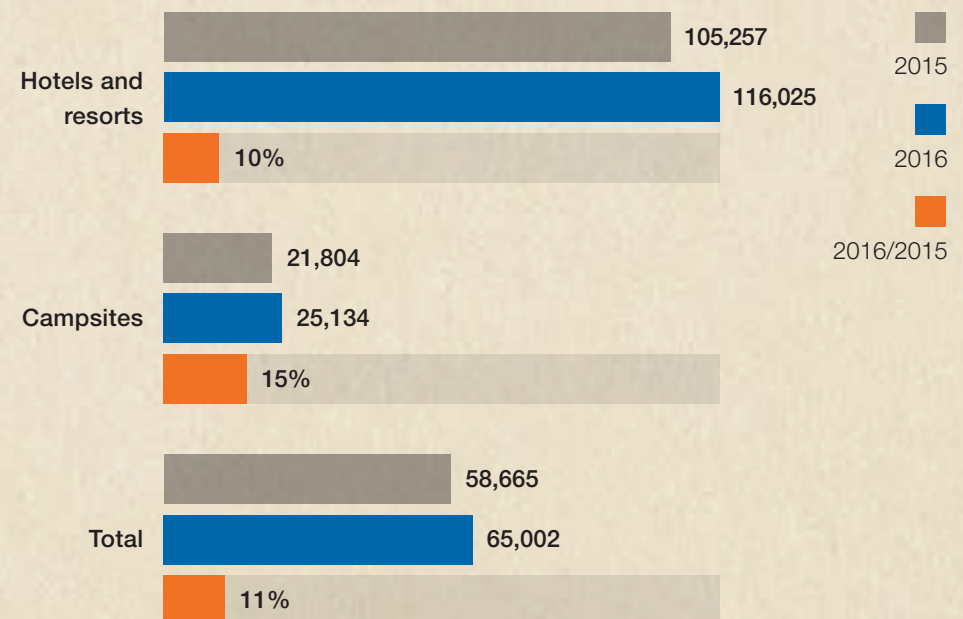
Valamar defines excellence in revenue management as selling the right room to the right client, at the right moment, at the right price, through the distribution channel with the best efficiency. The achieved continuous growth in revenues per available room over the last five years as well as the 10.8% increase in revenue per available room (RevPAR) in 2016 was

largely the result of a 4.6% increase of the average rate per unit (as compared to 2015) with an efficient increase of overnights through the strategic choice of distribution channels.

OPTIMIZATION OF PRICE, OCCUPANCY AND DISTRIBUTION CHANNEL



REVPAR INCREASE BY PRODUCTS (HRK)



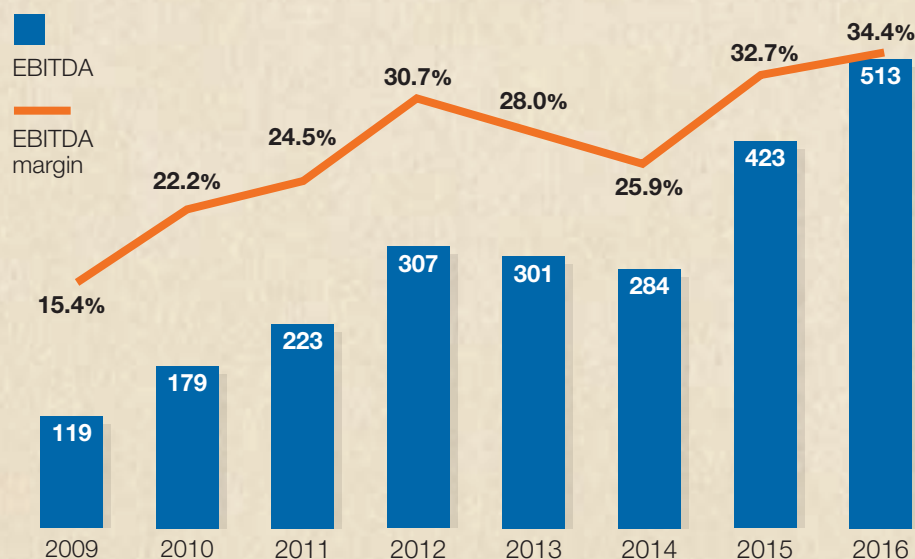
FOCUS ON OPERATING EFFICIENCY

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

Since 2009, we have improved our EBITDA margin from 15.4% to 34.4% (adjusted 34.9%). The company's business model of operating a cluster of properties in a destination helps centralize operational services such as laundry, horticulture,

maintenance or energy management, and to increase efficiency. Furthermore, due to its size on the Croatian market, the company is able to utilize economies of scale in its business operations and realize purchasing advantages. A high standard of professionalism helps the company to efficiently implement the best practices across the organization. Valamar Riviera intends to continue to use these advantages to reach its profitability targets.

OPERATING EFFICIENCY* (HRK mn)



* Financial information until 2014 are from the consolidated financial reports of Valamar grupa d.d., and as of 2014 from the consolidated financial reports of Valamar Riviera d.d.

ACTIVE PARTICIPATION IN ASSOCIATIONS AND INSTITUTIONS TO DEVELOP AND PROMOTE TOURISM

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

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

1. CROATIAN NATIONAL TOURIST BOARD
2. ISTRIA TOURIST BOARD
3. KVARNER TOURIST BOARD
4. POREČ TOURIST BOARD
5. VRSAR TOURIST BOARD
6. FUNTANA TOURIST BOARD
7. TAR-VABRIGA TOURIST BOARD
8. LABIN TOURIST BOARD
9. RAŠA TOURIST BOARD
10. KRK TOURIST BOARD
11. DUBROVNIK TOURIST BOARD
12. BAŠKA TOURIST BOARD

The company also has its representatives in the following associations:

- CROATIAN EMPLOYERS' ASSOCIATION (HUP)
- CROATIAN CAMPING UNION (KUH)
- ASSOCIATION OF EMPLOYERS IN CROATIAN HOSPITALITY (UPUH)
- CROATIAN CHAMBER OF ECONOMY (HGK) – including regional chambers in Pula and Dubrovnik
- ASSOCIATION OF CROATIAN TRAVEL AGENCIES (UHPA)
- CROATIAN MEETING PROFESSIONALS ASSOCIATION (HUPKT)
- ALUMNI ASSOCIATION OF THE FACULTY OF TOURISM AND HOSPITALITY MANAGEMENT
- CROATIAN ASSOCIATION OF CORPORATE TREASURERS (HUKR)
- CROATIAN ASSOCIATION OF FINANCIAL ANALYSTS (HUFA)

5.4 INNOVATION AND DIGITALIZATION

By leveraging the opportunities provided by new technologies and digitalization processes we aim to fully meet and anticipate our guests' needs and become a leader in innovation of products and services in the European leisure hospitality market.

CONTINUOUS INNOVATION AS ONE OF VALAMAR'S CORE VALUES

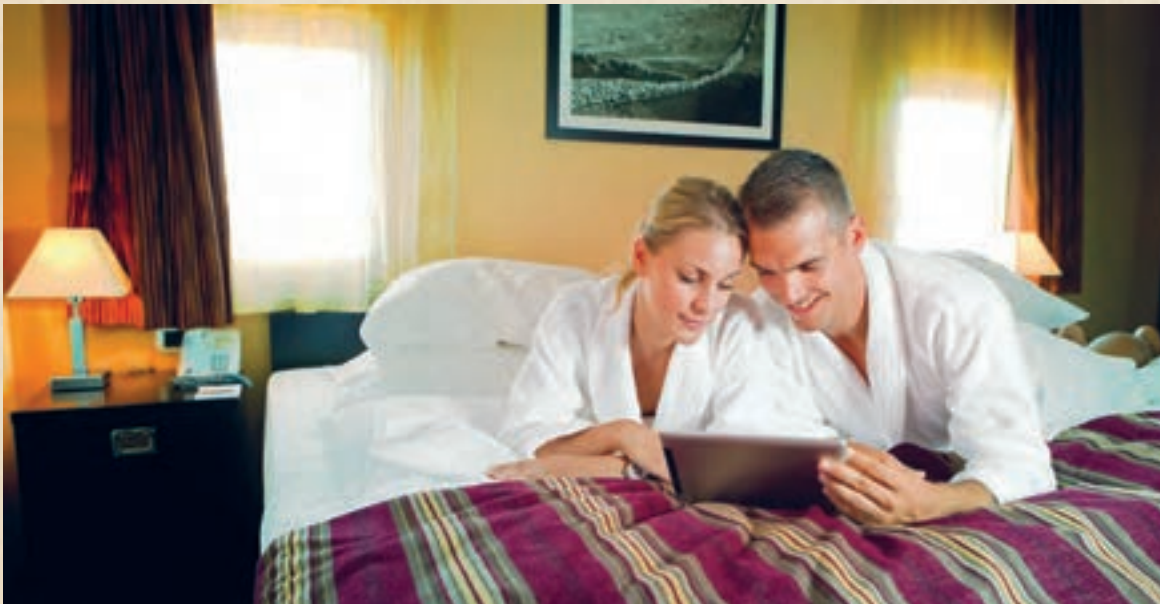
Innovations represent one of Valamar's core values and have always been a part of Valamar's identity. They are also one of the key ways Valamar is recognized by our guests and partners. Therefore, at Valamar we continuously innovate and improve our products, services, processes and capabilities to achieve superior customer experiences and operational efficiency.

Innovation at Valamar can be found in all areas of business activity, from daily operations to large investment projects. Many examples of Valamar's innovative culture over the last year are included throughout this report in our focus on the guest and guest relationship building, service excellence approach, new service concepts launched across the portfolio, human resource and corporate culture development, corporate social responsibility and commitment to the environment.

The company actively tracks and fosters innovation across the company, mainly through a central project management organization (PMO) which tracks, oversees and manages strategic cross-functional projects in the organization.

We are especially proud of our Perfect Experience Creator program that curates the guest experience of the entire destination to their individual needs and desires. The program is aimed at increasing guest engagement with local experiences and services which not only meets our guests' quest for authentic experience, but also supports communities and entrepreneurs in our destinations.

Innovation should also be aimed at sustainability and managing environmental impact. For example, in several locations we are installing new e-chargers for electric vehicles. Our aim is to position ourselves on the e-charger maps and GPS navigation systems, in turn increasing our attractiveness as an e-destination.





CAMPING RESORT LANTERNA

- Camping Resort Lanterna received the INOVACAMP 2016 recognition for its innovative glamping concept.
- For camping in style and luxury, Camping Resort Lanterna offers 14 luxury tents in the glamping village located in one of the most beautiful zones of the campsite.



CAMPING RESORT KRK

- Camping Resort Krk received the INOVACAMP 2016 recognition for its innovative concept of providing high-quality personalized service. In 2016 Camping Resort Krk became the first Croatian 5* campsite on the Adriatic.
- This unique eco-friendly family camping resort is the only campsite in Croatia with its own small spa center, and one of the few where occupancy does not depend on weather.



E-BIKE

- Protection of the environment and energy efficiency are among Valamar's strategic initiatives, and sustainability principles are included in the goal of every investment project's approach.
- In cooperation with the Istrian Tourist Board we opened the first e-bike charging station in Istria. Four of them were opened in 2016 in the following locations: Valamar Sanfior Hotel, Valamar Club Tamaris, Valamar Diamant Hotel and Camping Resort Lanterna. The project plan for 2017 includes five new e-bike charging stations.



MOBILE HOMES FROM CAMPING RESORT LANTERNA AND KRK

- In order to provide superior accommodation experience to our guests, we are working closely with partners who support our goal to be creative and innovative.
- 67 mobile homes in Camping Resort Lanterna and 63 mobile homes in Camping Resort Krk offer interior design specially created by Valamar in cooperation with its supplier partner.



LA PENTOLA, CRAFT, THE BEAT

- In 2016 Valamar Riviera opened three reconstructed facilities at the former location of Slavija in Rabac.
- Trattoria La Pentola, The Beat and Craft offer rich and innovative gastronomic and entertainment experience, all in one place. For exceptional Italian cuisine experience, guests and visitors enjoy our La Pentola with modern and innovative interior design, as well as a unique gastronomic experience.

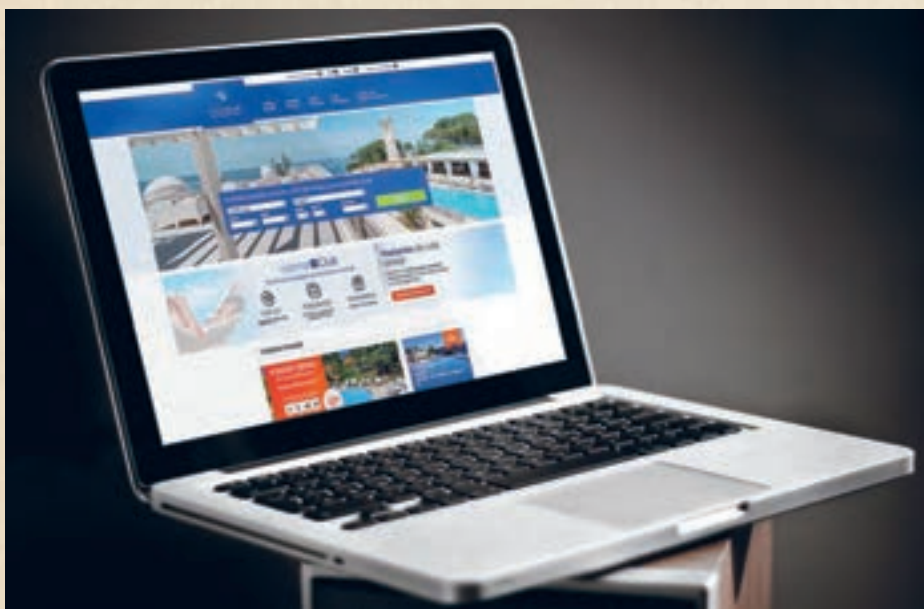


PERFECT EXPERIENCE CREATOR

- Perfect Experience Creator platform won the 2016 Golden Goat – Capra d'oro award in the category of innovative product.

Digitalization at Valamar

We recognize the global process of digitalization as a key enabler as well as a disruptor in the travel and hospitality industry. As one of the early movers in digitalization in the hospitality industry in Croatia, Valamar is today the Croatian market leader in revenue from direct bookings and breadth of digital customer journey touchpoints available to our guests, while they plan their travel or stay in a destination, ranging from our website, the newly developed mobile app*, loyalty program, newsletters, and CRM campaigns, to social media, online marketing, online travel partners, guest feedback and online reputation tools, et cetera. When planning a travel experience, the primary information sources are digital while the paths to bookings are becoming more and more complex.



Through our presence in of all the relevant channels and touchpoints, and proper management of marketing campaigns, we convert target audiences into guests. We believe we need to continue digitalizing our services to ensure high guest satisfaction and market presence.

Valamar is also an early adopter of numerous IT systems, applications and technologies and has invested heavily in developing best-in-class IT systems and infrastructure that are the backbone of our daily business operations and enable us to grow and scale our revenues and services. All our properties are operating on Micros Fidelio Opera PMS (property

management system). Our revenue management, loyalty program and CRM databases are enabled for smart data management and fully integrated with our PMS and booking systems. We also continue to invest considerably in our websites as a key driver of direct sales. We therefore believe that Valamar is well-positioned to quickly embrace digital products and services and benefit from the process of digitalization going forward.

As we continue to upgrade our portfolio and our services, we also plan to upgrade the guests' digital experience in a highly tailored way in key service areas to enable a better guest experience and ensure the right balance between personal touch and digital excellence.

ACTIVITIES IN 2016



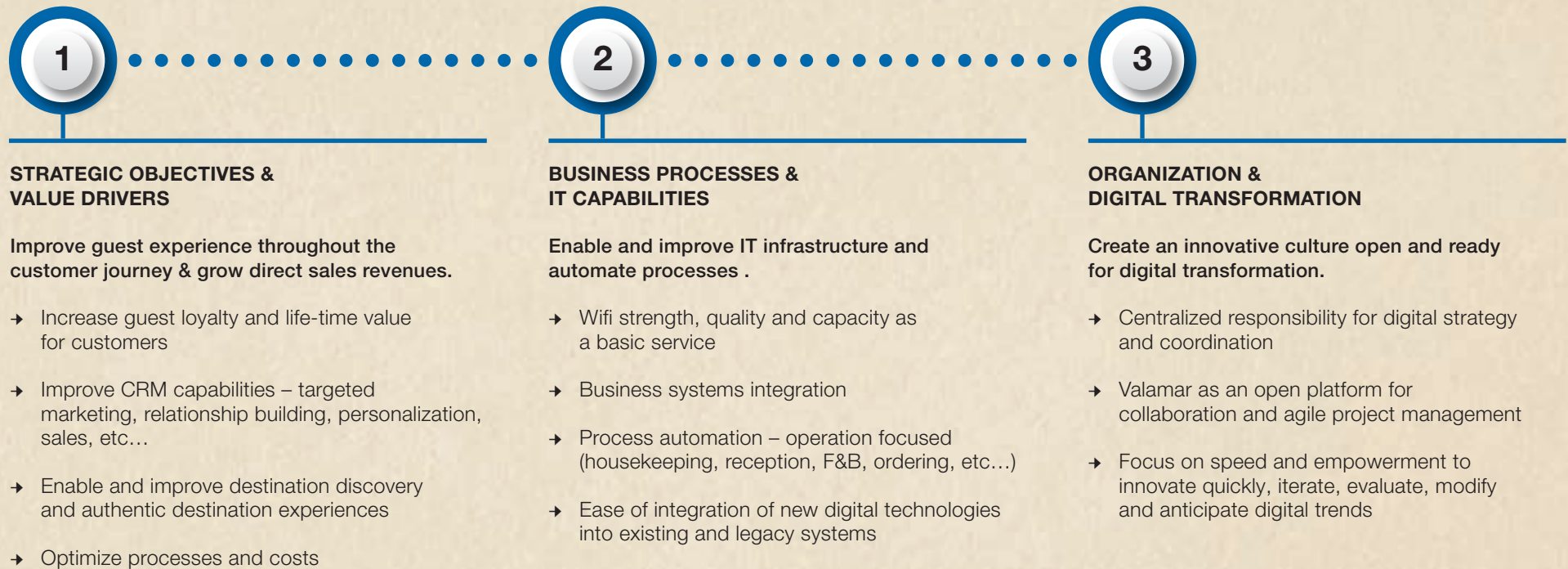
**21 strategic
digitalization projects**
identified in the PMO in 2016

All strategic digital projects and initiatives are coordinated by the central project management organization (PMO) and steered by the executive leadership through the Project Committee in order to ensure a strategic focus of the organization on the key value drivers and digitalization implementation.

* June 2017.

OUR DIGITALIZATION ROADMAP

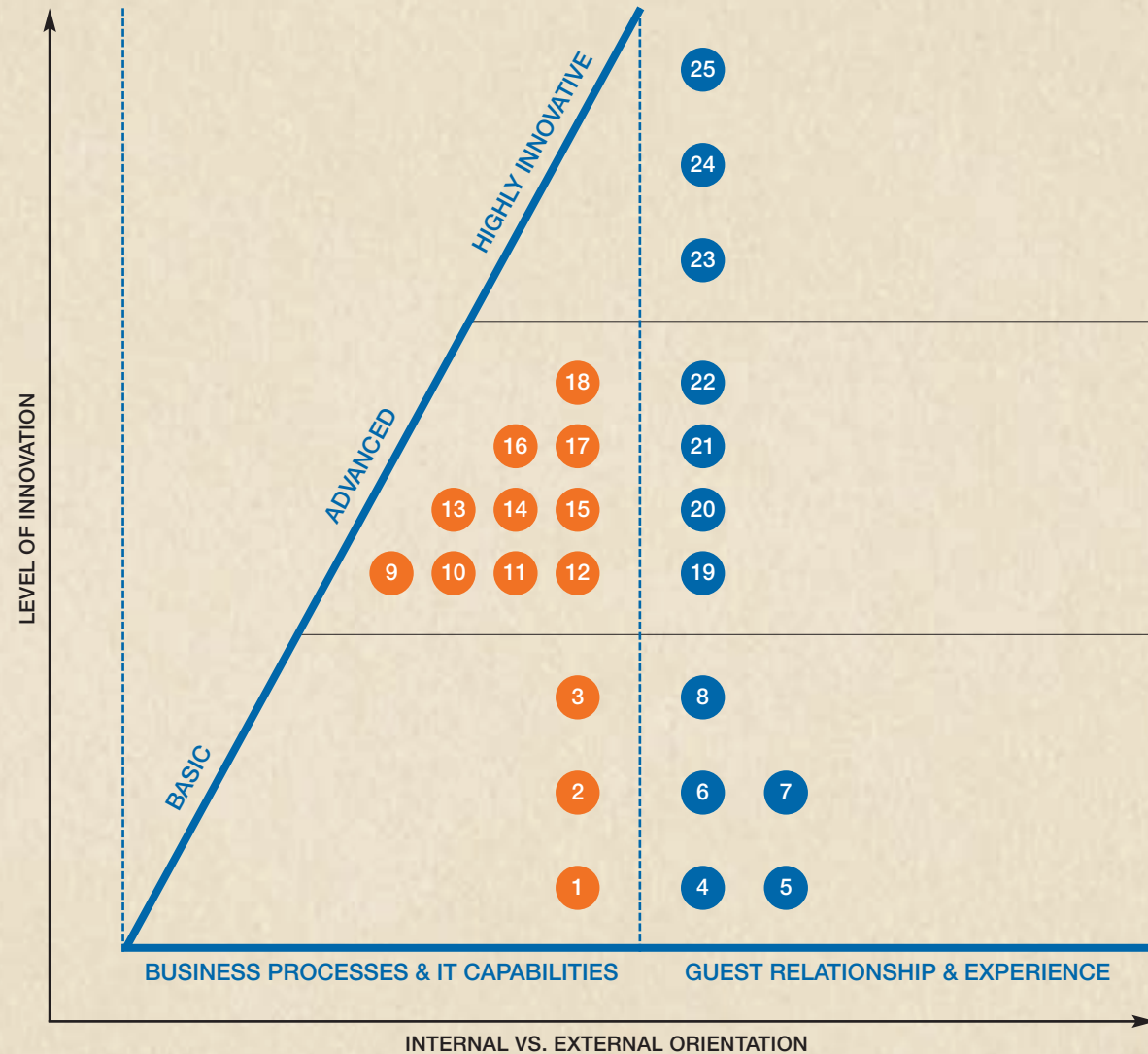
Valamar has identified the key strategic objectives, value drivers, business process, IT capabilities and organizational principles to guide our activities in the field of digitalization.



DIGITALIZATION PROJECTS IN 2016 AND 2017

There were 20 strategic digital projects in 2016, out of which 5 were completed, and 6 were initiated in 2017.

The projects are either external or guest experience and service quality focused, or internal or business processes focused. Valamar also tracks the level of innovation delivered by each project as ranging from basic to highly innovative.



EXAMPLES OF DIGITAL PROJECTS IN 2016

- 1 Booking engine & CRS
- 2 Credit Card Payment Solution
- 3 Liquidation Process Improvement
- 4 Special events live picture
- 5 Camping Adriatic new website launch
- 6 Valamar.com relaunch & improvements
- 7 Corporate web
- 8 Broadband Strategy & Wi-Fi Implementation
- 9 Facilities Management software
- 10 RFID towel control
- 11 Valamar Riviera Corporate Intranet
- 12 Portable terminal app for Sport centers
- 13 Portable terminal app for controllers in camps
- 14 E-Invoice
- 15 Advanced Planning and Forecasting
- 16 Project Management Portal
- 17 In-House Marketing
- 18 Board Revenues reporting
- 19 Cash Free Card
- 20 Guest App Valamar Hotels & Resorts
- 21 Valamar Plus Club loyalty program
- 22 E-chargers
- 23 Campsite Online check-in + Self check-in
- 24 Project "Tablet"
- 25 Perfect Experience Creator

ONLINE CHECK-IN & SELF CHECK-IN

- The development of a system that would allow a self check-in, in the hotels and the camping, for those guests who desire this kind of service, with the objective of achieving shorter waiting time for registration in the campsites, increase of customer satisfaction with front desk services and improved data collection about guests and thereby improvement of the CRM base
- Guest have the possibility to check in online even before their arrival

PROJECT "TABLET"

- Creation of a software solution that enables delivering digital information and content to the guests in the comfort of their hotel rooms, which is underway as part of the development of a new family 5* property in 2018.

VALAMAR MOBILE APPLICATION

- Offers the possibility of booking, provides useful information for guests before their arrival, on-line check-in and the possibility to use the digital room key, as well as other useful features during the stay
- Real-time communication with the hotel staff and continual guest feedback (surveys and recommendations)
- Developed in order to provide guest assistance throughout the whole stay

COMPLAINT MANAGEMENT SOFTWARE

- An application used by property management, housekeeping, maintenance and front desk for reporting guest needs, guest complaints, and maintenance issues through a smart phone and can be acted on immediately by other members of staff to improve guest experience, shorten the time for repairing malfunctions and track key indicators in housekeeping performance per property.

5.5 DESTINATION DEVELOPMENT AND RESPONSIBILITY TO THE LOCAL COMMUNITY

Corporate social responsibility is an integral part of Valamar Riviera's business tradition spanning six decades in tourism and hospitality, rooted in the belief that sustainable business should be a strategic goal and key driver of new value. Corporate social responsibility guides all of Valamar Riviera's strategic initiatives, including employee development and training, destination development, investments in the local community and care for those in need, a systematic approach to the preservation of the environment and the quality of the Adriatic Sea as well as corporate transparency and responsibility to its stakeholders, shareholders and the investment community.



The success of Valamar's hotels, resorts and campsites greatly depends on the further development of the destinations where the company operates.

That is why Valamar takes an active role in destination development through various strategic projects and long-term partnerships with local governments and public authorities, tourist boards, service

and event providers, sports clubs and non-profit organizations.

By promoting and improving a destination's tradition, through learning and innovation, Valamar actively contributes to social development and is able to offer its guests more intensive and more authentic experiences in destinations that have an exceptionally rich cultural heritage.



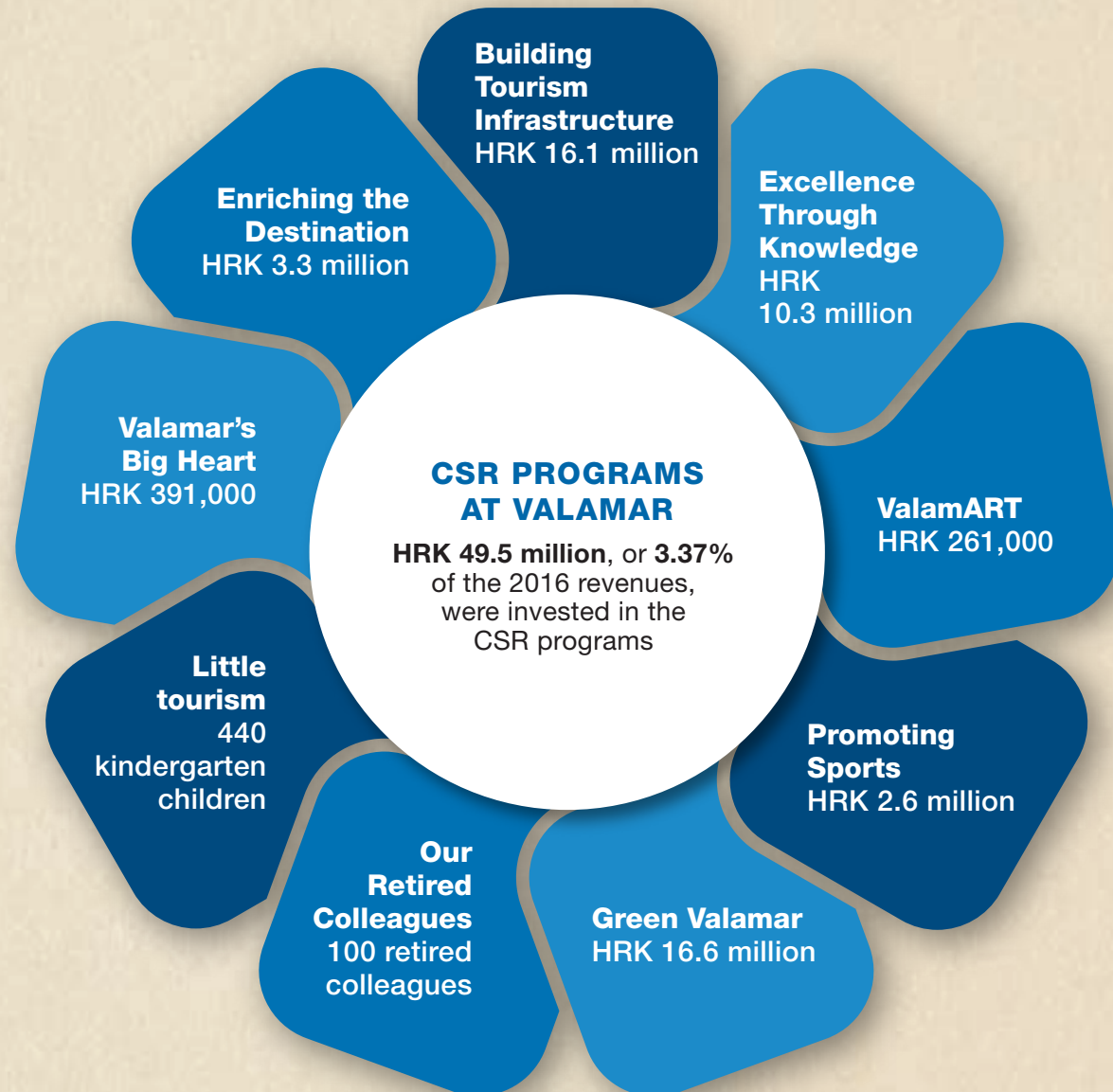
Valamar's Nine Corporate Social Responsibility Programs

Considering its impact on the local community, environment and society as a whole, Valamar Riviera has organized its CSR efforts into nine umbrella programs and have committed at least 2.5% of annual revenues to investments in these programs. In 2016, as much as 3.37% (HRK 49.5 million) of the revenues was invested in the programs.

In 2016, we invested HRK 12.5 million more in corporate social responsibility programs than in 2015.

MICROFACTS

In 2015, Valamar Riviera won the CSR Index Award for responsible policies and practices of environmental management.



Enriching the Destination



The program for enriching the destination experience 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. Aside from supporting destination projects through partnerships, Valamar Riviera independently organizes projects that are enjoyed by numerous tourists and local population alike.

In 2016, more than HRK 3.3 million were invested in expanding the destination events.

In 2016, we continued organizing and supporting a series of destination events, including the traditional Giostra, Labin Republic, Labin Carnival, Oktoberfest by Valamar, Tunalicious Street Food Festival, Valamar Terra Magica and Valamar Trail in Rabac, Poreč Major, Istrian Riviera, SUPer Surfers Challenge in Poreč, 4 Islands in Baška, Dubrovnik Summer Festival, Dubrovnik Symphony Orchestra, Sentimento Festival, and large-scale performances by Maksim Mrvica, The Frajle and Klapa Intrade in Dubrovnik.

Especially important for 2016 was the Poreč Open Air festival, which lasted three months and featured more than 250 events that brought life to the streets and squares of Poreč, to the delight of tourists and locals alike. The festival is the product of a cooperation between Valamar Riviera as the event's initiator and chief partner, and MPG, the company in charge of organizing the festival, with financial and communication support from the Town of Poreč, Poreč Tourist Board, Istria County Tourist Board, and the Croatian National Tourist Board, as well as numerous sponsors, who have all recognized the value of this unique festival.

During the tourist season, in the period between mid-June and mid-September, Poreč Open Air's varied program for all

POREČ OPEN AIR



**Festival period
100 days**



**>250
events**



**11 catering establishments
as festival partners**



**>50,000
visitors**



ages and tastes brought new life to Poreč, with the festival's many daily events making the destination even more attractive. As confirmation, Poreč received the coveted Tourist Flower Award as the best summer vacation destination. The award is presented by the Croatian National Tourist Board, the country's Ministry of Tourism and the Croatian Chamber of Commerce. Poreč Open Air also received the Golden Goat Award for outstanding contribution in the field of marketing in Istrian tourism, particularly for improving products as well as promoting activities, products and projects in Istria.

The festival featured more than 250 music, cultural, film and children's events, enjoyed by more than 50,000 visitors. The festival also involved the local community – from catering establishments to local suppliers and entertainers.





The Poreč Open Air festival also featured the MTV Europe Summerblast, with many international DJ stars who drew numerous young people as well as domestic and foreign electronic and pop enthusiasts to Poreč. The extraordinary success of the first Poreč Open Air festival guarantees the event's 2017 edition. Moreover, Valamar intends to apply a similar concept to its other destinations as well.

ACTIVITIES IN 2016

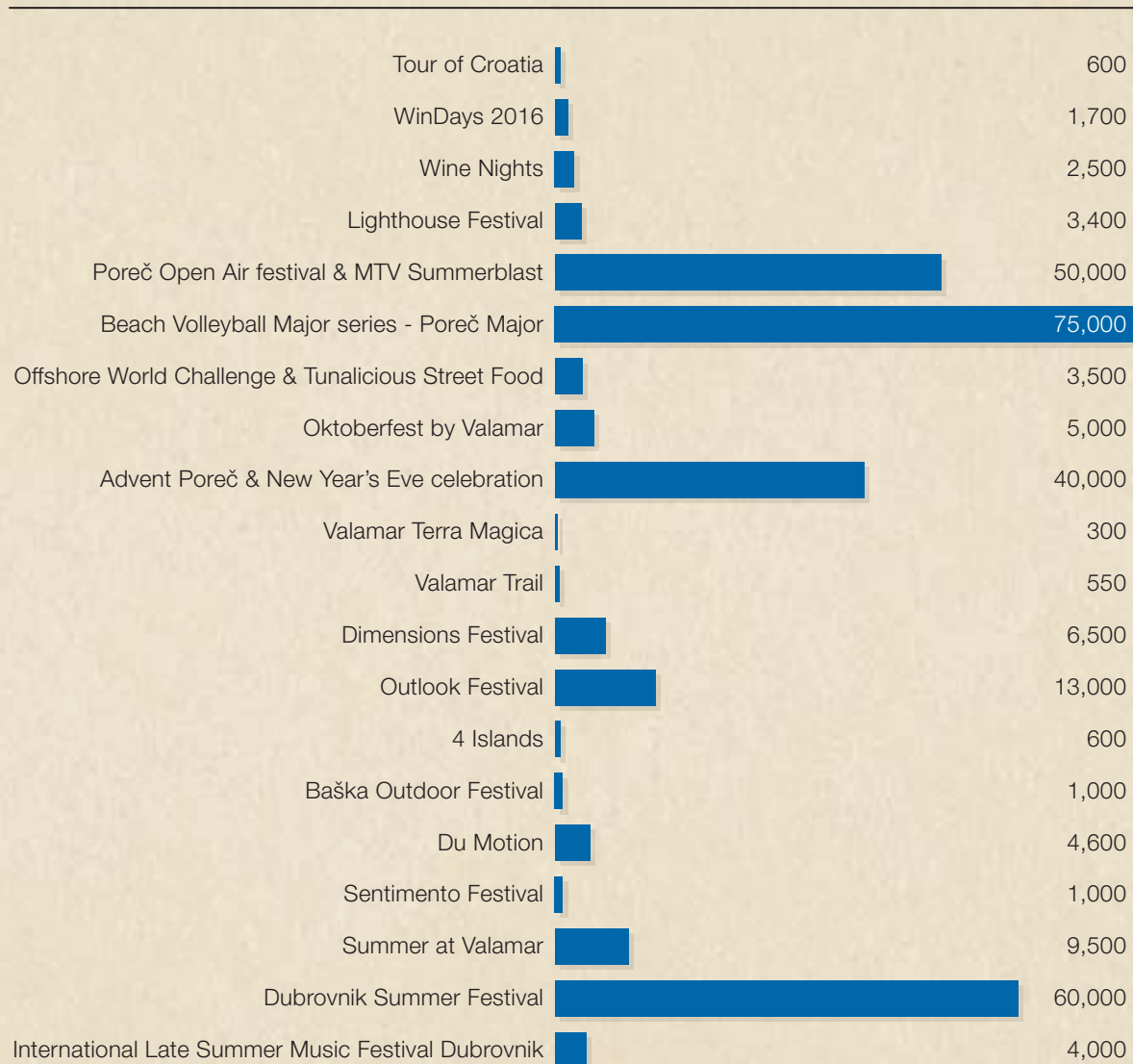


More than
40 events



Around **310,000**
guests, participants and visitors

NUMBER OF GUESTS, VISITORS AND PARTICIPANTS IN KEY DESTINATION EVENTS IN 2016



KEY DESTINATION EVENTS IN 2016

POREČ		
04/03 - 13/03	Poreč, Valamar Diamant, Pical	Istrian Riviera
14/04 - 17/04	Poreč, Valamar Pinia	SportAktiv & IstriaBike Training Camp
19/04 - 24/04	Poreč	Tour of Croatia
26/04 - 29/04	Poreč, Valamar Isabella	WinDays 2016
28/04 - 01/05	Poreč, Lanterna	Collegium Spring Break Festival
12/05 - 15/05	Poreč	Wine Nights
13/05 - 16/05	Poreč, Lanterna	Spring Break Europe
25/05 - 29/05	Poreč, Lanterna	Lighthouse Festival
09/06 - 10/09	Poreč	Poreč Open Air festival & MTV Summerblast
09/06 - 12/06	Poreč, Lanterna/Brulo	Veteran Handball Championship
15/06 - 15/09	Poreč	Artist on Vacation
18/06 - 19/06	Poreč/ Lanterna	SUPer Surfers Challenge Poreč – Lanterna
28/06 - 03/07	Poreč	Beach Volleyball Major Series – Poreč Major
07/09 - 10/09	Poreč	Offshore World Challenge & Tunalicious Street Food
16/09 - 24/09	Poreč, Lanterna	Oktoberfest by Valamar
06/12 - 08/01	Poreč	Advent Poreč & New Year's Eve Celebration
RABAC & LABIN		
21/05 - 22/05	Rabac, Valamar Sanfior	Valamar Terra Magica
01/10 - 01/10	Rabac, Valamar Sanfior	Valamar Trail
22/12 - 24/12	Labin	Christmas in Labin & Parni Valjak concert
PULA		
24/08 - 29/08	Puntizela, Camping Brioni	Dimensions Festival
01/09 - 04/09	Puntizela, Camping Brioni	Outlook Festival

KRK ISLAND		
13/04 - 16/04	Baška	4 Islands
29/04 - 01/05	Baška	Baška Rožica Flower Festival
29/04 - 01/05	Baška	Photo & Hike Weekend
06/05 - 08/05	Baška	Baška Trekking & Trail Camp
20/05 - 22/05	Krk	Krk Spring Bike Adventure
15/8 - 15/8	Krk	Krk Sails
17/08 - 20/08	Baška	Baška International Guitar Festival
14/10 - 16/10	Baška	Baška Outdoor Festival
DUBROVNIK		
30/3 - 3/4	Dubrovnik	Tomo Udovičić Memorial water polo tournament
8/4 - 10/4	Dubrovnik	Aklapela
29/4 - 30/4	Dubrovnik	Du Motion
15/5	Dubrovnik, Babin kuk	Family Day
20/6 - 3/7	Dubrovnik, Babin kuk	Libertas Basketball Camp
21/6	Dubrovnik	Sentimento Festival
7/7 - 4/11	Dubrovnik, Babin kuk	Summer at Valamar
10/7 - 25/8	Dubrovnik	Dubrovnik Summer Festival
26/8 - 23/9	Dubrovnik	International Late Summer Music Festival Dubrovnik
7/10 - 9/10	Dubrovnik	Valamar Junior Open
20/10 - 23/10	Dubrovnik	Good Food Festival
20/10 - 23/10	Dubrovnik	Dubrovnik Film Festival for the Children and the Youth of the Mediterranean Countries

Building Tourism Infrastructure

As part of this particular program, Valamar Riviera systematically invests in beaches, walking and biking trails, access paths, playgrounds and other forms of improvement to the tourism infrastructure. Moreover, the company directly contributes to the development of the local community and the creation of the prerequisites for a sustainable development of the tourism business in the general, social interest of all the destinations where it operates.

In 2016, various tourism infrastructure projects of improvement and construction received more than HRK 16.1 million in investments.

More than HRK 10.3 million were invested in the construction and outfitting of children's playgrounds and sports grounds; over HRK 2.8 million were invested in beach improvements; and more than HRK 3 million were invested in walking and biking trails, promenades and access paths.



INVESTMENTS IN 2016



HRK 10.3 million

Construction and outfitting of children's playgrounds and sports grounds



HRK 2.8 million

Beach improvements



HRK 3 million

Construction of promenades, walking and biking trails, and access paths





Excellence Through Knowledge

A rather important project was carried out in 2016 in cooperation with the Ministry of Tourism, awarding 198 scholarships for students pursuing careers in tourism and catering across Croatia. Valamar will also provide them with internships and employment once their education is completed.

In 2016, a total of 217 students were involved in the scholarship program. Furthermore, in 2016, we established cooperation with the **Znanje na Djelu** Foundation for the program called "Exploring the World of Work", with the goal of familiarizing high school students with the possibilities of career development in tourism and hospitality. In 2016, we also continued organizing our Open Days, aimed at presenting operations and employment opportunities at Valamar to the local community. This is a part of our continued cooperation with vocational schools and colleges in order to develop the knowledge, skills and competences of potential employees, and to promote vocations in tourism and hospitality, a prerequisite for a long-term sustainable tourism business.

SCHOLARSHIP PROGRAM

Towns of Valamar Riviera's scholarship holders



INVESTMENTS IN 2016



HRK 9.1 million

Internal training and employee development, including the Valamar Academy program



HRK 602,000

Promotion of vocations, scholarships and cooperation with educational institutions



ValamART

Valamar Riviera continuously supports the creativity of national and world's artists, as well as numerous cultural initiatives and projects that have yielded many works of art. In 2016, Valamar supported projects in arts and culture that gathered a number of renowned national and foreign artists, as well as attractive arts-and-culture events, with over HRK 260,000.

In 2016, the company continued supporting the Artist on Vacation project, which was set up for the fourth year in a row with collector Marinko Sudac and the Institute for the Research of the Avant-Garde. Valamar's hotels hosted world renowned avant-garde artists, and the project included exclusive exhibitions presenting the audiences with some of the most important figures in European avant-garde art. Furthermore, for the 33rd year in a row, Valamar hosted the

international Art Colony, during which artists stayed at Valamar and created works of art, many of which now adorn our hotels and form a valuable collection bolstered by a long tradition of partnership with artists.

We also continued our cooperation with Poreč Open University; numerous national and foreign artists, whose creations enriched Poreč's cultural scene, were guests at Valamar.

In Dubrovnik, Valamar Riviera regularly cooperates with the Dubrovnik Symphony Orchestra, organizing a number of music evenings.

There was also a donation to help organize the Industrial Art Biennial in Labin, one of the most important art

events in Istria and beyond. This is also a continuation of the cooperation between Valamar and the City of Labin, partners in this important art festival project that was initiated and organized by the Labin Art Express XXII artistic collective. The Industrial Art Biennial and its attractive program undoubtedly enrich regional culture and the offering, and contribute to the strengthening of the identity and recognition of Istria's rich and significant industrial heritage, motivating Valamar to support this valuable event.

The works of art and elements of the interior from Valamar's hotels in Rabac and Poreč were included in the exhibition titled *Enjoying the Fruits of Yugoslavia's Third Way*, which was set up in late March 2016 at the Gebhart Blazek Gallery in Graz, Austria.



ACTIVITIES



The Art Colony has so far hosted more than **218 artists**



The Artist on Vacation project has so far hosted more than **58 artists**



Promoting Sports

Valamar Riviera directly organizes or sponsors a number of sports events. In 2016, the company invested around HRK 2.6 million in these sports events, organized in all of Valamar's destinations with the aim of developing the localities, and promoting sports and active lifestyle. Most of the sports events are held in both pre-season and post-season, with an exceedingly positive effect on guest arrivals outside peak season.



There were a number of sports events in 2016, but we should single out our sponsorship of the Poreč Major sports and tourism event at Poreč, which gathered over 74,000 beach volleyball fans, the 3rd Valamar Terra Magica bicycle race in Rabac that attracted 169 contestants from seven different countries, the SUPer Surfers Challenge Poreč that gathered the world's best stand-up paddlers, the Krk Spring Break Adventure (a three-day bicycle event), the third edition of the Valamar Trail in Rabac (international trail race) with

contestants from 18 countries and 4 continents, the Istrian Riviera tennis tournament that took place for the 44th year, being one of the most important European competitions for young tennis players worldwide, the 4 Islands MTB race where all participants stayed in Valamar's hotels, and the Tour of Croatia, the biggest annual event in Croatia, during which Valamar provided accommodation for the participants and the organizers of the race's fifth stage that started in Poreč. In Dubrovnik, Valamar Riviera actively supports Du

Motion (the Dubrovnik half-marathon), especially attractive to athletes and recreational runners from Croatia, its neighboring countries, and even faraway countries such as Brazil, the USA, Canada, Russia and South Africa. In October, Dubrovnik will be the venue for the Valamar Junior Open, Croatia's open juniors' championship graded for the world junior rankings. In 2016, 98 both male and female juniors from 15 countries participated in the event. Valamar Riviera is also the sponsor of the Jug Water Polo Club, the Dubrovnik



Basketball Club, the Libertas Basketball Camp, and the Tomo Udovičić international memorial water polo tournament for children.

In addition to all these events, Dubrovnik's Maslinata Park, located between Valamar's hotels, now houses an open-air training ground with 10 different exercise equipment for a fun workout suitable for all generations. Finally, a new 500-meter training track connecting all the existing tracks at the Valamar resort, was built.



Green Valamar

The umbrella program called “Green Valamar” includes energy efficiency projects and various environmental protection initiatives, in the context of everyday operations and awareness-raising activities among guests, employees and the local community about the importance of preserving the Adriatic coast and sea.

Overall, in 2016, around HRK 16.6 million were invested in projects included in this program.

In 2016, all Valamar Riviera's properties introduced the ISO 50001 certified energy management system. Following the introduction of the ZelEn project in 2016, 100% of electrical energy is now secured from renewable sources. Together with other energy management measures, this has resulted in reduced greenhouse gas emissions by more than 70%. Furthermore, through an agreement with the Poreč-based company Odvodnja d.o.o., Valamar has joined the project of using treated waste water from the future municipal water

treatment system. In 2016, as many as 18 Valamar Riviera hotels received or confirmed their Travelife Gold Award, the international certification system that promotes sustainability in the tourism sector, while our beaches sport 12 Blue Flags. Last year, Valamar Riviera opened two EV charging stations in Poreč and the first e-bike charging station in Istria, in cooperation with the Istria Tourist Board. By the end of the year, there were four newly opened e-bike charging stations.

For the third year in a row, Valamar Riviera successfully implemented the donation program called We Love the Adriatic Sea that actively includes the

INVESTMENTS IN 2016



HRK 9.9 million

Energy efficiency



HRK 4.6 million

Horticulture



HRK 472,000

Certification



HRK 831,000

Electric vehicles and
charging stations



HRK 619,000

Useful waste
collection

local community in cleaning up beaches and the seabed in all of Valamar's destinations. Many associations and sports clubs participated in the cleanup action in 2016, together with Valamar Riviera employees and many locals. The biggest coast and seabed cleanup activities involved the Dubrovnik Scuba Diving Club, the Adriatic Maritime Institute, Horizont Sailing Club from Poreč, Štinjan Pula Saltwater Sport Fishing Club, Rudar Football Club from Labin, Mladi Rudar Handball Club, Rabac Underwater Activity Society, and Bioteka, an association that promotes biology and related sciences, as well as the Submania Diving And Fishing Club from Zagreb. At the initiative of and participation by the employees of Camping Orsera, there was a voluntary seabed cleanup eco-action in cooperation with the Triton Diving Club and other diving centers, including CPA Pula, RC Poreč, Sport Orsera, and guests of the campsite. In Dubrovnik, a hundred divers and volunteers of all ages, headed by Abyss Diving Club from Dubrovnik, cleaned up the seabed in front of Valamar's hotels and Camping Solitudo, as well as Cava and Importanne resort beaches. The cleanup involved divers from Croatia, Bosnia and Herzegovina, and Macedonia, as well as EUFOR members stationed in Trebinje.



Our Retired Colleagues

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

In 2016, Valamar's pensioners were offered free day-long trips to the island of Krk, and to the Valamar Isabella Island Resort on the island of Sveti Nikola near Poreč. We keep in touch with the retired Riviera's employees in Poreč, and there are plans for establishing such cooperations in other destinations as well.



ACTIVITIES IN 2016



We gather **more than 100 pensioners** for various events: dinners, trips and other events



Little Tourism

In 2016, as part of this program, we organized visits by kindergarten groups from Valamar's destinations, so that the children could learn their first facts about vocations in the hospitality industry, but in a playful and entertaining way, suited to their age.

In 2016, during these educational visits, 440 kindergarten children visited Valamar's hotels, resorts and campsites from Poreč and Rabac, to the island of Krk and Dubrovnik.



ACTIVITIES IN 2016



Valamar was visited by
440 kindergarten children
in 2016



Valamar's Big Heart

Valamar's Big Heart is a framework for fundraisers and charity initiatives and projects intended to help those in need. In 2016, Valamar continued helping the many associations and initiatives in the local community aimed at helping vulnerable groups of society. Over the year 2016, as part of this program, more than HRK 390,000 were distributed through donations.



In 2016, for the first time ever, this program included a fundraiser bearing the same name, involving employees, guests and the local community. During the fundraiser, reception desks at all Valamar hotels, resorts and campsites had donation boxes to collect funds for those in need in the local communities where Valamar operates. The collected funds were directed to a family from Funtana that lost their home in a fire, as well as the Liče Faraguna Center, which provides care for children with special needs. Among many other initiatives, the program also featured a donation of funds for the construction and outfitting of the children's playground in a park near the Ivo Lola Ribar Elementary School in the Labin Municipality. By supporting projects by local communities via initiatives such as this one, Valamar creates added value and makes a positive impact on the environment where it operates.

For the third year in a row, *Valamar's Big Heart* program included the donation initiative *A Thousand Days on the Adriatic Sea*. With this initiative, Valamar provides free summer vacations for children without adequate parental care, children from low-income families, and children with special needs and health problems.

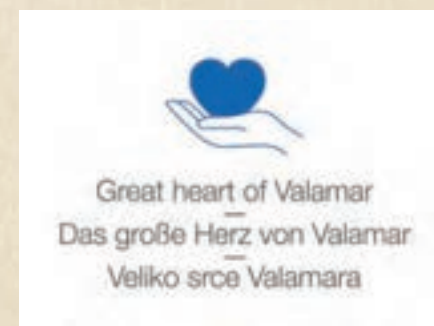
All associations, schools and other institutions are invited to apply for a donation. Over the past three years, Valamar has donated a total of 3,500 free room and board overnights and provided summer vacations to more than 1,000 children and their accompanying carers from all parts of Croatia.

For most children, this was their first encounter with the sea, and their first summer vacation ever. In 2016 alone, Valamar Riviera provided free summer vacations for more than 390 children and their carers and supervisors from 28 associations and schools. In 2016, Valamar Riviera received the prestigious Pride of Croatia Award for this particular initiative.

ACTIVITIES



More than 1,000 children
have spent their summer vacations at
Valamar in the past three years





5.6 COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY

As the leading tourism company in Croatia, Valamar Riviera is fully aware of its environmental responsibility and involvement in the lives of the local communities in its destinations. The company employs a systematic approach to protect the key resource in tourism - the environment.



Furthermore, the company is oriented towards achieving sustainability goals, and devotes special attention to regulatory compliance, prevention of pollution as the fundamental approach to managing environmental aspects, rational use of resources, waste reduction and disposal, and staff training to handle any potential incidents.

Valamar Riviera approaches environmental protection comprehensively. The company applies and certifies management systems promoting green business practices in order to achieve a balance between the economic progress, care for the environment and social involvement in the local community. In this way each aspect is approached proactively and systematically.

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

MICROFACTS

All the electricity that was used by Valamar Riviera in 2016 came from renewable sources.

Key Achievements in Environmental Protection and Sustainable Tourism

Valamar Riviera's 2016 achievements in the field of environmental protection and sustainable tourism are numerous.

- 100% of Valamar Riviera's properties introduced the certified energy management system according to **ISO 50001**.
- 100% of electrical energy is secured from renewable sources: it is provided by the power company HEP's hydroelectric power plants as part of the **ZelEn** project. With the implementation of ZelEn and other energy management measures, in 2016, the company saw a decrease of over 70% in both direct and indirect greenhouse gas (GHG) emissions (Scope 1 and 2).
- With the agreement between Valamar Riviera and Odvodnja d.o.o. from Poreč, the company joined the **project of utilizing treated wastewater from the future municipal water treatment system**. The treated water will be used as service water in campsites' sanitary facilities and for irrigating green areas. It is expected that the usage of water from the public water supply system will drop by 65,000 m³ annually.



- In 2016, Valamar Riviera opened **two EV charging stations** in Poreč, and the **first e-bike charging station in Istria** in cooperation with the Istria Tourist Board.
- The company continues to invest in the **purchase of electric vehicles**; in 2016, there were 43 electric vehicles, worth HRK 2.5 million in total.



- In 2016, as many as 18 Valamar Riviera hotels received or extended the **Travelife Gold Award** certificate. Travelife is an international certification system promoting sustainability in the tourism sector.
- Five of our hotels have received a special recognition for sustainability in the hotel industry, the **Sustainable**

Hotel Certificate: Hotel & Casa Valamar Sanfior 4*, Valamar Koralj 3*, Valamar Dubrovnik President 5*, Valamar Zagreb 4* and Valamar Bellevue 4*.

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



→ For the third year in a row, Valamar Riviera has successfully implemented the **We Love the Adriatic Sea** project as part of the Green Valamar umbrella program. In 2016, the focus was on cleaning up beaches and the seabed, in cooperation with a number of associations and locals; nearly HRK 100,000 were invested in the project.

→ In 2016, a total of 16 heat pumps were installed for the preparation of hot water with the total heat output of 2,559 kW. The goal was to reduce the heating oil consumption to under 5% of the total kilowatt-hours consumption over the course of five years, and in the long run, fully replace the heating oil with environmentally friendly energy sources.

→ In 2016, the photovoltaic cells of the power plant located inside the Atrium Hotel in Baška generated around 37,000 kWh of electrical energy.

→ The company has begun working on a pilot project – a **photovoltaic power plant for the headquarters of Valamar Riviera in Poreč**. Upon its completion in 2017, the power plant will be used for the purposes of that particular building only. The plan is to build one such facility annually over a five-year period.

→ Over the past five years the company has been working intensively on **installing solar panels or photovoltaic cells**: so far, 1,800 panels (around 3,600 m²) have been installed. In 2016 alone, a total of 295 panels (around 590 m²) were installed. The plan is to exceed 2,000 installed solar panels over the next five years.

→ **Campsite Krk has a constructed wetland, which treats and recycles wastewater**, and then uses it for horticultural irrigation.

→ In mid-2016, a water treatment system was installed at the

central laundry facility in Poreč to enable the treating and reusing of up to 70% of the total wastewater from the washing process.

→ A **UV disinfection system** was introduced at the Valamar Crystal Hotel to reduce the use of chlorine.

→ The company has been gradually switching to electric vehicles for the internal transportation of guests and goods in order to reduce the use of diesel fuel or other motor fuel in cars, thus also decreasing the GHG emissions. The goal is to reduce the use of fossil-fueled cars

for internal transportation as much as possible.

→ As measured by keys, in 2016, 100% of Valamar Riviera's properties had a certified energy management system according to ISO 50001; 79% of campsites and 62% of hotels and resorts had certified environmental management systems; while 64% accommodation units in hotels and resorts had the Travelife certificate, thus confirming the company's plan to manage sustainably, in accordance with the highest international standards.

Protection of the Sea and the Environment

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

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

Special attention is devoted to the GHG emission reduction, water consumption reduction, waste generation reduction, recycling, wastewater treatment and reuse for irrigation and in laundries,

improvement of solar energy use, and purchase of environmentally friendly materials, particularly in relation to the company's key investments; raising awareness among guests, employees and local population about the importance of preserving the Adriatic Sea and the coast; and the organization of beach and seabed cleanups.



GREENHOUSE GAS EMISSIONS – COMPARISON BETWEEN 2015 AND 2016* (GROUPED DATA)

	(t)	kg/overnight
2015	18,511	3.9
2016	6,008	1.2
Decrease in emissions in 2016 as compared to 2015	70.5%	72.8%

* The calculation includes joint services and central kitchen.

In 2016, Valamar Riviera posted a significant drop in direct and indirect Scope 1 and 2 CO₂ emissions, primarily as a result of introducing ZelEn, i.e. contracting green electrical energy supply, and replacing a large portion of the boiler room running on heating oil in Rabac with a total of 14 heat pumps, and installing one heat pump in Poreč and one on the island of Krk.

RAISING ENVIRONMENTAL AWARENESS AMONG EMPLOYEES AND GUESTS



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

The employees are regularly educated on how to behave and what to do to preserve the environment. There are notices for both the employees and guests in several key places across the facilities reminding them how they can contribute to environmental protection – from different ways to conserve water and energy, to ways to reduce chemical use and waste generation, and properly dispose waste for the purpose of recycling.



Energy Efficiency

As regards energy efficiency, the company is focused on reducing the consumption of fossil fuels (heating oil in particular), drinking water and electrical energy. Valamar's first investments in green technologies were made back in the 1980s: the company invested in the early solar collectors in its campsites. Nowadays, there are around 1,800 solar collectors across Valamar's properties, covering an area of 3,600 m².

The environmental protection aspect is especially evident in Valamar's investment projects: the company installs energy-saving appliances and replaces conventional light fixtures with highly efficient lighting solutions (LED lights), while solar energy and heat pumps are used to heat water in campsites and resorts.

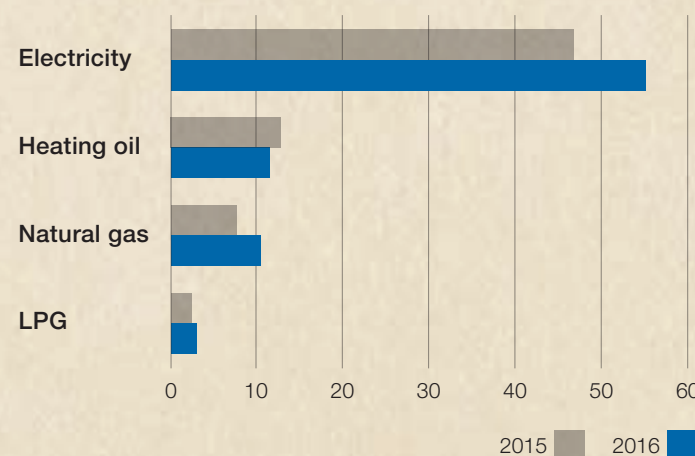
Valamar also carries out regular energy audits with the aim of increasing energy efficiency. There is a number of applied measures for saving energy and water, and the most significant are:

- Systems for monitoring the consumption of energy and water, as well as systems for managing the peak-load engaged electric power
- System for remote lighting control and hot water preparation
- Gradual introduction of the hotel room controls and monitoring system (intelligent rooms) in hotels and resorts; the system enables better electrical energy consumption management and cost cuts
- Company-adopted purchase policy according to which sustainability has to be considered when purchasing goods and services for our operations
- Centralization of the irrigation system, which calculates and distributes optimum amounts of water based on weather conditions.

CONSUMPTION OF ENERGY PRODUCTS IN 2016

	Consumption in unit of measurement	kWh	kWh/overnight
Electricity (kWh)	54,978,106	54,978,106	10.69
Heating oil (l)	1,146,398	11,463,985	2.23
Diesel fuel (l)	218,190	2,160,084	0.42
Natural gas (kWh)	10,408,564	10,408,564	2.02
LPG (kg)	228,994	2,931,127	0.57
Total		81,941,866	15.93

CONSUMPTION OF ENERGY PRODUCTS – COMPARISON BETWEEN 2015 AND 2016 (GWh)



On average,
15.93
kWh/
overnight
was consumed
in 2016

ENERGY AND ENERGY INTENSITY

1. ENERGY CONSUMPTION, AS SHOWN BY THE FOLLOWING ITEMS:

- a) **Total consumption of energy from unrenewable sources:**
in 2016, of the total of 81,941,866 kWh of energy consumed at company level, 26,963,760 kWh came from unrenewable sources
- b) **Total consumption of energy from renewable sources:**
54,978,105 kWh
(all the electrical energy we use comes from renewable sources)
- c) **Total consumption of electrical energy:**
54,978,105 kWh
- d) **Total consumption of energy in joules or their derived units:**
294,990,718 MJ

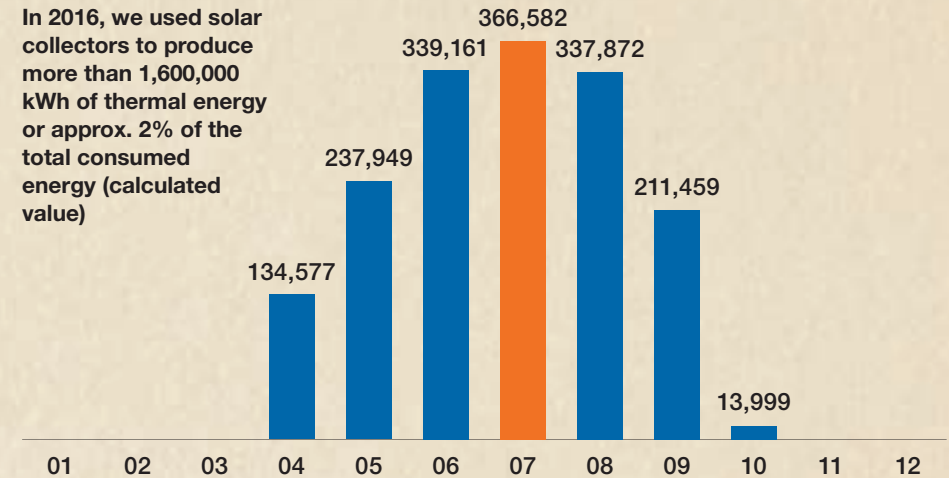
2. ENERGY INTENSITY, AS SHOWN BY THE FOLLOWING ITEMS:

- a) **Energy intensity ratio**
(total energy in kWh/overnight):
15.93 kWh/overnight
- b) **Types of energy included in the ratio:**
Electrical energy, heating oil, motor fuel, natural gas, and LPG

ENERGY DELIVERED TO THE SYSTEM VIA QSOL SOLAR COLLECTORS IN 2016 (kWh)

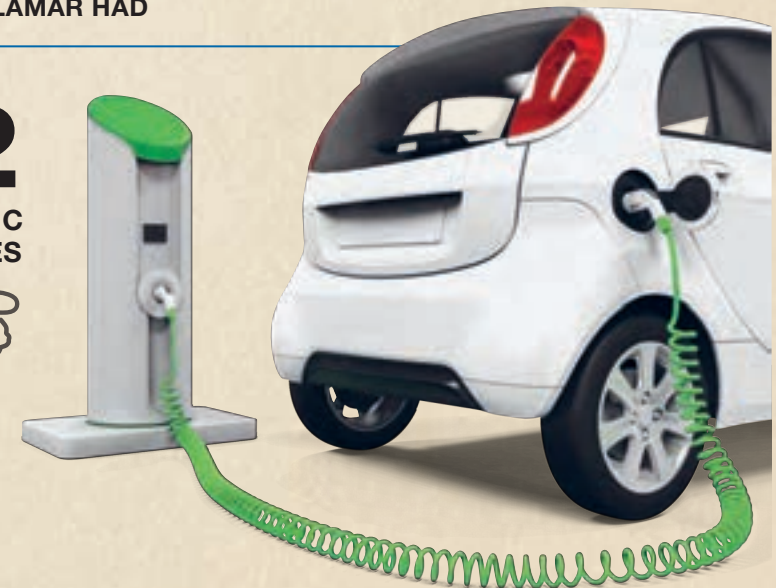


In 2016, we used solar collectors to produce more than 1,600,000 kWh of thermal energy or approx. 2% of the total consumed energy (calculated value)



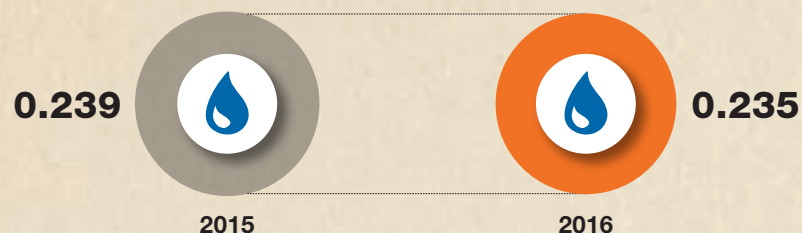
IN 2016, VALAMAR HAD

42
ELECTRIC
VEHICLES



WATER CONSUMPTION - COMPARISON BETWEEN 2015 AND 2016

(m³/overnight)



WATER RECYCLING IN 2016

	2016
Total water consumption (m ³)	1,209,792
Amount of recycled water for irrigation (m ³)	2,800
Amount of recycled water for the Poreč Laundry Facility (m ³)	15,533
% of used recycled water (out of total consumption)	1.52%

GROUNDWATER AND WATER FROM LOCAL OR OTHER WATER SUPPLY SYSTEMS

	2014	2015	2016
Groundwater supply system (m ³)	5,242	28,379	26,980
Local or other water supply systems (m ³)	915,314	1,130,993	1,209,792

DISCHARGE OF WATER BY DESTINATION

	2014	2015	2016
Public sewage system (m ³)	796,323	848,841	998,593
Sea (m ³)	28,048	30,241	33,669
Discharge of water to surrounding terrain (m ³)	5,675	8,153	7,486

- Total volume of wastewater is based on an estimate of delivered water, minus the percentage used for irrigation and watering of sports fields. There are no wastewater flow meters.
- Wastewater is tested 2-4 times a year for every profit center; tests are carried out by authorized laboratories (public health institutes). Before being discharged, all wastewater is treated: mechanically (FOG separators – all the hotels and campsites) and biologically (Krk and Marina campsites).

Waste Disposal

The company has adopted Policies on quality and sustainable business operations, dedicating special attention to the reduction of waste generation and waste management.

TOTAL WEIGHT OF HAZARDOUS AND NON-HAZARDOUS WASTE BY DISPOSAL METHODS (t)



	2015 ¹	2016 ²
Surrendered to an authorized waste removal service – hazardous waste ³	21	20
Surrendered to an authorized waste removal service – non-hazardous waste	1,321	2,280*
Composting ⁴	180	639
Disposal ⁵	3,619	3,670

* Data for 2016 include the destination of Baška (362 t) and construction sites in Rabac (650 t).

¹ Properties in Baška not included in 2015.

² Properties in Baška included in 2016.

³ Hazardous and non-hazardous waste, collected separately and surrendered to the authorized waste removal service.

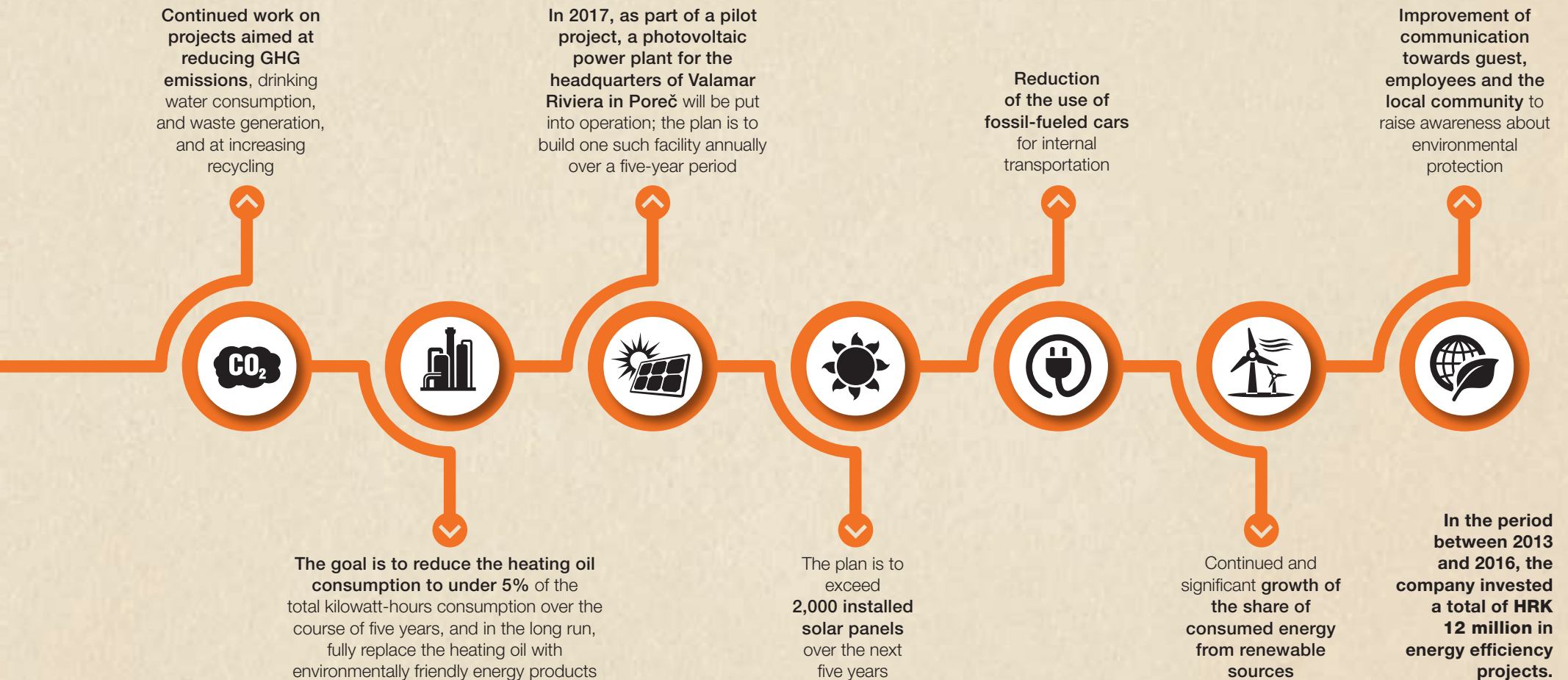
⁴ Biodegradable waste from gardens and parks as well as kitchens and cafeterias.

⁵ Mixed municipal waste.

Removal services decide on the method of biodegradable and mixed municipal waste disposal.

Focus in the Forthcoming Period

Valamar Riviera plans to invest around HRK 30 million directly in projects related to energy efficiency over a period of three years.





6

INVESTOR RELATIONS

The high transparency and quality of business and financial communication with investors represents the foundation of investor relations in promoting Valamar Riviera as the leading share in Croatian tourism. In this way, we aim to provide active support to liquidity, share value growth and the involvement of investors who can contribute to the further growth of Valamar Riviera's value for all stakeholders.

We strive to contribute directly to increasing the transparency of Valamar Riviera's business as well as the quality of communication with analysts and investors through regular corporate presentations both in Croatia and abroad, group and individual meetings, conference calls as well as comprehensive, publicly available financial and business reports.

The objectives of Investor Relations:

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

After integrating Valamar Riviera's management, portfolio and shareholders' structure in October 2014, we created the leading share on the Croatian capital market, offering significant 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 quotation on the demanding official listing of the Zagreb Stock exchange and an increased level of transparency were

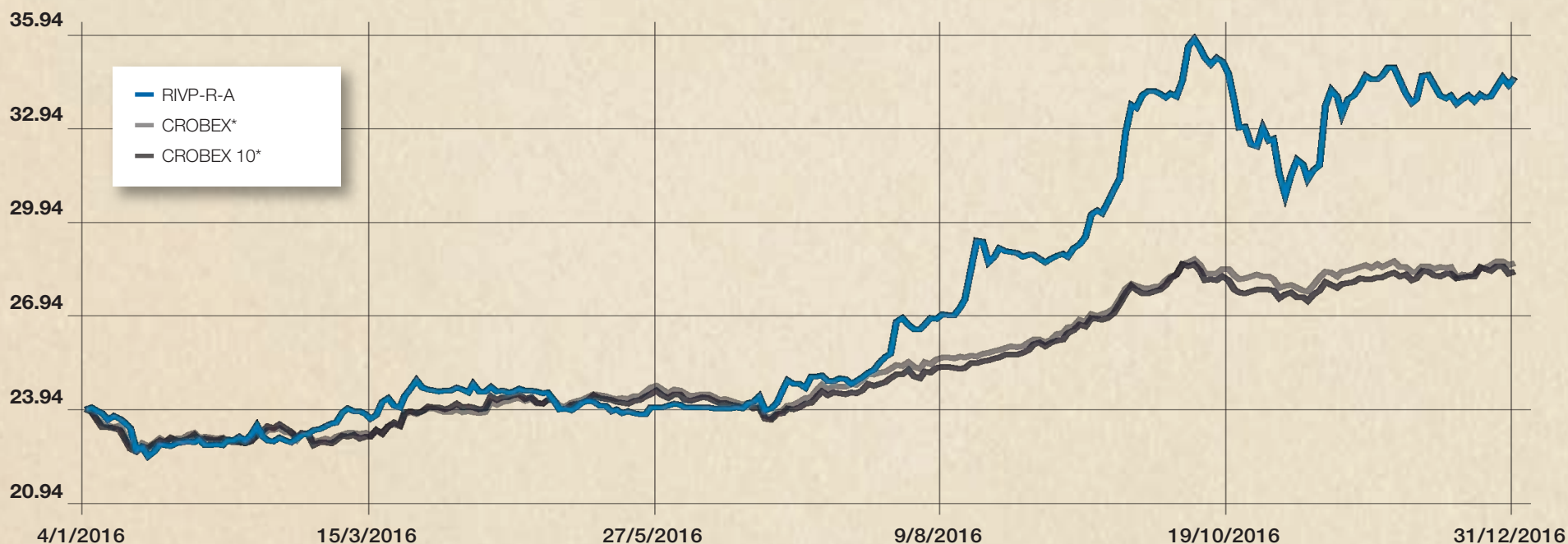
aimed at attracting institutional investors who, until then, had limited access to the growing Croatian tourism sector. As investors' interest grew (foreign investors in particular), this approach proved to be justified.

As the leading Croatian tourism share and company with about 21,000

shareholders, on 9 June 2016, Valamar Riviera organized its first Investors Day, making a step forward towards not only its present and future investors, but also the wider public. On that occasion the company presented its new growth strategy and goals for the period up to 2020 which promote a sustainable and responsible development of destinations

and include: i) a total investment of HRK 1.5-2 billion in the portfolio, ii) EBITDA margin growth to 35-38% and iii) attractive and long-term dividends to shareholders. The first Valamar Riviera's Investors Day received great interest from the media and the investing community, including over 30 funds, banks, analytics companies, brokerage

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



* Indexed according to the average share price for RIVP-R-A as of 4 Jan 2016.

firms and insurance companies, as well as a number of private investors.

Sustainable and socially responsible development of destinations combined with investments of up to 2.5% of revenues in corporate social responsibility, education, and destination development projects

represent an integral part of Valamar Riviera's business operations.

In the period from 1 January 2016 to 31 December 2016, the highest recorded share price on the regulated market was HRK 36.25, while the lowest was HRK 22.30. In the reporting period the Company's share price increased by

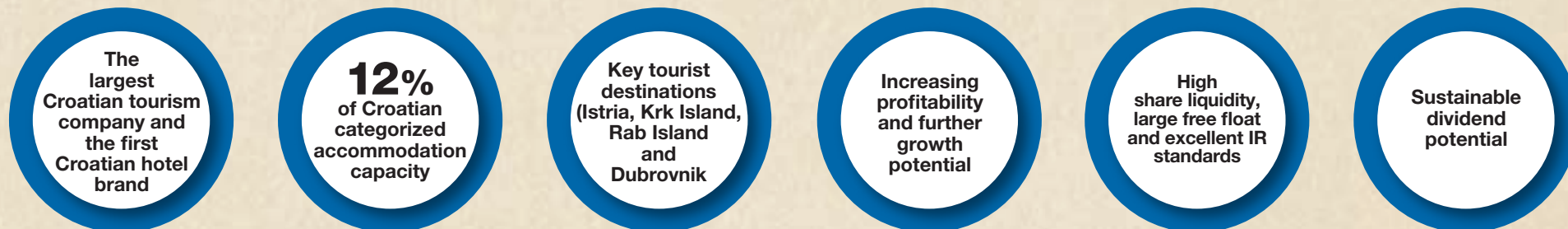
44.5%, exceeding both CROBEX and CROBEX 10 indices trends, which recorded a growth of 19.6%, and 18.4% respectively. With a regular trading turnover of HRK 931 thousand a day and free float of over 50%, Valamar Riviera's share is among the 3 most liquid Croatian shares listed on the Zagreb Stock Exchange. It is also among

the top ten shares by market capitalization. The recent HRK 5.3 billion market capitalization accounts for 3.4% of the total market capitalization of shares traded on the Zagreb Stock Exchange. In addition to the Zagreb Stock Exchange indices, the share is also listed in Vienna Stock Exchange indices (CROX and SETX indices).

INVESTMENT PROPOSITION



VALAMAR RIVIERA



CROATIAN TOURISM



Valamar Riviera's shares are the most monitored Croatian shares by financial analysts. Analysts specify a target value for shares based on their assessments of the future performance by applying various financial models such as discounted cash flow, peer group and comparables approach, market valuation, etc.

The key prerequisite for a good assessment of future performance is high transparency and open business communication by the management.

Valamar Riviera's analyst coverage is provided by:

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

AWARDS IN 2016

Share of the Year by public choice for the fifth consecutive time



COMMUNICATION WITH SHAREHOLDERS AND THE INVESTING COMMUNITY IN 2016



MEETINGS WITH INVESTORS IN 2016

In 2016 we held 114 meetings with investors in 10 locations

- Zagreb, Croatia
- Poreč, Croatia
- Rabac, Croatia
- London, UK
- Stegersbach, Austria
- Belgrade, Serbia
- Vienna, Austria
- Budapest, Hungary
- Frankfurt, Germany
- Ljubljana, Slovenia.





7

AWARDS AND RECOGNITIONS

Valamar Riviera's hotels, resorts and camping resorts operate in accordance with the highest quality standards for services and accommodation. Our efforts are continually recognized by hospitality professionals and our guests. Their awards, recognitions and high ratings from leading travel web sites and organizations, contribute to Valamar's top position in Croatian tourism.

2016 INTERNATIONAL AWARDS AND RECOGNITIONS

Le monde du plein air Caravane - Camping	Les plus beaux campings d'Europe	Camping Resort Lanterna
ADAC	Best Camping 2016	Camping Resort Lanterna, Camping Resort Krk
ANWB	Best Campsite	Camping Resort Lanterna, Camping Resort Krk
Camping2be.com	Camping2be 2016 Award	Camping Resort Lanterna
DCC Europa-Preis	Camping Award 2016	Camping Resort Krk
HolidayCheck	HolidayCheck Quality selection 2016	Valamar Club Dubrovnik

Hotels.com	2016 Certificate of Excellence	Valamar Lacroma Dubrovnik, Valamar Dubrovnik President, Valamar Argosy, Tirena, Valamar Club Dubrovnik
IHAC	IHAC reward	Valamar Argosy, Tirena
Kongres magazine	TOP 10 Premium Resorts Meeting Hotels	Valamar Lacroma Dubrovnik
TripAdvisor	2016 Travelers' Choice winner	Valamar Club Tamaris
	2016 Travelers' Choice award	Valamar Riviera Hotel
	2016 Travelers' Choice award	Valamar Isabella Hotel
	2016 Travelers' Choice award	Valamar Dubrovnik President
	2016 Certificate of Excellence	Valamar Argosy Hotel
World Travel Awards	Leading resort in Croatia	Valamar Club Tamaris
	Leading boutique hotel in Croatia	Valamar Riviera Hotel
	Leading business hotel in Croatia	Valamar Lacroma Dubrovnik
	Leading hotel in Croatia	Valamar Lacroma Dubrovnik
Travelife	Travelife Gold Award	18 Valamar Riviera's properties
World Luxury Hotel Awards	Luxury Beach Resort	Valamar Dubrovnik President, Valamar Isabella Island Resort
avtokamp.si	Best campsite 2016 - Award for lifetime achievement	Josipa Cvelić Bonifačić
avtokamp.si	Best campsite Adria	Camping Resort Lanterna, Camping Resort Krk, Naturist Camping Solaris
Leading Campings of Europe	Leading Campings of Europe	Camping Resort Lanterna, Camping Resort Krk
Greenovation	Green Mark	Camping Resort Lanterna

2016 NATIONAL AWARDS AND RECOGNITIONS

Croatian Congress Industry Forum	Ambassador of Croatian Conference Tourism	Dorja Horvat
Croatian National Tourist Board, Croatian Chamber of Economy	Tourism Flower-Quality for Croatia	Valamar Lacroma Dubrovnik, Valamar Dubrovnik President, Valamar Argosy, Valamar Isabella Island Resort, Valamar Koralj Romantic, Camping Resort Krk, Camping Resort Lanterna
Croatian National Tourist Board	People- the Key to Success in Tourism- Employee of the Year	Mateo Gverović, Ilija Kmet
Zagreb Stock Exchange	Share of the Year	Valamar Riviera
Istrian Tourist Board	Golden Goat	Perfect Experience Creator and Poreč Open Air
Croatian Chamber of Economy-County Chamber in Pula	Golden Kuna	Valamar Riviera
Banka.hr and Deloitte	CFO of the Year	Marko Čižmek
Croatian National Tourist Board	Award for Lifetime Achievement in Hospitality	Kazimir Bažon
Contact Center Akademija	Best Contact Center	Valamar Reservation Center
Croatian Camping Union	Village for All	Zablaće, Naturist Camping Solaris
	INOVACAMP 2016	Camping Resort Krk, Camping Resort Lanterna
	Croatia's Best Campsite	Naturist Resort Solaris, Camping Resort Lanterna, Camping Resort Krk, Camping Orsera, Camping Marina, Naturist Camping Istra, Camping Ježevac, Naturist Camping Bunculuka, Camping Zablaće
Association of Employers in Croatian Hospitality (UPUHH)	Sustainable Hotel	Hotel & Casa Valamar Sanfior, Valamar Koralj Romantic, Valamar Dubrovnik President, Valamar Zagreb, Valamar Bellevue

2016 CERTIFICATES AND STANDARDS

HACCP	Codex Alimentarius	Valamar Diamant Hotel and Residence, Valamar Crystal, Valamar Rubin, Valamar Pinia Hotel & Pinia Residence, Valamar Club Tamaris & Valamar Tamaris Residence, Pical/CK, Valamar Riviera Hotel & Villa Parentino, Naturist Resort Solaris, Hotel&Casa Valamar Sanfior, Girandella /CK, Albona, Valamar Bellevue, Valamar Koralj Romantic, Valamar Lacroma Dubrovnik, Valamar Dubrovnik President, Valamar Zagreb, Valamar Isabella Island Resort
ISO	ISO 14001	Valamar Diamant Hotel and Residence, Valamar Crystal, Valamar Rubin, Valamar Pinia Hotel & Pinia Residence, Valamar Club Tamaris & Valamar Tamaris Residence, Valamar Riviera Hotel & Villa Parentino, Naturist Resort Solaris, Camping Resort Lanterna, Naturist Camping Istra, Camping Orsera, Hotel&Casa Valamar Sanfior, Valamar Bellevue, Valamar Koralj Romantic, Camping Resort Krk, Camping Ježevac, Valamar Lacroma Dubrovnik, Valamar Dubrovnik President, Camping Solitudo, Valamar Zagreb, Valamar Argosy, Valamar Isabella Island Resort, North Laundry Facility, Camping Marina, Tirena, Valamar Club Dubrovnik, South Laundry Facility
	ISO 9001	Valamar Diamant Hotel and Residence, Valamar Crystal, Valamar Rubin, Valamar Pinia Hotel & Pinia Residence, Valamar Club Tamaris & Valamar Tamaris Residence, Valamar Riviera Hotel & Villa Parentino, Hotel&Casa Valamar Sanfior, Valamar Bellevue, Allegro, Miramar, Valamar Koralj Romantic, Valamar Lacroma Dubrovnik, Valamar Dubrovnik President, Valamar Zagreb, Valamar Argosy, Valamar Isabella Island Resort, North Laundry Facility, Tirena, Valamar Club Dubrovnik, South Laundry Facility
FEE (Foundation for Environmental Educational)	Blue Flag	Brulo, Borik, Oliva, Galeb, Valeta, Istra, Vala, Crnika, Camping Ježevac, Camping Resort Krk, Valamar Dubrovnik President, Cava
Ministry of Tourism	"Q" Quality Label	Valamar Riviera Hotel & Villa Parentino
Croatian Islamic Community - Halal Quality Certification Center	Halal	Corinthia Hotel
Healthy Meal Standard	Healthy Meal Standard	Valamar Diamant Hotel



8

CORPORATE GOVERNANCE

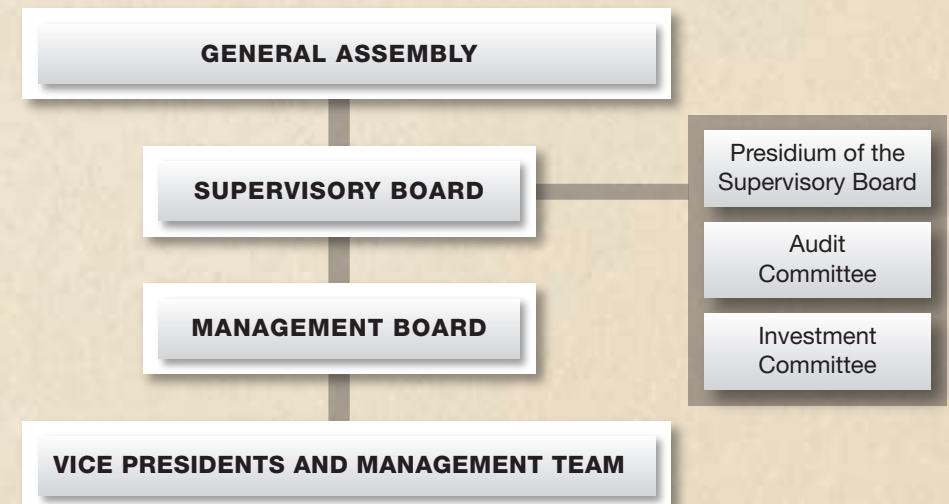
Corporate Structure

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

A well-defined and clear corporate structure is the foundation for the effective strategic and operational management of the Company. The key governing bodies of Valamar Riviera d.d. are the Shareholders' 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.



SUPERVISORY BOARD

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

The Supervisory Board meets at least four times per year. The Supervisory Board is actively engaged in key management decisions through corresponding delegate committees that meet more often to manage key strategic initiatives and support the Supervisory Board in the decision-making process.

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

		Term of office		Supervisory Board	Presidium of the Supervisory Board	Audit Committee	Investment Committee
Gustav Wurmböck	Chairman	07/2017	Proprietary	■	■		■
Franz Lanschützer	Deputy Chairman	07/2017	Proprietary	■	■	■	■
Mladen Markoč	Deputy Chairman	07/2017	Independent	■	■	■	
Georg Eltz Vukovarski	Member	07/2017	Proprietary	■		■	■
Vicko Ferić	Member	07/2017	Proprietary	■		■	■
Hans Turnovszky	Member	07/2017	Independent	■			■
Mariza Jugovac	Member	07/2017	Employee Representative	■			
Dubravko Kušeta			exterior independent member			■	
Meetings held in 2016				10x	9x	3x	3x

MANAGEMENT BOARD

The Management Board consists of two members:

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

The President of the Management Board is primarily responsible for formulating and managing the company's strategic, operating and financial activities. In addition, the President individually leads the following areas: hotel operations, marketing & sales, human resources, destination management, purchasing, investment and asset development, external affairs and public relations, quality management, internal audit and project management, controlling, legal and general affairs.

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

SENIOR MANAGEMENT

The strategic corporate business functions are organized in 4 divisions that are led by four Vice Presidents:

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

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

Hence, the senior management team works closely with the Management Board and relevant corporate functions through business committees that are focused on those strategic activities in the Company that require a high degree of cross-functional involvement:

- CAPEX Committee (capital investment projects)
- Project Committee (steering the project management organization)
- Business Experience Committee (business expansion, loyalty and CRM, quality management & service excellence, corporate social responsibility)
- Purchasing Committee (strategic partnerships and purchasing agreements)

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

CAPEX COMMITTEE

Željko Kukurin,
President of the Committee

Alen Benković,
Vice President of the Committee

David Poropat, Member

Davor Brenko, Member

Ivana Budin Arhanić, 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, implementations, pre-opening and post-opening,
- Analyzing the success of the investment.

BUSINESS EXPERIENCE COMMITTEE

Željko Kukurin,
President of the Committee

Ivana Budin Arhanić,
Vice President of the Committee

David Poropat, Member

Davor Brenko, Member

Alen Benković, Member

Tasks of the Committee:

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

PURCHASING COMMITTEE

Željko Kukurin,
President of the Committee

David Poropat,
Vice President of the Committee

Dragan Vlahović, Member

Alen Benković, Member

Tasks of the Committee:

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

PROJECT COMMITTEE

Željko Kukurin,
President of the Committee

Ivana Budin Arhanić,
Vice President of the Committee

Marko Čižmek, Member

Marko Vusić, Member

David Poropat, Member

Davor Brenko, Member

Alen Benković, Member

Tasks of the Committee:

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

Organizational Structure of Valamar Riviera

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



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

Members of the Supervisory Board



GUSTAV WURMBÖCK,
Supervisory Board Chairman

Gustav Wurmböck graduated from the Universities of Vienna and Innsbruck in Business and Finance. Before founding EPIC in 1991, Mr. Wurmböck has held various positions in prestigious companies such as IFC in Washington D.C (International Finance Corporation - World Bank Group), DEG (Deutsche Investitions und Entwicklungsgesellschaft) in Cologne, Germany, and was Director 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 Member of the Management Board of Valamar poslovni razvoj d.o.o. (2005 – 2011) and President of the Management Board of Valamar Group d.d. (2005 – 2010). He has held several positions in the Supervisory boards of Valamar Adria holding d.d., Valamar Group d.d., Puntizela d.o.o., and Valamar turistički projekti d.o.o., while he continues to act as Chairman of the Supervisory Board of Valamar Riviera d.d.



FRANZ LANSCHÜTZER,
Supervisory Board Deputy Chairman

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

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



MLADEN MARKOČ,
Supervisory Board Deputy Chairman

Mladen Markoč graduated from the Faculty of Law of the University of Zagreb. He specialises in company law, securities law, and commercial law. Mr. Markoč has been a consultant in numerous important transactions in the Croatian and foreign capital markets and has been a regular speaker at conferences organised by the Zagreb Stock Exchange Academy and the Judicial Academy. He started his career in law in 1988 as legal apprentice with attorney Zvonimir Raić. He was Corporate Secretary of the pharmaceutical company PLIVA d.d. from 1990 to 1997, partner at the law firm Bogdanović, Dolički & Partners from 1997 to 2007, and Board Member at ICF Group d.o.o. in 2008.

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



GEORG ELTZ VUKOVARSKI,
Supervisory Board Member

Georg Eltz Vukovarski was educated in Switzerland and Germany where he majored in economics, history and philosophy. He graduated from the University of St. Gallen with a degree in Business Administration. Before moving to Croatia in 1994, he was management board member & sr. vp marketing 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 is a member of the management boards of both the German-Croatian Chamber of Industry & Commerce, and the Croatian-Austrian Chamber of Commerce. As co-founder of "Zaklada znanje na djelu - Stiftung Wissen am Werk" he is also a member of its supervisory board.



VICKO FERIĆ,
Supervisory Board Member

Vicko Ferić graduated from the Faculty of Economics and Business at the University of Zagreb in 1974. He started his professional career working for the Organic Petrochemical Company (currently Dioki d.d.), and then he joined INA d.d. where he held management positions in the finance department and later became Assistant Financial Director until 1998. By the end of 1998, he joined Epic. From 2003 until 2005 he was appointed President of the Management Board of SN holding d.d. From 2005 until 2011 he was President of the Management Board of Valamar Adria holding d.d. (former Dom holding d.d.), as well as Executive Director of Epic Zagreb d.o.o.

From 2011 until 2014 he is Member of the Management Board of 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 Croatian Telecom d.d., Croatia osiguranje d.d., Dresdner Bank Croatia d.d., and the restructuring and sale of several companies from the Dom Fond d.d portfolio. He has been involved 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 Member or President of the Supervisory Board and is also member of the Croatian Association of Certified Members of Supervisory and Management Boards. He is currently Member of the Supervisory Boards of 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 of the Austrian Hotel Association. He currently serves as Chairman of the Hotel Classification Commission in Vienna and is Member of the five-star Certification Committee of the Austrian Federal Chamber of Commerce. He was Member of the Supervisory Boards of Valamar Grupa d.d. and Valamar Adria holding d.d. and is currently Member of the Supervisory Board of Valamar Riviera d.d.



MARIZA JUGOVAC,
Supervisory Board Member

Mariza Jugovac graduated from Pula's vocational school in 1975. She has been an employee of Valamar Riviera d.d since April 20, 1979. She became an employee of the hotel company "Riviera" in Poreč, where she spent her first two years working in the IT department. She became a payroll accountant in 1981 and has been the company's Senior Payroll Accountant since 2002.

As an active union member, she has been elected as employee representative to the Supervisory Board of Valamar Riviera.

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 in Riviera Poreč, a member of the Valamar Group, as Assistant Director on Sveti Nikola Island. From 2003 to 2009, he held various managing positions in Valamar's Sales and Marketing, and he was responsible for a number of strategic projects within the Group. From 2010 to 2014 he was Management Board President of Istraturist d.d., owned by the Zaba Unicredit Group, and cooperated with Meliá Hotels International in managing the hospitality portfolio in Umag.

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. He also serves as Supervisory Board Chairman of Imperial d.d. Rab, a company that was successfully taken over at year-end 2016 by Valamar Riviera and its strategic partner, AZ pension fund.

Mr. Kukurin holds a number of important positions in Croatian tourism; he serves as Chairman of the Hospitality and Tourism branch of the Croatian Employers' Association, he is 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. In 1996, he started his career 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 member of the Management Board at EURO Invest, an investment fund management company.

Mr. Čižmek has held numerous managing positions in companies that have been merged to the present Valamar Riviera: he was Management Board Member of Rabac d.d. (2004-2011), Management Board Member of Dubrovnik Babin kuk d.d. (2009-2013) and Management Board Member of Valamar Adria holding d.d. (2008-2013), Director at Epima d.o.o. (2008-2014), Supervisory Board member of Zlatni otok d.d. (2002-2011) and Rabac d.d. (1999-2011).

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

Division Vice Presidents at Valamar Riviera



DAVOR BRENKO,
Vice President of Sales and Marketing

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

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

As from 2015, Davor Brenko has been Vice President of Sales and Marketing at Valamar Riviera d.d., where he has been working intensively on corporate development and growth within this business segment, and numerous projects aiming at improving the offering, destination management and the attractiveness of Valamar's destinations.



DAVID POROPAT,
Vice President of Operations

David Poropat graduated in 1993 from the University of Rijeka's Hotel Management Faculty in Opatija. In 2007, he completed his graduate 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 a 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 director of Sol Park, one of Jadran turist's hotels, managed at the time by the Spanish company Sol Meliá.

In March 2002, he joined the former company Riviera Holding d.d. in Poreč as Director of Operations and until 2006 he was in charge of all Valamar's facilities. From 2007 to 2011, he was Management Board Member at Valamar hoteli i ljetovališta d.o.o., and from 2012 to 2014 at Valamar poslovni razvoj d.o.o. At year-end 2014, he became Vice President of Operations for Valamar Riviera d.d., the leading tourism company in Croatia. Mr. Poropat has also held various important positions in trade associations, and actively participated in dozens of business projects that particularly broadened his business experience. He has also written a number of scientific and professional papers.



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

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

In 2015, he joined Valamar Riviera d.d. as Vice President of Asset Development, Maintenance and Technical Services, where he oversees major investment projects and the planning of the company's further growth.



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

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

In 2007 she received her MBA from Harvard Business School and joined Valamar. Until 2015, she served on the Management Boards of Valamar grupa d.d., Valamar Adria holding d.d., and Valamar Riviera d.d. as a member.

As of June 2015, Ms. Budin Arhanić has served the position of Vice President of Business Development and Corporate Affairs and is in charge of acquisitions and business expansion, strategic partnerships and projects, digitalization, corporate social responsibility, quality management, corporate communication and relations with industry associations and public institutions, as well as strategy and sale of non-core assets.

Internal Audits and Controls within Valamar Riviera

Valamar Riviera d.d. and its Audit committee is devoted to maintaining the highest standards of integrity and corporate governance practices, in order to maintain excellence in its operations and promote confidence in its governance systems. In addition, the Company will conduct 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.

The purpose of the Committee is to assist the Board's oversight of 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,
- Appointment of independent auditors, qualifications, independence, work and retention, and
- Scope, approach, performance and results of the independent auditors and the Company's internal audit function.

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

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

The Audit Committee meets at least four times per year or more frequently if circumstances dictate. The Committee will also meet separately on a periodic basis with the Management, the internal auditors and the independent auditors to discuss any matters that the Committee or any of these persons or firms believes should be discussed privately. The Committee may invite observers, including any independent advisers to attend its meetings from time to time, as it deems appropriate. The Audit committee shall keep such records of its meetings, as it deems appropriate.

In addition, the Internal Audit function at Valamar Riviera d.d. features a diverse collection of skills.

The scope of the work of Internal Audits focuses on the following areas:

- Regulations, processes and procedures,
- Finance and operations,
- Contracts with third parties,
- Changes in hotel management,
- Regulatory compliance,
- Internal Control System.

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, annually. The Annual audit plan translates the Company strategic plan into Audit assignments.

Within Valamar Riviera d.d. the internal audit process has not been 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 in terms of communicated remarks and recommendations and therefore the cooperation of the Internal Audit

Department and the Director / Head of organizational units is of utmost importance.

It is important to mention the synergy and joint efforts with the Internal control department and day-to-day work on preventing any misconduct and wrongdoing within a field operation, small inventory, cash transactions, tax compliance, bill issuance, etc.



RISK BASED AUDIT PLANNING FRAMEWORK WITHIN 5 STAGES



RISK CLASSIFICATION

Risks are classified as high, medium and low.

The Risk Management model applies to the entire Company. In 2016, a total of 11 key executives were involved in the process of drawing up the "Risk register".

A total of 37 risk events were identified, spread over the following categories, while in 2017 special emphasis will be put on the category of IT and related risks.



POLICY AND RULES

Internal audit activities are performed within the organization that vary in purpose, size, complexity, and structure and by persons within or outside the organization. While differences may affect the practice of internal auditing in each environment, compliance with the International Standards for the Professional Practice of Internal Auditing (Standards) are essential.

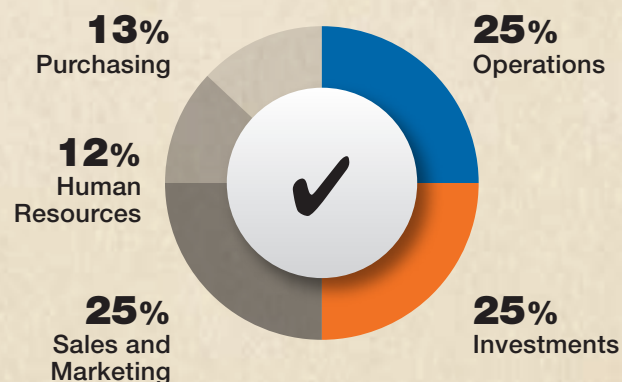
Key documents, regulating the area of the Internal Audit within Valamar are the following:

- Internal Audit Department Charter,
- Standards for Internal Auditing,
- Code of Ethics,
- Audit Committee Charter.

37 ASSESSED RISKS



KEY AUDITED AREAS IN 2016



The respect and ethical behavior of the members of the organization is the result of the application of the rules and standards adopted by the Company, but also the manner in which these rules are communicated and accepted in practice among the individuals and members of the organization.

Company and Group Risks

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

Due to the industry's relevance and economic and social impact, the Company and Group monitor and assess risks at micro and macro levels. Moreover, when defining the strategy, particular attention is given to short and medium-term risk impact in order to maintain business sustainability over time.

When monitoring and assessing risks the Company and Group use a proactive approach thus assessing the potential impact of each individual risk. The Company and Group consider risk management to be a key factor of differentiation among competitors. Risk management aims at creating sustainable value, thus offering reliability and security to numerous stakeholders.

The Audit Committee supports the Company in reviewing the effectiveness of Valamar's internal control and risk management systems, having oversight of the risk and control activities.

In support of this, the Audit Committee regularly reviews the principal risks and the operation of the risk management systems, seeking assurance that the principal risks are being identified, assessed, prioritized,

evaluated and appropriately managed and mitigated.

The Committee's review is supported by the Internal Audit (IA) annual plan, which is discussed in June each year. The Committee approves the nature and scope of the plan, and is responsible for reviewing and

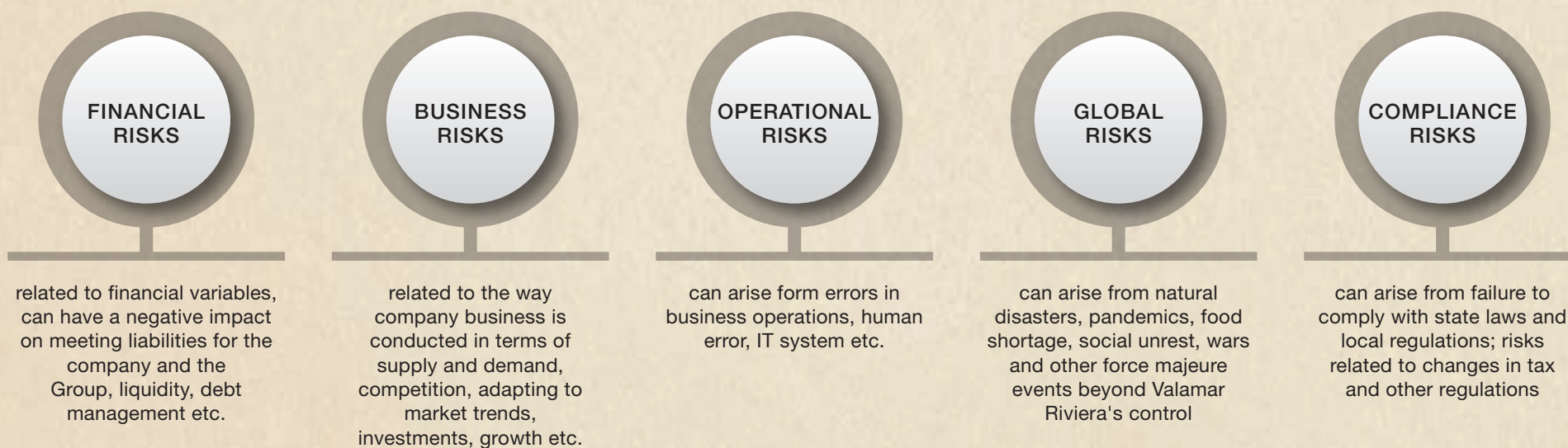
monitoring the activities, in line with the agreed plan, but always leaving a necessary space for ad hoc audit requests throughout a year, including product price and cost benchmarking, exercised each year.



THERE ARE FIVE KEY STEPS IN A RISK MANAGEMENT PROCESS



THE DIFFERENT TYPES OF RISKS FACING VALAMAR RIVIERA CAN BE CLASSIFIED INTO THE FOLLOWING GROUPS



FINANCIAL RISKS

In their day-to-day business activities, the Company and Group face a number of financial threats, especially:

- 1) Foreign exchange risk
- 2) Interest rate risk
- 3) Credit risk
- 4) Price risk
- 5) Liquidity risk
- 6) Share-related risks.

The Company and Group 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 our sales revenue generated abroad and long-term debt is denominated in euros. Hence, for the most part the Company and Group are naturally hedged from exchange rate risks. Since some liabilities are denominated in kunas, the Company and Group

actively manage risks by using derivative instruments available on the financial market.

The instruments are used according to operating assessments and expected market trends. In this way the assets, liabilities and cash flow are protected from the risk impact.

2) INTEREST RATE RISK

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

Periodically, the Company and Group resort to derivative instruments in order to hedge cash flow and fair value 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. The Company and Group have interest-bearing assets (cash assets and deposits) so their revenue and cash flow depend on

changes in market interest rates. This becomes evident especially during the season when the Company and Group have significant cash surpluses at their disposal.

3) CREDIT RISK

Credit risk arises from cash assets, time deposits and receivables.

In accordance with the Company and Group sales policy, business transactions are conducted only with customers with suitable credit history, i.e. by agreeing advances, 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 and debt securities and are exposed to equity price risk due to security price volatility.

The Company and Group are not an active participant in the market trade in terms of investing in equity and debt securities. However, with the HRK 285 million invested in buying a stake in Imperial d.d. Rab, the company is exposed to the said risk to a certain extent.

5) LIQUIDITY RISK

The Company and Group have a sound liquidity risk management: sufficient cash assets are made available at any given moment in order to meet their liabilities through monthly, annual and long-term cash flow forecasts. The Company and Group aims at maintaining flexible financing by making the arranged lines of credit constantly available.

Liquidity risk is managed by generating strong positive net operating cash flows, while capital investments are financed by credit lines. All the credit lines in 2017 have already been arranged with financial institutions. The repayment of the major credit lines coincides with periods of strong cash inflows from operations.

The Company and Group monitor the level of available funds through daily cash and debt reports. Long-term cash flow forecasts as well as annual (monthly) forecasts are based on the set budget.

After meeting the needs of working capital management, the surplus is deposited in the treasury of the Company and Group. 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.

BUSINESS RISKS

The Company and Group are constantly exposed to risks threatening its competitiveness and future stability.

Since the Company and Group own real estate, this business model requires a large amount of capital in order to maintain high product and service standards. Various large capital investments in the upgrade of products and services can surpass budget expectations, thus delaying the end of construction works. In the meantime, town-planning regulations and fiscal policy may be changed. These risks can increase costs for the Company and Group, and have a negative impact on the cash flow and revenues. In the previous period, the company and Group's business decisions improved their results and operating efficiency in the demanding Mediterranean market. These positive trends are expected to continue in the future through a prudent long-term strategic management.

Over 95% of Valamar Riviera's guests come from other countries and they are very careful when choosing their vacation destination in the competitive Mediterranean environment. Stable country 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 one of the largest and most desirable employers in tourism. The active approach towards HR management develops key talents and supports investments in training opportunities (over HRK 3 million invested in training and professional development in 2016). 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.

OPERATIONAL RISKS

Operational risks are risks connected with direct or indirect losses that arise from inadequate or wrong internal or external processes within the Company and the Group. They include the creation, analysis and insufficient or inadequate internal and external information exchange.

When implementing the system of operational risk management, the Company and Group focused on its continuity and complexity 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.

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 issues related to globally escalating terrorism threats
- Security and political instability in the immediate environment of the neighboring countries.

Environmental risks can also have an adverse effect on the Company and Group's business results, primarily in terms of customer satisfaction with the whole experience while staying at one of Valamar's properties and this can affect the number of arrivals.

The possible risks can include: sea pollution (caused by oil or chemical spillage), but also long-term water quality reduction and coast pollution due to inadequate waste disposal and waste water treatment as well as extensive use of agricultural fertilizers. Other environmental conditions typical for climate changes such as long drought periods or long rainy periods can directly influence the guests' length of stay in the hotels and campsites as well as increasing the operating costs.

A number of other natural disasters and calamities (earthquakes, fires, floods and rainstorms), air pollution caused by toxic gas emissions from industrial plants and vehicles, as well as excessive urbanization and the introduction of invasive species should also be taken into consideration.

COMPLIANCE RISKS

Changes in tax laws and other regulations pose a very serious threat and represent a demanding segment in risk management because in this particular situation the possibilities for the Company and Group are limited.

In previous years, there has been a number of important changes in tax and non-tax charging regulations, which have adversely affected the Company and Group profitability:

- 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, while in January 2017 a new 25% VAT rate was introduced for F&B services in catering establishments.
- 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 and the like.

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.

PRECAUTIONARY PRINCIPLE

In order to maximally reduce risks related to the environment, the local community and society, Valamar Riviera actively manages risks in all business segments. This represents a precondition for a responsible development of tourism and its destinations.

Pursuant to the precautionary principle, Valamar Riviera meets the highest standards devised to protect the environment, local community and society at large. These standards are applied in all business segments, and the company continually monitors and manages risks that influence the business and corporate social responsibility strategies.

Ethics and integrity

Integrity and ethics are a part of the corporate culture and the fundamental characteristic of everyday work and business management.

Creating a transparent environment for business management is the company's highest priority. The fundamental approach in Valamar Riviera's business operations refers to protecting human rights, and promoting fair employment conditions, safe work conditions, responsible environmental management and high ethical standards.

Valamar Riviera has adopted a Code of Ethics, which regulates issues related to corruption prevention, and adheres to the Zagreb Stock Exchange Corporate Governance Code. It also fills out the annual Zagreb Stock Exchange corporate governance survey.

The fundamental principles of Valamar Riviera's business operations include doing business ethically, providing equal opportunities and conditions for all its employees, ensuring equality and protection of human rights, and nurturing of the culture of diversity. In all our business activities we are committed to implementing the United Nations' principles for business and human rights as well as the International Labor Organization's fundamental conventions. We are also determined to act in a way that will never have misuse of human rights as its consequence.

Basic human rights and their protection, including the protection of life, health, dignity and privacy, as well as prevention of discrimination, have all been built into the positive, legal employment regulations of the Republic of Croatia, which Valamar Riviera adheres to and implements. They have also been integrated into the collective agreement that Valamar has concluded with the trade unions in the company.

Valamar Riviera's basic values include responsibility and credibility towards business partners, caring for employees, support for the social community, and commitment to environmental preservation.



RESPONSIBILITY FOR MAKING DECISIONS ON VALAMAR RIVIERA'S ECONOMIC, ENVIRONMENTAL AND SOCIAL IMPACT

Members of the Management Board of Valamar Riviera and division vice presidents are responsible for making decisions on Valamar Riviera's economic, environmental and social impact. The Business Development and Corporate Affairs Division is tasked with the coordination of the umbrella CSR programs and their reporting.





9

2016 BUSINESS RESULTS

This chapter contains the summary of 2016 consolidated financial results, as reported in our consolidated audited Annual Report for 2016 that was published this year in February.

The Group balance sheet for the reviewed period contains Imperial d.d. Rab's data as of 31 December 2016. Please note that the 2016 data cannot be entirely compared to the same period last year, as the latter did not include Imperial.

The Group's income statement for the reported period includes the data for the following companies: Puntizela d.o.o., Bastion upravljanje d.o.o., 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., and Hoteli Baška d.d. (merged on 31 March 2016), while the data for the companies Mirta Baščanska d.o.o., Vala Baščanska d.o.o., and Baškaturist d.o.o. are included until the day of their merger to the company Hoteli Baška d.d. (until 13 January 2016). Thus, the data for 2016 are not fully comparable to the data for

the previous period, as the latter do not include, until the date of consolidation (i.e. 1 July 2015) the data for the following companies: Hoteli Baška d.d., Mirta Baščanska d.o.o., Vala Baščanska d.o.o., and Baškaturist d.o.o.

Please note that Imperial's revenues and expenses were not included in the Group's income statement, because they were not deemed materially significant in the period between the acquisition of control (12 December 2016) to the end of the business year (31 December 2016).

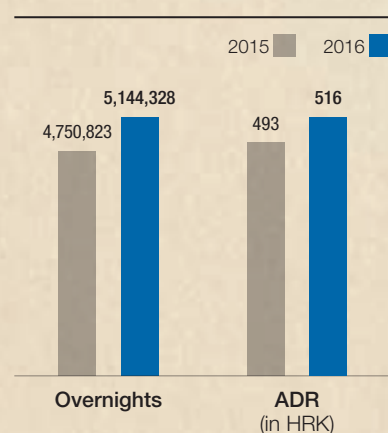
Results of the Group

2016 was marked by strong results, high operating efficiency and increased profitability. A number of factors contributed to this: i) continual investments in raising the competitive edge and the quality of services and products, ii) focus on the guest and operational excellence in sales, marketing and revenue management, iii) the strategic acquisition of the Baška hotel group and iv) continual efforts in developing destinations, products and added-value services.

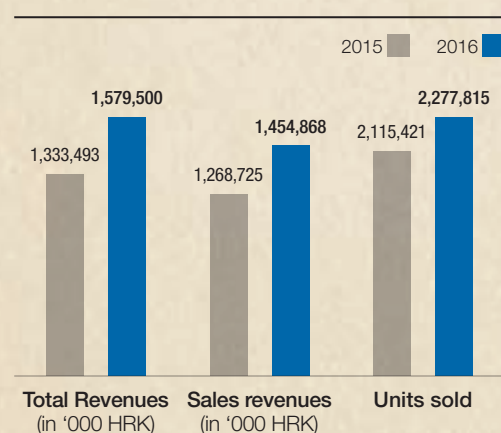
In responding to the increased demand for hospitality products and services, Valamar Riviera was guided by adopted strategic initiatives and the best practices of business excellence. In 2016 the Group reported a 15.0% increase in operating revenues totaling HRK 1,488.6 million by optimizing distribution, sales channels and marketing segments, the average daily rate increased by 4.6% to HRK 516, while the total number of units sold was 2,227,815 (or 162,394 over prior year results).

Despite the increased business volume and the year-round consolidation of the Baška hotel group, operating costs were actively managed and remained under control, thus reporting a 13.3% growth. Excluding costs generated by destination Baška during the first six months of 2016, operating costs reported an 11% growth.

OVERNIGHTS AND ADR



REVENUES AND ACCOMODATION UNITS SOLD



KEY FINANCIAL INDICATORS OF VALAMAR RIVIERA GROUP¹ (in HRK)

	2015	2016	2016/2015
Total revenues	1,333,493,479	1,579,499,901	18.4%
Sales revenues	1,268,724,937	1,454,867,739	14.7%
Board revenues (accommodation and board revenues) ²	1,043,250,301	1,174,716,569	12.6%
Operating costs ³	838,362,755	949,930,753	13.3%
EBITDA ⁴	423,364,870	512,583,688	21.1%
Extraordinary operations result and one-off items ⁵	-15,106,588	-6,376,909	57.8%
Adjusted EBITDA ⁶	438,471,458	518,960,597	18.4%
EBIT	171,792,373	246,704,521	43.6%
Adjusted EBIT ⁶	186,898,961	253,081,430	35.4%
EBT	132,926,778	271,909,189	104.6%
Net profit	105,461,478	342,313,778	224.6%
EBT margin	10.3%	18.3%	800 bp
EBITDA margin	32.7%	34.4%	170 bp
Adjusted EBITDA margin ⁶	33.9%	34.9% ⁶	100 bp

	31/12/2015	31/12/2016	2016/2015
Net debt ⁷	1,082,520,078	1,398,102,734	29.2%
Net debt / EBITDA	2.56	2.73	6.5%
Net debt / Adjusted EBITDA	2.47	2.69	9.1%
Cash and cash equivalents	318,755,282	274,650,648	-13.8%
Capital investments	310,477,293	428,440,048	38.0%
ROE ⁸	5.5%	14.4%	890 bp
Adjusted ROCE ⁹	6.3%	6.7%	40 bp
Market capitalization ¹⁰	2,970,629,728	4,295,057,872	44.6%
EV ¹¹	4,053,149,806	5,693,160,606	40.5%
EPS ¹²	0.84	2.76	228.6%
DPS ¹³	0.55	0.60	9.1%

Marketing and sales activities and the upgraded products and services reported excellent market feedback. The increased business volume and higher operating efficiency resulted in a marked profitability growth. EBITDA grew by 21.1% (or: HRK 89.2 million) totaling HRK 512.6 million. Adjusted EBITDA¹⁷ grew by 18.4% totaling HRK 519.0 million. The increase in operational efficiency as seen through the adjusted EBITDA margin growth from 33.9% in 2015 to 34.9% in 2016 also includes the negative effect of the consolidation costs of the Baška destination during the first six months of this year. Without this negative effect, the comparable adjusted EBITDA margin would be 36.1% thus representing an actual increase in operational efficiency by 220 basis points. Operating profit grew by 104.6% and totaled HRK 271.9 million. In 2016 the Group's net profit grew by HRK 236.9 million and totaled HRK 342.3 million. This is mainly due to i) increased operating profit, ii) positive extraordinary financial result, and iii) one-time recognized deferred tax assets which will burden the gross profit in the forthcoming years of utilization¹⁸. Following these trends, the EBT margin grew by 800 basis points and was 18.3%.

KEY BUSINESS INDICATORS OF VALAMAR RIVIERA GROUP¹⁴

	2015	2016	2016/2015
Number of accommodation units	17,783	18,072	1.6%
Full occupancy days	119	126	6.0%
Annual occupancy (%)	33%	34%	100 bp
Accommodation units sold	2,115,421	2,277,815	7.7%
Overnights	4,750,823	5,144,328	8.3%
ADR ¹⁵ (in HRK)	493	516	4.6%
RevPAR ¹⁶ (in HRK)	58,665	65,002	10.8%

¹ Classified according to the Annual Business 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 one-off 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 The adjustment includes (+) extraordinary income and (-) expenses in accordance with the USALI standard classification and (-) one-off termination benefit costs and (-) administrative costs related to the process of merger and business reorganisation.

⁶ Adjusted by the result of extraordinary operations and one-off items which does not include negative effect of the consolidation costs of the Baška destination during the first six months of this year . Without this negative effect, the comparable adjusted EBITDA margin would be 36.1%.

⁷ Net debt: non-current and current liabilities to banks and other financial institutions + liabilities for loans, deposits and other – cash and cash equivalents – long-term and short-term investments in securities – current loans given, deposits, etc.

⁸ ROE refers to return on equity; calculated as: profit for the period / (capital and reserves).

⁹ Adjusted ROCE refers to return on capital employed; calculated as: adjusted EBIT / (capital and reserves at the end of the period + non-current and current liabilities to banks and other financial institutions - cash and cash equivalents - long-term and short-term investments in securities - loans given, deposits, etc.).

¹⁰ The number of shares as at 31 December 2016 net of treasury shares amounts to 124,170,508, while per 31 December 2015 amounts to 124,190,206.

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 2016: 124,235,079.

Weighted average number of shares as at 31 December 2015: 124,784,807.

¹³ DPS refers to dividends per share.

¹⁴ Key business indicators of Valamar Riviera Group do not include data of Imperial's d.d. The total capacity with Imperial is 20,852 accommodation units.

¹⁵ Average daily rate is recorded on the basis of board revenues (accommodation and board's food and beverage revenues).

¹⁶ Revenue per accommodation unit is recorded on the basis of cumulative board revenues (accommodation and board's food and beverage revenues).

¹⁷ Adjustments were made for (i) extraordinary income (in the amount of HRK 21.5 million in 2016, and HRK 34.2 million in 2015), (ii) extraordinary expenses (in the amount of HRK 23.6 million in 2016, and HRK 33.9 million in 2015), and (iii) termination benefit costs (in the amount of HRK 4.3 million in 2016, and HRK 15.4 million in 2015). Extraordinary operations result and one-off items amounted to HRK - 6.4 million in 2016, and HRK -15.1 million in 2015.

¹⁸ Net tax revenue totaled HRK 70.4 million and largely resulted from the recognized deferred tax assets due to tax incentives (prescribed by the Act on Investment Promotion and Investment Improvement).

M.I.C.E.¹⁹ events in the pre-season period contributed to increased operating efficiency. Firstminute sales created a better basis for the management of sales channels and boosted start bookings in May and June. Optimal management of the group channel boosted the individual channel in May. In June, southern destinations reported a decrease in groups (due to an unfavorable public holiday spread) which was compensated by the M.I.C.E. segment and supported by growth in other sales channels. Peak season saw an improvement in distribution and price management, sales channels and sales activities. Active optimization of allotment occupancy and prices resulted in a 16% growth in the individual segment, which usually carries higher average rates. In the shoulder season the focus was on group and allotment placements, while targeting individual placements in the Christmas/New Year period.

In 2016, board revenues grew by HRK 131.5 million and totaled HRK 1,174.7 million. Sales revenues (outside the Group) grew by HRK 186.1 million and totaled HRK 1,454.9 million. This resulted from i) a 12.6% increase in board revenues, ii) a 26% increase in non-board outlet revenues and iii) a 57% increase in the revenue of other operating departments (laundry, travel agency, equipment-rental services, etc.). Domestic sales revenues totaled HRK 119.0 million and represented 7.5% of total revenues (7.9% in 2015). They reported a 12.3% increase over prior comparable period results. International sales revenues totaled HRK 1,335.8 million and represented 84.6% of total revenues (87.2% in 2015). They grew by HRK 173.1 million over prior comparable period results. Other operating (outside the Group) and financial income represented 7.9% of total revenues (4.9% in 2015). The 33.3% increase in other operating revenues resulted mainly from the one-off income received from cancelling provisions related to legal disputes. Financial income reported a HRK 51.4 million growth, which is mainly due to the share portfolio sales and exchange rate gains. As a result, total revenues grew by HRK 246.0 million and totaled HRK 1,579.5 million.

VALUATION OF VALAMAR RIVIERA GROUP

	31/12/2015	31/12/2016	2016/2015
Average share price per	23.92	34.59	44.6%
Market capitalization (in HRK)	2,970,629,728	4,295,057,872	44.6%
EV (in HRK)	4,053,149,806	5,693,160,606	40.5%
EPS	0.84	2.76	228.6%
DPS	0.55	0.6	9.1%
EV / Sales revenues	3.2x	3.9x	22.3%
EV / EBITDA	9.6x	11.1x	15.7%
EV / Adjusted EBITDA	9.2x	11.0x	19.2%
EV / EBIT	23.6x	23.1x	-2.2%
EV / Adjusted EBIT	21.7x	22.5x	3.7%

PROFITABILITY INDICATORS OF VALAMAR RIVIERA GROUP

	2015	2016	2016/2015
EBITDA margin	32.7%	34.4%	170 bp
Adjusted EBITDA margin	33.9%	34.9%	100 bp
EBIT margin	13.3%	16.6%	330 bp
Adjusted EBIT margin	14.4%	17.0%	260 bp
EBT margin	10.3%	18.3%	800 bp
Net profit margin	8.1%	23.0%	1,490 bp
ROA	3.0%	7.7%	470 bp
ROE	5.5%	14.4%	890 bp
Adjusted ROCE	6.3%	6.7%	40 bp

¹⁹ Meetings, incentives, conferencing, exhibitions.

In 2016 total operating expenses grew by 10.7% due to increased business volume and this year consolidation of the Baška hotel group from 1 January 2016. Excluding costs generated by destination Baška during the first six months of 2016 for comparability's sake, operating expenses reported a low 6.7% growth. This confirmed continual positive trends in operating efficiency, management consolidation and restructuring at all levels, as well as Valamar Riviera's strategic goals.

Material costs grew by 13.1% and totaled HRK 450.4 million, representing 36.3% of total operating expenses (35.5% in 2015), which was largely due to increased business volume which caused higher costs of raw material and maintenance. Staff costs totaled HRK 371.3 million, representing 29.9% of total operating expenses (29.2% in 2015). The 13.2% increase in staff costs was due to several factors: i) longer full occupancy days, ii) takeover of the Baška hotel group staff, and iii) salary increase (a 2% salary increase in June 2016, a 1.5% salary increase and 0.5% salary increment for years of service in June 2015). Amortization and depreciation totaled HRK 265.2 million (HRK 232.9 million in 2015), and represented 21.4% of total operating expenses (20.8% in 2015). Their 13.9% growth was due to a wider consolidation scope and the previously realized large investments. Other operating expenses were HRK 24.0 million, and their 65.9% growth resulted from the operating expenses of previous years and the undepreciated assets due to investments. Value adjustments and provisions were HRK 2.5 million and decreased by HRK 21.5 million mainly due to the 2015 claim write-off in relation to Glavice d.o.o and lower provisions per legal disputes. Other costs grew by 3.0% or HRK 3.7 million primarily due to this year's Baška operations.

In 2016 financial income grew by HRK 51.4 million over prior comparable period results and totaled HRK 90.9 million. Other financial income reported the strongest growth, and rose by HRK 36.5 million, which was mostly due to the Group share portfolio sales totaling HRK 35.2 million. Interest income, foreign exchange differences, dividend and similar third-party related income grew by HRK 11.4 million. Exchange rate gains from settled unrealized balance sheet items and loan payments reported the strongest growth of HRK 23.6 million because of a 1% stronger HRK in relation to the EUR in 2016. This contributed to the decrease in balance sheet liabilities denominated in EUR and disclosed in HRK. Revenues from time deposits, a vista accounts and placements totaled HRK 4.2 million. The lower value is mostly

TOTAL OPERATING EXPENSES OF VALAMAR RIVIERA GROUP²⁰ (in HRK)

	2015	2016	2016/2015
Operating costs ³	838,362,755	949,930,753	13.3%
Total operating expenses	1,122,244,561	1,241,906,080	10.7%
Material costs	398,167,101	450,374,430	13.1%
Staff costs	327,901,582	371,316,789	13.2%
Depreciation and amortisation	232,922,484	265,188,188	13.9%
Other costs	124,793,680	128,500,052	3.0%
Provisions and value adjustments	24,003,901	2,545,384	-89.4%
Other operating expenses	14,455,813	23,981,236	65.9%

due to a smaller amount of free cash funds during 2016 compared to the same period last year as well as a significant reduction in market interest. Unrealized income (gains) from financial assets grew by HRK 3.6 million, largely due to the valuation of derivative financial instruments contracted for 2017 as FX and interest hedge .

Financial expenses decreased by HRK 12.6 million compared to the same period a year ago and totaled HRK 65.7 million, representing 6.5% of total expenses (5.0% in 2015). Interest, foreign exchange differences, and similar expenses from third parties decreased by HRK 18.8 million. Other financial expenses grew by HRK 2.7 million, out of which HRK 0.9 million refers to the Group share portfolio sales, and HRK 1.7 million refers to interest rate swap early termination payment. The most significant change compared to the same period a year ago is related to exchange rate losses from settling unrealized balance sheet items, which fell by HRK 26.2 million due to the said stronger HRK in relation to EUR. A HRK 8.5 million increase in interest expenses in 2016 was related to the increase of debt resulting from loans contracted for financing investments and the consolidation of the Baška hotel group (from 1 January 2016).

²⁰ Classified according to the Quarterly Business Financial Statement GFI POD-RDG.

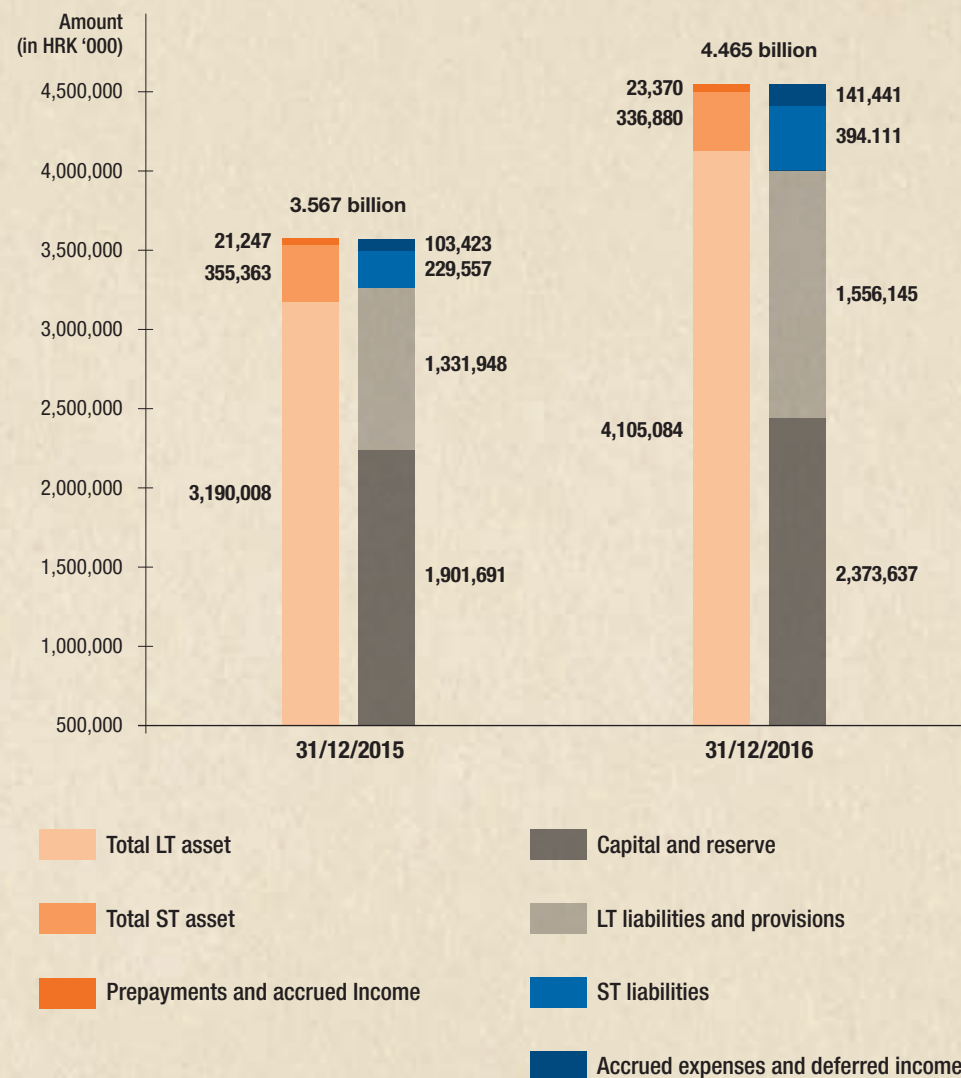
Please note that as of 31 Decemeber 2016 the Group balance sheet included Imperial d.d. data which were not included in the comparable period (31 December 2015). As of 31 December 2016 the total value of the Group's assets was 25.2% higher compared to 31 December 2015. The total share capital and reserves grew by HRK 471.9 million, totaling HRK 2,373.6 million. This was mainly due to a HRK 236.9 million increase in generated net profit and the stated minority interest due to the consolidation of Imperial (HRK 235.7 million increase).

The total long-term liabilities were 16.8% higher and as of 31 December 2016 totaled HRK 1,556.1 million due to i) arranged loans for financing investments and ii) the consolidation of Imperial which brought an increase of HRK 210.3 million increase.

The total short-term liabilities were 71.6% higher compared to 31 December 2015 and totaled HRK 394.1 million. This resulted from i) current repayment of long-term debt (HRK 21.0 million increase), ii) trade payables (increased by HRK 103.1 million) due to large investments and iii) the consolidation of Imperial (HRK 27.6 total increase).

Cash and cash equivalents as of 31 December 2016 totaled HRK 274.7 million. This 14% decrease is mainly due to i) investments in Imperial's shares and ii) large investments. The reported cash and cash equivalents indicate a strong further potential from business activities and external borrowings, able to ensure a smooth continuation of future investments and potential acquisitions.

ASSETS AND LIABILITIES



KEY OPERATING INDICATORS OF VALAMAR RIVIERA GROUP PER SEGMENTS²¹

HOTELS AND RESORTS	Total			Premium			Upscale			Midscale			Economy		
	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015
Number of accommodation units	7,855	7,927	0.9%	1,037	1,037	0.0%	1,422	1,422	0.0%	3,047	3,112	2.1%	2,349	2,356	0.3%
Full occupancy days	147	158	7.6%	166	194	16.5%	157	159	1.5%	148	159	7.9%	130	139	6.7%
Annual occupancy rate (%)	40%	43%	7.3%	46%	53%	16.1%	43%	43%	1.2%	40%	44%	7.6%	36%	38%	6.4%
Accommodation units sold	1,151,809	1,250,795	8.6%	172,599	201,003	16.5%	222,829	226,086	1.5%	449,981	495,689	10.2%	306,400	328,017	7.1%
Overnights	2,503,172	2,668,550	6.6%	343,961	386,163	12.3%	487,576	500,925	2.7%	970,673	1,056,601	8.9%	700,962	724,861	3.4%
ADR ¹⁵ (in HRK)	718	735	2.4%	1,070	1,118	4.4%	928	984	6.0%	678	682	0.6%	424	410	-3.3%
Board revenues (in HRK)	826,767,088	919,726,790	11.2%	184,764,002	224,678,769	21.6%	206,882,926	222,521,004	7.6%	305,133,485	338,024,283	10.8%	129,986,675	134,502,733	3.5%
RevPAR ¹⁶ (in HRK)	105,257	116,025	10.2%	178,172	216,662	21.6%	145,487	156,485	7.6%	100,142	108,620	8.5%	55,343	57,089	3.2%
Adjusted EBITDA ²² (in HRK)	476,130,680	560,211,649	17.7%	107,849,926	144,730,691	34.2%	122,950,922	138,900,914	13.0%	170,816,094	195,987,797	14.7%	74,513,737	80,592,247	8.2%

Hotels and resorts reported HRK 919.7 million in board revenues. The Premium and Midscale segments were major drivers for the strong HRK 93.0 million increase. These results were largely due to a sales mix optimization, investments in the upgrade of products and services, and the successful realization of a number of business and entertainment events in Dubrovnik and Poreč. It should be noted that this growth was partly influenced by the results of destination Baška. Excluding them, the total board revenues for hotels and resorts reported a 10% growth.

The Premium segment reported the strongest growth in board revenues (HRK 39.9 million) and totaled HRK 224.7 million. This was mainly due to an increase in accommodation units sold (i.e. 28,404 more, or 201,003 total) and the 4.4% increase in the average daily rate. The Valamar Isabella Island Resort 4* & 5* was the main revenue driver. By focusing on direct sales channel, a longer operating period and M.I.C.E. events it reported a strong growth of over HRK 17 million. Daimler AG-Mercedes-Benz organized the M.I.C.E. event "Global Training Experience" at the Valamar Dubrovnik President 5* and the Valamar Lacroma 4* in the February-mid April period and contributed to the prolongation of the operating period and high occupancy rates. The high-season growth of the Dubrovnik Premium segment was mainly due to the excellent positioning of the Valamar Dubrovnik President 5* in the individual channel. The adequate distribution of marketing segments ensured the significant growth of the Valamar Lacroma 4*, mainly through allotment and M.I.C.E. placements.

²¹ According to the classification under the USALI international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry). Business operations of Baška properties are included for the period January – December 2016, while in the comparable period of 2015 are included in the period July - December 2015. Destination Pula - Puntizela business is included in destination Poreč.

²² 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 -229.6 million in 2016, i.e. HRK -189.9 million in 2015. Other segments include business of central operations, laundry, sport, central kitchen, strategic rentals, etc.

The Upscale segment reported a HRK 15.6 million board revenue growth. The increased average daily rate (+HRK 56) contributed to the HRK 222.5 million in board revenues. The Valamar Club Tamaris 4* owed its strong results to a successful firstminute allotment distribution and a stronger individual sales channel which was responsible for over two thirds of the total growth. The increase in the individual segment and occupancy contributed to a significant growth of Hotel & Casa Sanfior 4*. The management of the marketing segments and prices received a good market feedback and boosted the individual segment of the Valamar Zagreb 4*. Similarly, the Valamar Riviera 4* hotel owed its robust growth and high occupancy primarily to an increase in capacity (10 new accommodation units) which resulted in higher occupancy.

The Midscale segment of hotels and resorts reported a growth of HRK 32.9 million and contributed to a large extent to the total board revenue growth. The HRK 338.0 million board revenues were partially influenced by the business done in destination Baška during the first half-year of 2016. Excluding Baška, the Midscale board revenue growth exceeded HRK 15 million. The main revenue drivers were the Valamar Diamant 4* and the Valamar Club Dubrovnik 3*. The prolonged operating period, high occupancy rates, the new multifunctional hall which was an important feature for the M.I.C.E. channel as well as an improved realization of the group channel during the season resulted in a significant increase in the business volume and strong growth of the Valamar Diamant 4* board revenue. On the other hand, the Valamar Club Dubrovnik 3* grew in all its marketing segments due to an adequate placement of allotments and group. The Valamar Crystal 4* grew further mainly because of a strategic shift towards long-term charter partners which ensured additional occupancy through flights to Istria during the shoulder season and a longer operating period. The competitive price policy in defined periods that was focused mainly on occupancy resulted in increased board revenues in the Valamar Rubin 3*. The Allegro and the Miramar 3* in destination Rabac reported strong growth mainly due to a significant increase of the individual channel and adequate group and allotment placement in the pre-season period.

The Economy segment of hotels and resorts reported HRK 134.5 million in board revenues, representing a 3.5% increase. The Pical 3* board revenue increase was the result of a stronger individual sales channel, and an active price management, both contributing to a higher average daily rate. The Tirena 3* results grew due to the performance of the individual sales channel and optimal allotment placement. An increased group volume and pre-season events led to the Lanterna's 2* increased board revenue. Fewer operating days reduced the Girandella Tourist Village 2* occupancy, although board revenues remained the same due to increased average daily rates.

KEY OPERATING INDICATORS OF VALAMAR RIVIERA GROUP PER SEGMENTS (CONTINUED)

CAMPING RESORTS	Total			Premium			Upscale			Midscale			Economy		
	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015
Number of accommodation units	9,929	10,145	2.2%	475	511	7.6%	4,449	4,437	-0.3%	3,378	3,387	0.3%	1,626	1,810	11.3%
Full occupancy days	97	101	4.3%	137	132	-3.3%	101	106	5.0%	91	98	7.8%	87	87	-1.0%
Annual occupancy rate (%)	27%	28%	4.0%	38%	36%	-3.5%	28%	29%	4.7%	25%	27%	7.5%	24%	24%	-1.3%
Accommodation units sold	963,612	1,027,020	6.6%	65,054	67,694	4.1%	447,846	469,121	4.8%	308,523	333,531	8.1%	142,189	156,674	10.2%
Overnights	2,247,651	2,475,778	10.1%	186,363	197,491	6.0%	1,071,940	1,198,905	11.8%	668,609	721,187	7.9%	320,739	358,195	11.7%
ADR ¹⁵ (in HRK)	225	248	10.5%	288	361	25.4%	243	280	15.0%	203	209	2.9%	184	189	2.7%
Board revenues (in HRK)	216,483,213	254,989,779	17.8%	18,741,250	24,448,224	30.5%	108,877,309	131,206,913	20.5%	62,667,820	69,686,153	11.2%	26,196,835	29,648,489	13.2%
RevPAR ¹⁶ (in HRK)	21,804	25,134	15.3%	39,449	47,844	21.3%	24,472	29,571	20.8%	18,549	20,575	10.9%	16,111	16,380	1.7%
Adjusted EBITDA ²² (in HRK)	152,259,096	188,350,077	23.7%	13,718,824	17,245,497	25.7%	80,851,341	102,671,633	27.0%	38,672,507	46,834,312	21.1%	19,016,424	21,598,635	13.6%

Camping resorts reported HRK 255.0 million in total board revenue. The HRK 38.5 million increase was due to the strong positive market feedback that the newly invested properties received and to a lesser extent, to the results of the Baška camping resort operations in the first half of 2016. Excluding the Baška operations results, the total camping resort board revenues reported a solid 15% growth.

The Premium segment of camping resorts includes the Krk 5* campsite, which reported a strong 30.5% board revenue growth totaling HRK 24.5 million. This growth resulted from a HRK 73 increase in the average daily rate due to this years' investment in new mobile homes, improved quality and service as well as intensive promotional activities.

A 15.0% increase of the average daily rate in the Upscale segment of camping resorts resulted in a HRK 22.3 million increase in board revenues. The Lanterna 4* campsite contributed most to the reported board revenues total of HRK 131.2 million. The leading Istrian camping resort owed its 24% growth in board revenues to investments in new mobile homes, quality and service upgrades and promotional activities. The campsites Marina 4* and Ježevac 4*, owed their increased board revenues to a higher average rate. This years' Bunculuka 4* performance contributed to stronger Upscale results totaling HRK 3.6 million in additional board revenues.

The camping resort Midscale segment reported a HRK 69.7 million in board revenues. The Zablacé 3* campsite year-round consolidation is mainly the result of the 11.2% increase in board revenues. This is because early Easter holidays do not benefit camping operations and cause fewer operating days and lower board revenues.

The Economy segment reported HRK 29.7 million in board revenues. The HRK 3.5 million increase is mainly due to investments in the Brioni 2* campsite and the new Tunarica 2* campsite operations.

KEY OPERATING INDICATORS OF VALAMAR RIVIERA GROUP PER DESTINATIONS²⁰

DESTINATION	Poreč			Rabac			Island of Krk			Dubrovnik		
	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015	2015	2016	2016/ 2015
Number of accommodation units	10,592	10,632	0.4%	1,913	2,065	7.9%	3,318	3,414	2.9%	1,961	1,961	0.0%
Full occupancy days	113	116	2.9%	138	136	-0.8%	107	128	18.7%	153	166	8.6%
Annual occupancy rate (%)	31%	32%	2.6%	38%	37%	-1.1%	29%	35%	18.4%	42%	45%	8.3%
Accommodation units sold	1,195,798	1,234,697	3.3%	263,064	281,750	7.1%	356,269	435,348	22.2%	300,290	326,020	8.6%
Overnights	2,716,812	2,881,737	6.1%	598,486	642,552	7.4%	863,065	1,010,914	17.1%	572,460	609,125	6.4%
ADR ¹⁵ (in HRK)	430	465	8.1%	546	538	-1.5%	376	384	2.3%	838	864	3.2%
Board revenues (in HRK)	514,060,909	574,077,286	11.7%	143,606,002	151,518,687	5.5%	134,035,119	167,341,883	24.8%	251,548,271	281,778,713	12.0%
RevPAR ¹⁶ (in HRK)	48,534	53,995	11.3%	75,068	73,375	-2.3%	40,402	49,016	21.3%	128,276	143,691	12.0%
Adjusted EBITDA ²² (in HRK)	303,823,058	368,687,622	21.3%	79,821,108	85,462,089	7.1%	88,965,226	109,627,842	23.2%	155,780,384	184,784,174	18.6%

Destination Poreč reported HRK 574.1 million in board revenues. The average daily rate growth of HRK 35 and the 3.3% increase in the number of accommodation units sold resulted in a HRK 60.0 million increase in board revenues. The most significant contribution to the board revenue growth in this destination was attributed to the excellent performance of the Valamar Isabella Island Resort 4* & 5*, the Lanterna 4* campsite and the Valamar Diamant 4* hotel. A solid occupancy was mainly due to group and allotment placements in the shoulder season, and individual placements in the Christmas/ New Year period.

Destination Rabac owed its HRK 7.9 million increase in board revenue to an increase in accommodation units sold (+18,686). The reported HRK 151.5 million in board revenues was mostly attributed to the strong performance of the Hotel & Casa Valamar Sanfior 4*, the Allegro hotel 3* and the Miramar hotel 3*, as well as the Marina campsite 4*.

Destination Krk reported board revenues amounting to HRK 167.3 million (+24.8%), mainly due to the destination Baška 2016 yearlong consolidation. Excluding the performance of hotels, resorts and camping resorts in destination Baška, board revenues rose by 10.5%, while the rest of the growth is mainly due to the strong performance of the Krk 5* campsite.

Destination Dubrovnik reported a growth in the average daily rate (+HRK 26) and an 8.6% rise in accommodation units sold. This resulted in a robust HRK 30.2 million increase in board revenues, totaling HRK 281.8 million, mostly due to the excellent performance of two hotels: the Valamar Dubrovnik President 5* and the Valamar Lacroma 4* (which stayed open the whole year round) and good group and allotment placements in the shoulder season.



Opinion of the Management Board Committee of the Croatian Business Council for Sustainable Development on the 2016 Sustainability Report of Valamar Riviera

The independent Management Board Committee of the Croatian Business Council for Sustainable Development assessed the new 2016 Sustainability report of Valamar Riviera. This is Valamar's second integrated report that encompasses the most relevant facts on business operations as well as the most important non-financial impacts reported using the GRI G4 guidelines. We hereby confirm that the said report was produced in accordance with the core option requirements.

The report gives a very detailed and articulate presentation of business results, non-financial impacts, numerous improvements made in the course of the year such as investments, innovations, better organization and management of non-financial impacts. The report includes an overview of community investments made to enhance the quality of life in the local community, better environment management and destination development as an important factor for Valamar's business.

Valamar Riviera sets definite strategic business and sustainability goals for the forthcoming reporting periods. They include long-term profitability, investments in the development of human resources, sustainable development of destinations and support to the local community. The company especially focuses on environmental protection, saving energy and using renewable sources. What stands out from the large amount of data reported are the 400 million

kunas invested in 2016 that confirm Valamar's commitment to maintaining the company's long-term competitiveness and developing its assets. The report shows that Valamar understands its risks and recognizes changes in the structure of guests and strives to adapt and respond to the demands of new generations of guests. The introduction of an EV charger for guest use is a good example of this. Valamar included a sustainable and socially responsible development of its destinations among its strategic goals for the period up to 2020. Other strategic goals also include caring for employees, innovation and digitalization, destination development and responsibility to the community, commitment to environmental sustainability and others.

The analysis of stakeholders shows that the company fully understands its key impacts and uses this knowledge to identify its key stakeholders who materialize these impacts.



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

Appropriate communication has been established with each stakeholder group in order to receive feedback about Valamar Riviera. Similarly, Valamar defined its material aspects and strives to manage them actively. The report does not provide a clear explanation of the link between these two processes: it is not clear how the key stakeholders participated in the definition of material aspects and consequently the contents of this report's non-financial part. However, Valamar chose to report on impacts related to a large number of material aspects, which makes this report very comprehensive.

Valamar especially focuses on the guest as the most important stakeholder and, consequently, guest satisfaction is very important as can be seen in the continual measuring of guest satisfaction and on- line reputation that both show high satisfaction levels. This validates the quality and efficiency of the company's strategy. Apart from guests, the

second most important stakeholders are Valamar's employees. The company offers additional benefits, continual salary increase, and permanent employment and invests in staff lodging, training and similar to improve employee satisfaction and retain the best of them. The company is aware that excellent service can only be based on excellent staff and that both components are necessary for a successful hospitality operation. Finally, Valamar devotes special attention to establishing long-term relationships with suppliers in order to guarantee quality.

The report also presents a very detailed overview of the key management teams and an in-depth explanation of their responsibilities and areas of management that are performed through Committees. A clear definition of the responsibilities in the management of non-financial impacts would additionally prove that sustainable development is Valamar Riviera's strategic orientation.

The area of risks and risks management is explained in detail. In line with the perception of global risks published by WEF (World Economic Forum), Valamar also included the risks of climate change.

Our proposal for the report is to make a more visible distinction between corporate social responsibility (activities related to the management of the company's own impacts on the environment and society) and the company's philanthropy activities (programs related to destination management and community investment). Valamar shows significant results in both area and with their distinction and separation, the company would offer a better presentation of these two impact groups. Besides, the structure of information related to the environment would comply with the structure defined by GRI guidelines that would contribute to the clarity of information and give a better assessment overview of Valamar's environmental impact.

Although there is still room for improvement, Valamar's report is very clear, articulate and comprehensive and renders a clear presentation of the impacts, main activities, business strategy and performance in the past year.

The data is presented in a clear manner so we can conclude that this report shows significant improvement in relation to the report published the year before.

We congratulate Valamar on the remarkable effort put in creating this report and on the numerous successful activities undertaken, that substantiated this report with interesting and positive information.

Management Board Committee of the Croatian Business Council for Sustainable Development

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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. 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 and Swiss franc), 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.