

VALAMAR RIVIERA

BUSINESS RESULTS
1/1/2016 - 30/6/2016



QUARTERLY (INTERIM) REPORT OF THE GROUP AND THE COMPANY VALAMAR RIVIERA D.D.

for the period from 1 January 2016 to 30 June 2016

Valamar Isabella Island Resort 4*&5*, Poreč



EXECUTIVE SUMMARY

-  In the first six months of 2016, the Group achieved an exceptional 135% growth of adjusted EBITDA reaching HRK 78.5 million (HRK 33.4 million in 2015). Such a growth mostly comes from a 22% increase in sales revenues (from HRK 343 million in 2015 to HRK 420 million in 2016) and an increase in operational efficiency as a result of operating expenses growth dynamic of 12%, at only half of sales revenue growth.
-  Total revenues amount to HRK 507 million, which is a 36% increase in relation to the comparable period last year (HRK 372 million in 2015). Of total revenues, HRK 420 million are sales revenues (HRK 343 million in 2015), while the remaining part refers mainly to financial income driven by foreign exchange gains and the sale of the Group's share portfolio. Increase in sales revenues is mostly a result of a growth in board revenues to HRK 323 million (+19%; 272 million in 2015) and higher a la carte revenues (+34%).
-  In the first six months of 2016, the Group achieved 1,434,810 overnights (+13%) and a 5.4% increase of the average daily rate. The growth of board revenues is directly impacted by 1) the successful realisation of big events and groups in Dubrovnik and Poreč, 2) better operating performance of Premium objects, and 3) the acquisition of the Baška companies in the second half of 2015.
-  The positive trend of higher cost efficiency continues, as reflected in the operating expenses growth of 12% (5% excluding business performance in destination Baška) to the amount of HRK 345 million (310 million in 2015). The increase in operating expenses arises mainly from the increased operating volume.
-  Valamar Riviera has submitted to the Restructuring and Sale Centre (CERP) a binding offer for the purchase of 50.08% of the equity capital of the company Imperial d.d. Rab. Valamar Riviera has concluded a Collaboration Contract with the company AZ d.o.o. mandatory pension fund management company establishing a joint action towards the company Imperial d.d. Rab.
-  At its Investors Day, Valamar Riviera presented a new 2020 development strategy and goals, which, in addition to fostering a sustainable and socially responsible development of its destinations, include 1) a total of HRK 1.5 to 2 billion investments in the existing portfolio, 2) a solid growth of EBITDA margin to a 35% to 38% level, and 3) an attractive and long-term dividend for its shareholders.
-  A strategic business collaboration has been signed with the companies TUI Northern Europe Limited, TUI UK, and TUI Nordic Holding AB, encompassing the branding of the Family Life Bellevue Resort in Rabac as the first Family Life concept in Croatia in accordance with TUI's standards and a three-year business collaboration (2017, 2018, and 2019 seasons).
-  The Supervisory Board granted prior approval for the 2017 investment cycle amounting to a total of more than HRK 750 million, which so far is the largest investment in portfolio development in a single year. The majority of investment refers to Rabac projects – Family Life Bellevue Resort and Girandella Resort – as well as further investments to raise the quality of the campsite Lanterna, repositioning of the campsite Zablaće at the Baška destination and the campsite Ježevac towards the Premium segment, and a range of smaller projects with a view to raising quality and operational efficiency.

OUTLOOK

-  Company's Management Board expresses its satisfaction with the course taken so far and the performance achieved in the first six months of 2016. A considerable increase in the booking rate for realised and announced overnight stays by the end of the year is indicative of a positive outlook for this business year.
-  Last year and this year's intensive investment cycles and a very good market acceptance of newly invested facilities in Dubrovnik and Poreč and on the island of Krk represent a positive outlook with regard to the further increase in the number of overnights and in sales revenues, as well as EBITDA growth arising from improved operational efficiency.
-  We have been intensively working on the preparation of investment projects aimed at future development and raising of the quality of portfolio facilities, services, and offer. However, the highest VAT rate in the Mediterranean and unresolved tourism land related issues restrict the investment potential of the tourism sector in Croatia.
-  Following the last year's successful acquisition of Baška companies on the island of Krk, we continue to actively pursue expansion, partnership, and acquisition options in Croatia and the region.

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SIGNIFICANT BUSINESS EVENTS

Valamar Riviera is the leading tourism company and one of the leading tourism groups in the Republic of Croatia. It is one of the major investors in the Croatian tourism sector, its investments reaching almost HRK 2.8 billion in the last 13 years. The Valamar Riviera Group operates at four attractive destinations, covering the area from Istria and Kvarner to Dubrovnik, and manages around 10 percent of the categorised tourist accommodation. It is the owner of the Valamar Hotels and Resorts and Camping Adriatic brands. Its hospitality facilities portfolio encompasses twenty-five hotels and resorts and thirteen campsites. With more than 18,000 accommodation units, it can accommodate approximately 48,000 guests a day, which makes it the biggest tourism group in Croatia in terms of its capacities. Valamar Riviera pursues interests of all its stakeholders, ranging from several local communities, over 21,000 shareholders and 4,100 employees engaged by the Group in the high season, to a number of partners. These interests have been actively promoted through a sustainable growth and development concept based on the principles of corporate social responsibility. Further growth and development will be achieved by increasing operational efficiency, investing further into portfolio, pursuing acquisitions and partnerships, developing destinations where it operates, and training Valamar Riviera's employees.

On 31 March 2016, the company Hoteli Baška d.d. was merged with the company Valamar Riviera d.d. Accordingly, Valamar Riviera became a universal successor to Hoteli Baška. Since Valamar Riviera was the sole shareholder of the company Hoteli Baška, in compliance with Article 531(1) of the Companies Act, the Valamar Riviera's General

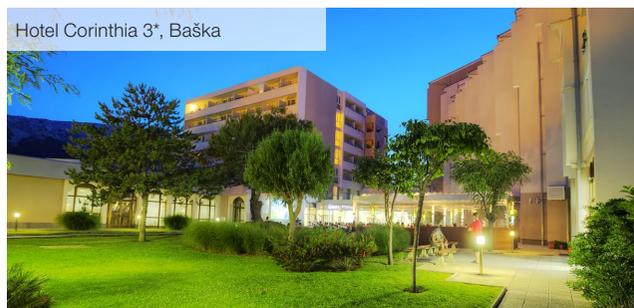


Assembly was not convoked. Please note that on 13 January 2016, the subsidiaries Baškaturist d.o.o., Mirta Bašćanska d.o.o., and Vala Bašćanska d.o.o., which were 100%-owned by Valamar Riviera, were merged with the subsidiary Hoteli Baška d.d.; following the mergers, Valamar Riviera d.d. has become the sole shareholder of the company Hoteli Baška. Consolidation of the hospitality property portfolio, management, and shareholding structure in a single strategic company has allowed for a more transparent corporate governance and streamlined operations, including additional strengthening of the balance sheet assets.

In the Baška destination Valamar Riviera has recognised a clear potential to apply its experience gained at other destinations where it pursues its business operations. Continued investments in employees, products, services, and experience have created a new value for shareholders. This merger provides an opportunity to create an additional value from the synergy of two companies for both the employees of the merged company Hoteli Baška and the local community. In the forthcoming period, the key activities will be planning and elaboration of future investments at the Baška destination, as well as development of the whole Krk destination, where Valamar Riviera has taken over the leading position.

On 27 April 2016, the Valamar Riviera's General Assembly took place establishing the following:

- In 2015, Valamar Riviera d.d. realized profit of HRK 105,854,201.03, out of which HRK 5,292,710.05 is distributed to legal reserves and HRK 100,561,490.98 to retained profits.
- Management Board Members are given clearance in respect of Valamar Riviera's business operations management in 2015, and Supervisory Board Members are given clearance in respect of supervision performed over Valamar Riviera's business operations management in 2015.
- A dividend is set at HRK 0.60 (sixty lipa) per share, to be paid out to shareholders from the retained profits generated in



2013 and from Valamar Riviera's treasury shares. (Namely, on 27 May 2016, Valamar Riviera's shareholders, who have opted so, were paid out the dividend in rights, i.e. Company shares.)

- KPMG Croatia d.o.o. za reviziju, Zagreb, Ivana Lučića 2/a, has been appointed as auditor to carry out the audit of Valamar Riviera d.d. in 2016.
- Other Decisions amending the Statute have been adopted.

At its session held on 5 March 2016, the Supervisory Board approved an investment in Family Life Bellevue Resort 4* in Rabac to the amount of HRK 196.7 million to be realised for the 2017 season. Furthermore, approval was given to establish a strategic business collaboration with the companies TUI Northern Europe Limited, TUI UK, and TUI Nordic Holding AB. It encompasses the branding of the Family Life Bellevue Resort as the first Family Life concept in Croatia in accordance with TUI's standards and a three-year business collaboration (2017, 2018, and 2019 seasons). Over a period of three years, TUI plans to bring approximately 80,000 guests from new emitting air traffic markets, thus ensuring more than 400,000 overnight stays. The Family Life Bellevue Resort project is a part of the strategic plan to develop the Rabac destination into a 4* holiday destination in the period 2016-2018, including a EUR 56 million investment framework.



On 23 March 2016, Valamar Riviera concluded a Credit Contract with the Croatian Bank for Reconstruction and Development to the amount of EUR 24,291,114 paid out in kuna value, with the final due date in 2033. These funds are earmarked for investments in quality standard improvements at the Poreč, Rabac, Krk, and Dubrovnik destinations for the 2016 season.

On 30 June 2016, pursuant to a decision of the Commercial Court in Pazin, the company Bastion upravljanje d.o.o. merged with the company Valamar Riviera d.d. Accordingly, Valamar Riviera d.d. became a universal successor to the merged company Bastion upravljanje d.o.o.

On 5 July 2016, Valamar Riviera submitted to the Restructuring and Sale Centre (CERP)¹ a binding offer for the purchase of 318,446 shares of the company Imperial hotelijerstvo, ugoditeljstvo i turizam d.d. with the registered office in Rab, in compliance with the terms and conditions of the Tender Documentation for the purchase of shares of the company Imperial d.d. Rab. Shares offered for sale account for 50.08% of the equity capital of Imperial d.d. which at the offered price of HRK 819 per share amounts to HRK 260,807,274. Also, Valamar Riviera d.d. concluded a Collaboration Contract with the company AZ d.o.o. mandatory pension fund management company from Zagreb. The Contract establishes a joint action towards the company Imperial d.d. Rab.

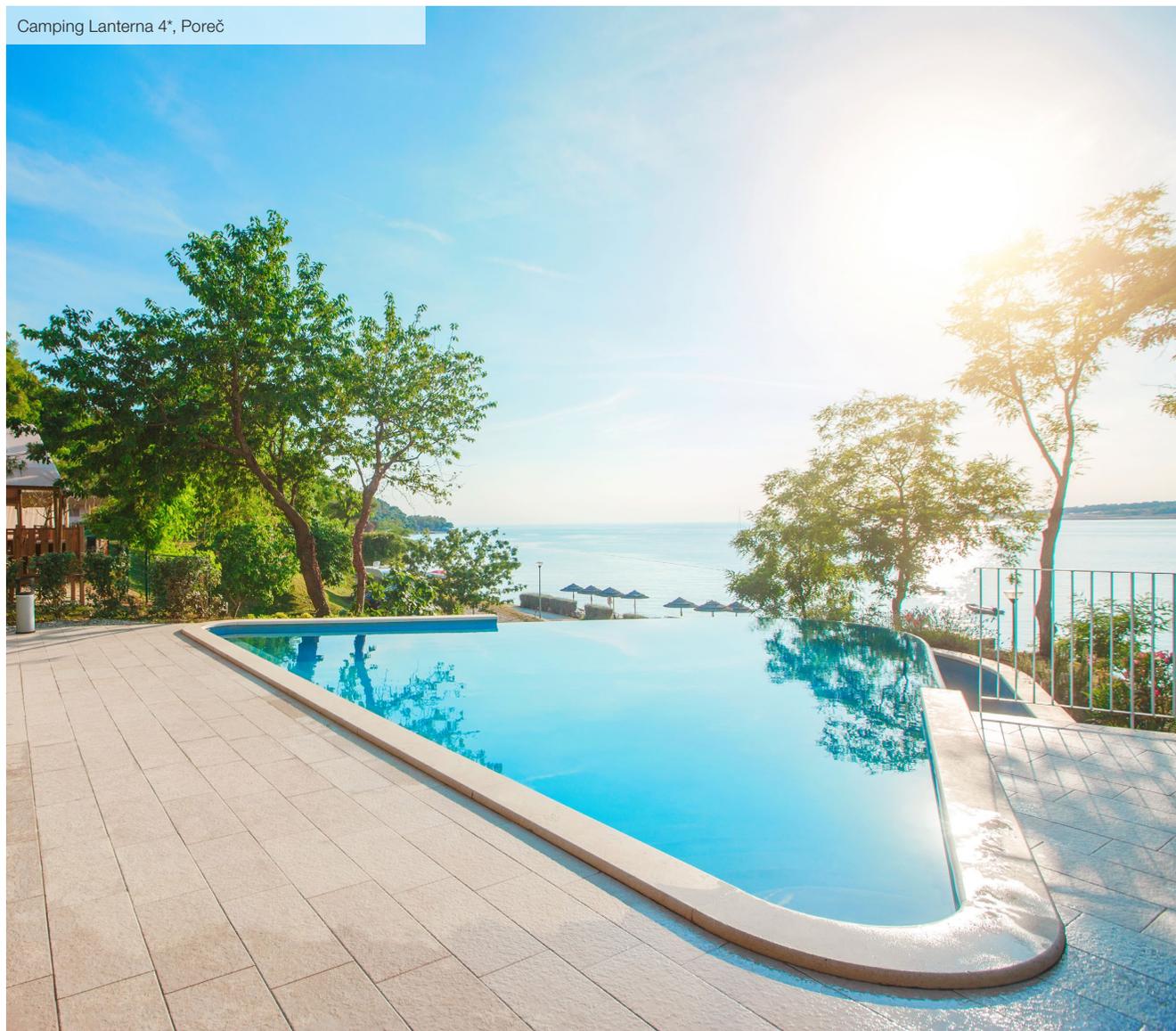
¹ Restructuring and Sale Centre is a legal entity with public authorities that performs professional activities in the scope and competence stipulated under the Law on management and disposal of assets owned by Republic of Croatia and other regulations.

The Company's Management Board hereby presents the quarterly financial statements for the second quarter of 2016 (from 1 April 2016 to 30 June 2016) and for the first half of 2016 (from 1 January 2016 to 30 June 2016), noting that the presented statements must be viewed in the context of the above mentioned changes resulting from mergers, and that they provide information on the status of the Company and the Group, as well as on significant events.

The Company's income statement for the period under consideration comprises the data for the merged company Valamar hoteli i ljetovališta d.o.o. for the period following the merger, i.e. as of 28 February 2015, as well as the data for the merged company Hoteli Baška d.d. for the period following the merger, i.e. as of 1 April 2016. Please note that the data for 2016 are not fully comparable to the data for the previous period, as the latter do not comprise until the moment of the merger the data for the merged companies Valamar hoteli i ljetovališta d.o.o. and Hoteli Baška d.d.

The Group's income statement for the second quarter of 2016 and for the first half of 2016 comprises 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., while the data for the companies Mirta Bašćanska d.o.o., Vala Bašćanska d.o.o., and Baškaturist d.o.o. are included as of the day of their merger to the company Hoteli Baška d.d., i.e. as of 13 January 2016. Thus, the data for 2016 are not fully comparable to the data for the previous period, as the latter do not comprise the data for the following companies: Hoteli Baška d.d., Mirta Bašćanska d.o.o., Vala Bašćanska d.o.o., and Baškaturist d.o.o.

Camping Lanterna 4*, Poreč



RESULTS OF THE GROUP

Key financial indicators of Valamar Riviera Group²

(in HRK)	1 - 6/2015	1 - 6/2016	2016/2015
Total revenues	372,378,656	507,163,870	36.2%
Sales revenues	342,821,905	419,648,604	22.4%
Board revenues (accommodation and board revenues) ³	272,296,533	323,055,046	18.6%
Operating expenses ⁴	309,707,886	345,385,320	11.5%
EBITDA ⁵	30,028,265	86,311,609	187.4%
Extraordinary operations result and one-off items ⁶	3,373,891	7,848,819	132.6%
Adjusted EBITDA ⁷	33,402,156	78,462,790	134.9%
EBIT	-85,004,968	-45,132,237	46.9%
Adjusted EBIT ⁷	-81,631,077	-37,283,418	54.3%
EBT	-109,262,314	-2,658,239	97.6%
EBT margin ²	-30.7%	-0.6%	3,010 bp
	31/12/2015	30/6/2016	2016/2015
Net debt ⁸	1,082,520,078	1,155,588,339	6.7%
Cash and cash equivalents	318,755,282	326,736,357	2.5%

Key business indicators of Valamar Riviera Group

	1 - 6/2015	1 - 6/2016	2016/2015
Number of accommodation units (capacity)	16,241	18,072	11.3%
Accommodation units sold	696,040	783,650	12.6%
Overnights	1,270,034	1,434,810	13.0%
ADR ⁹ (in HRK)	391	412	5.4%

² Classified according to the Quarterly Business Financial Statement (TFI POD-RDG). EBIT, EBITDA and their respective margins and EBT margin are recorded on the basis of operating income.

³ In compliance with the classification under the USALJ international standard for reporting in hotel industry (Uniform System of Accounts for the Lodging Industry).

⁴ Operating expenses include material costs, staff costs, other expenditures, and other operating expenses reduced by extraordinary expenses and one-off items.

⁵ EBITDA (eng. earnings before interest, taxes, depreciation and amortization) is calculated as: operating income - total operating expenses + depreciation and amortisation + value adjustments.

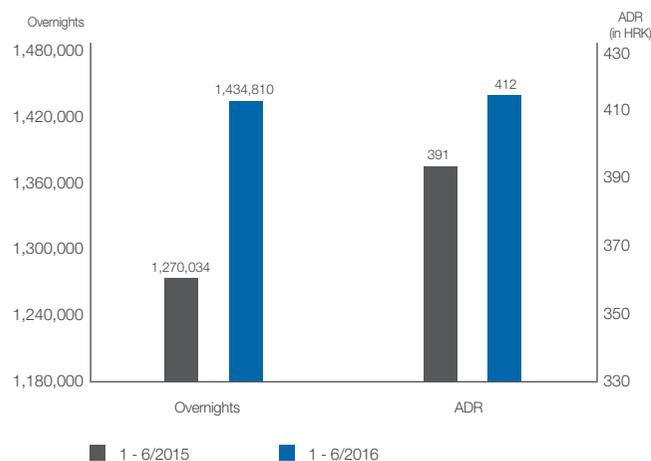
⁶ The adjustment includes extraordinary income and expenses in accordance with the USALJ standard classification and one-off termination benefit costs and administrative expenses related to the process of merger and business reorganisation.

⁷ Adjusted by the result of extraordinary operations and one-off items.

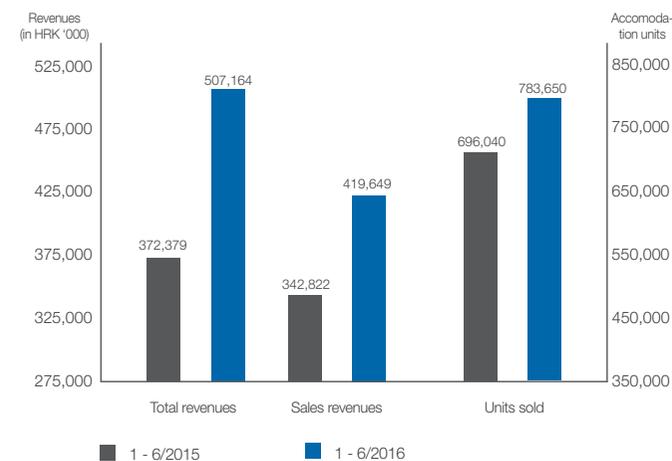
⁸ Net debt: non-current and current liabilities to banks and other financial institutions + liabilities for loans, deposits and other - cash and cash equivalents - long-term and short-term investments in securities - current loans given, deposits, etc.

⁹ Average daily rate is recorded on the basis of board revenues (accommodation and board's food and beverage revenues).

Overnights and ADR



Revenues and accommodation units sold



Excellent results were achieved in the first half of 2016. Continuous investments to increase the competitive edge and raise the quality of services and facilities and the acquisition of Baška companies in combination with the optimisation of prices, marketing mix, and sales channels have resulted in a 22.5%, i.e. HRK 79.8 million increase in operating income to a HRK 435.2 million level.

High-quality sales activity preparation for the first-minute offering in the pre-season resulted in a better basis for managing sales channels and in a stronger start booking in May and June. A multitude of implemented interesting visit motives and experiences offered to guests in combination with M.I.C.E.¹⁰ events had a very positive impact leading to increased business efficiency in the pre-season. The optimum control of the group channel opened up room for strengthening the individual one in May. In June, a decrease with regards to groups resulting from an inadequate holiday spread was compensated by the M.I.C.E. segment at south destinations, supported by a growth in other sales channels.

During the first six months of 2016, 783,650 accommodation units were sold, representing a 12.6% increase. A 5.4% increase in average daily rate to HRK 412 in combination with higher physical indicators has resulted in a HRK 50.8 million growth in board revenues. Sales revenues have improved by HRK 76.8 million to HRK 419.6 million has resulted from an increase in board revenues (+18.6%) and the sale of à la carte food and beverages (+34%). Other operating income has increased by 23.6%. Financial income is up HRK 55.0 million, mainly coming from the sale of the share portfolio and foreign exchange gains. This has resulted in a HRK 134.8 million increase in total revenues to HRK 507.2 million.

National sales revenues amount to HRK 44.1 million, accounting for 8.7% of total revenues (10.1% in 2015). They are 17.5% above the previous comparable period. Sales revenues generated on international markets amount to HRK 375.5 million, accounting for 74.0% of total revenues (82.0%

in 2015). They are 23.0% above the previous comparable period. Other operating and financial income accounts for 17.3% of total revenues (7.9% in 2015).

The first half of 2016 saw to further positive effects of business efficiency and consolidation as well as restructuring. Despite a multiple increase in operating volume, operating expenses are up only 5.5%, excluding destination Baška operating expenses. Increased profitability and more efficient business activities reflect in a 187.4% EBITDA growth. EBITDA has improved by HRK 56.3 million to HRK 86.3 million. Adjusted EBITDA¹¹ amounts to HRK 78.5 million, marking a 134.9% growth, while in the Group's loss has decreased by HRK 107.9 million to HRK 0.8 million (in 2015 the loss amounted to HRK 108.6 million). An indicator of positive future expectations is the multiple improvement of operating business, driven by successful marketing, sales, and business activities.

¹⁰ M.I.C.E. = Meetings, incentives, conferencing, exhibitions.

¹¹ Adjustments were made for (i) extraordinary income (in the amount of HRK 11.4 million in the first half of 2016, and HRK 10.6 million in the comparative period of last year), (ii) extraordinary expenses (in the amount of HRK 2.0 million in the first half of 2016 and HRK 4.6 million in the comparative period of the last year), and (iii) termination benefit costs (in the amount of 1.5 million in the first half of 2016, and HRK 9.4 million in the comparative period of the last year).

Total operating expenses of Valamar Riviera Group¹²

(in HRK)	1 - 6/2015	1 - 6/2016	2016/2015
Operating expenses ⁴	309,707,886	345,385,320	11.5%
Total operating expenses	440,414,953	480,337,361	9.1%
Material costs	147,151,247	148,171,187	0.7%
Staff costs	126,494,254	145,598,450	15.1%
Depreciation and amortisation	114,797,426	131,402,096	14.5%
Other expenditures	47,403,991	50,855,450	7.3%
Provisions and value adjustments	235,807	41,750	-82.3%
Other operating expenses	4,332,228	4,268,428	-1.5%

In the first half of 2016 total operating expenses are up 9.1%. They are driven by an increase in the operating volume and this year's business of Baška destination. Excluding this year's business of Baška destination, operating expenses are higher by modest 1.9%. Such a modest growth confirms the continuation of the positive operational efficiency, management consolidation, and restructuring trend at all levels across Valamar Riviera.

Accounting for 30.8% of total operating expenses (33.4% in 2015), material costs have increased by only 0.7% to HRK 148.2 million. Staff costs amount to HRK 145.6 million, accounting for 30.3% of total operating expenses (28.7% in 2015). A 15.1% increase in staff costs in the first half of 2016 comes from facilities being open for a longer period of time, from the takeover of employees from the newly acquired Baška companies, and partially from an increase in employees' salaries (1.5% in June 2015, a 0.5% addition for years of service, and a 2% increase in June 2016). Depreciation and amortisation amount to HRK 131.4 million (HRK 114.8 million in 2015), accounting for 27.4% of total operating expenses (26.1% in 2015). Their 14.5% growth is driven by a wider consolidation scope and the earlier intensive investment cycle. Other operating expenses amount to HRK 4.3 million, indicating a HRK 1.5% decrease.

Value adjustments amount to HRK 42 thousand, indicating a HRK 194 thousand decrease. Other expenses are up 7.3%, i.e. HRK 3.4 million, primarily as a result of this year's business of Baška destination.

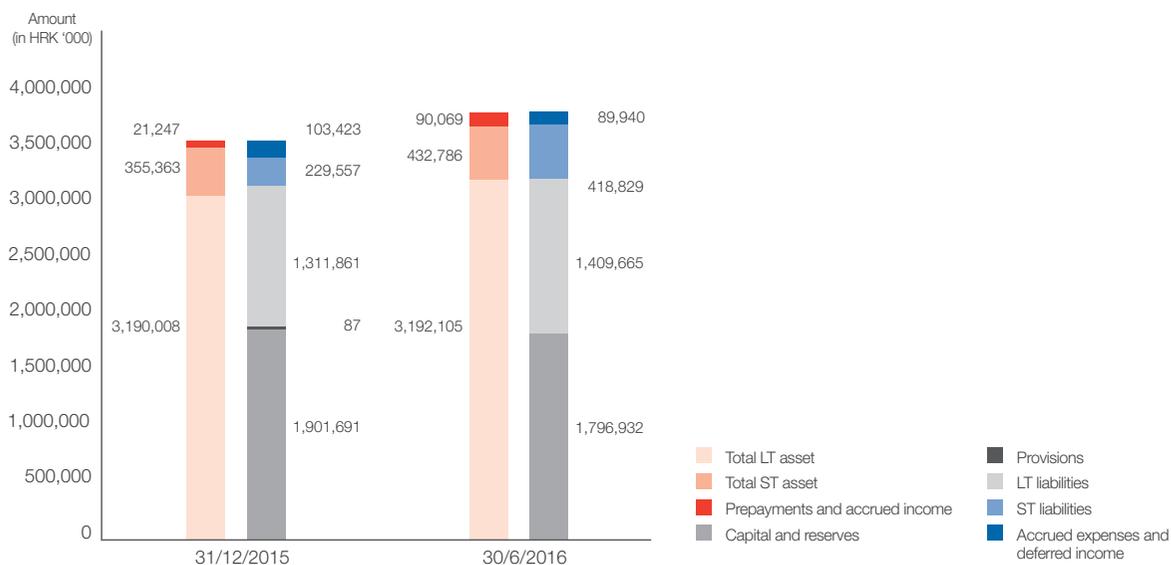
In the first half of 2016 financial income amounts to HRK 72.0 million, indicating a HRK 55.0 million increase compared to the same period last year. The biggest growth item is other financial income with a HRK 36.1 million increase, coming mainly from the sale of the Group's share portfolio to the amount of HRK 35.2 million. Interest income, foreign exchange differences, dividends, and similar income from operations with third parties are up HRK 16.4 million. As a result of the kuna strengthening by almost 2% in relation to euro in the first half of 2016, foreign exchange gains from settling unrealised balance sheet items and repaying credits have recorded the highest growth to the amount of HRK 15.4 million. This has led to a decrease in liabilities denominated in euro and disclosed in kuna in the balance sheet. Despite an increase in the amount of free cash funds in the first half of 2016 in relation to the comparable period last year, a further decrease in market interest rates has impacted the retention of interest income generated from time deposits, a vista accounts, and placements, which was almost flat to the last year's level (a

HRK 0.3 million growth). Unrealised expenses (losses) from financial assets are up HRK 2.5 million, coming from the valuation of EUR/HRK forward transactions contracted for 2016 with a view to protecting against foreign exchange risks.

Financial expenses amount to HRK 29.5 million and are HRK 11.7 million below the comparable period last year. Interest expenses, foreign exchange differences, and other expenses from operations with third parties record a HRK 16.2 million decrease. The valuation of contracted IRSs and forwards in the first half of 2016 has resulted in an additional liability, i.e. in HRK 3.3 million financial expenses. Other financial expenses are up HRK 1.2 million, out of which HRK 0.9 million refers to expenses arising from the sale of the Group's share portfolio. The most significant change compared to the same period last year are foreign exchange losses from settling unrealised balance sheet items, recording a HRK 22.1 million decrease as a result of the mentioned kuna strengthening in relation to euro. A HRK 7.4 million increase in interest expenses in the first half of this year is a result of an increase in credit debt driven by the withdrawal of funds from granted credit lines for financing the 2015/16 investment cycle and the consolidation of the Baška companies followed by their merger in the second half of this year and the carryover of their debt.

¹² Classified according to the Quarterly Business Financial Statement (TFI POD-RDG).

Assets and liabilities



As at 30 June 2016, the total value of the Group's assets is 4.2% higher compared to 31 December 2015. The total share capital and reserves have decreased from HRK 1,901.7 million to HRK 1,796.9 million, mostly as a result of the generated loss. Total non-current liabilities are up 5.8%, amounting to HRK 1,409.7 million as at 30 June 2016, as a result of the withdrawal of funds from granted credit lines for financing the 2015/16 investment cycle. Total current liabilities amount to HRK 418.4 million and are 82.3% higher compared to 31 December 2015. This comes from normally higher advances received from customers (HRK 157.2 million) and trade payables (HRK 36.7 million).

Cash and cash equivalents as at 30 June 2016 amount to HRK 326.7 million, their 2.5% increase, compared to the end of 2015, being a result of the excellent operating performance. Cash and cash equivalents position indicates a strong further cash potential from operating activities, which, together with external borrowing, provides for a smooth continuation of future investing activities and potential acquisitions.

Key operating indicators of Valamar Riviera Group per segments¹³

HOTELS AND RESORTS	Total			Premium			Upscale			Midscale			Economy		
	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015
Number of accommodation units	7,248	7,927	9.4%	1,037	1,037	0.0%	1,422	1,422	0.0%	2,440	3,112	27.5%	2,349	2,356	0.3%
Accommodation units sold	391,291	461,128	17.8%	60,875	87,439	43.6%	82,159	84,534	2.9%	148,209	189,303	27.7%	100,048	99,852	-0.2%
Overnights	787,650	900,624	14.3%	110,063	143,990	30.8%	167,057	173,742	4.0%	291,718	376,562	29.1%	218,812	206,330	-5.7%
ADR ⁹	556	568	2.2%	883	856	-3.1%	704	720	2.3%	495	497	0.4%	327	319	-2.4%
Board revenues (in HRK)	217,648,957	261,807,848	20.3%	53,775,200	74,859,969	39.2%	57,832,070	60,897,220	5.3%	73,343,297	94,174,134	28.4%	32,698,390	31,876,525	-2.5%

CAMPING RESORTS	Total			Premium			Upscale			Midscale			Economy		
	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015
Number of accommodation units	8,994	10,145	12.8%	475	511	7.6%	4,049	4,437	9.6%	2,844	3,387	19.1%	1,626	1,810	11.3%
Accommodation units sold	304,749	322,522	5.8%	23,492	23,840	1.5%	144,871	144,899	0.0%	89,273	104,018	16.5%	47,113	49,765	5.6%
Overnights	482,384	534,186	10.7%	55,788	57,830	3.7%	219,322	244,144	11.3%	141,162	166,619	18.0%	66,112	65,593	-0.8%
ADR ⁹	179	190	6.1%	246	276	12.2%	187	208	11.2%	167	166	-0.6%	146	145	-0.7%
Board revenues (in HRK)	54,647,576	61,247,198	12.1%	5,772,298	6,568,312	13.8%	27,103,952	30,184,912	11.4%	14,908,696	17,298,023	16.0%	6,862,630	7,195,950	4.9%

Key operating indicators of Valamar Riviera Group per destinations¹³

DESTINATION	Poreč			Rabac			Krk			Dubrovnik		
	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015	1 - 6/2015	1 - 6/2016	2016/ 2015
Number of accommodation units	10,592	10,632	0.4%	1,913	2,065	7.9%	1,776	3,414	92.2%	1,961	1,961	0.0%
Accommodation units sold	411,351	419,291	1.9%	88,727	90,493	2.0%	81,774	139,475	70.6%	114,188	134,391	17.7%
Overnights	732,188	768,206	4.9%	183,351	187,240	2.1%	147,898	254,941	72.4%	206,597	224,423	8.6%
ADR ⁹	327	357	9.2%	419	434	3.6%	250	282	12.8%	701	703	0.3%
Board revenues (in HRK)	134,620,992	149,889,202	11.3%	37,198,968	39,316,979	5.7%	20,467,612	39,350,116	92.3%	80,008,960	94,498,750	18.1%

¹³ 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 – June 2016, but not in the comparable period of 2015.

Destination Pula - Puntžela business is included in destination Poreč. A detailed comparison of the new portfolio segmentation is on page 14.

All segments and destinations have recorded higher board revenues, the only exception being the Economy hotels and resorts segment. The most significant impact on the increase in total board revenues is exercised by the Premium and Midscale hotels and resorts segments. Such excellent results come from the optimised sales mix, an excellent response to marketing activities, and the successful realisation of a number of events in Dubrovnik and Poreč. This has, inter alia, allowed for facilities to stay open longer and to have high booking levels. Please note that the growth is partially driven by this year's business operations of the hotels and resorts in the Baška destination. Excluding their business operations this year, total board revenues generated by hotels and resorts record a 14% growth, whilst campsites record a 3% growth.

The Premium hotels and resorts segment records the highest growth in board revenues. A 39.2% growth to a HRK 74.9 million level is mainly a result of a 26,564 increase in the number of accommodation units sold to the amount of 87,439 units. Organisation of the M.I.C.E. event Global Training Experience by Daimler AG – Mercedes-Benz in Valamar Lacroma 4* and Valamar Dubrovnik President 5* hotels in the period from February to mid-April resulted in these hotels staying open for a longer period of time and having high occupancy levels. The later growth of the Dubrovnik Premium segment was primarily driven by the Valamar Dubrovnik President 5* hotel, mainly as a result of exceptionally good positioning in the individuals channel in May and June. Exceptionally high board revenues growth rates of the Valamar Isabella Island Resort 4*/5* resulted from more days of openness, from pre-season M.I.C.E. events, and from the high growth of the individual channel.

A 5.3% growth in the Upscale hotels and resorts segment is a result of an increase in the average daily rate and the number

of accommodation units sold by 2.3% respectively 2.9%. HRK 60.9 million generated board revenues primarily arise from the sales mix optimisation. Namely, high-quality first-minute allotment distribution, strengthening of the individuals channel, and the increase of the group segment have had a positive impact on the high growth of the Valamar Club Tamaris 4*. Hotel & Casa Valamar Sanfior 4* has achieved a high growth primarily through the individuals segment, while the strong growth of the Valamar Zagreb Hotel 4* is a result of replacing the allotment channel with the individuals one in combination with high-quality group placements.

The Midscale hotels and resorts segment, which has recorded a HRK 20.8 million increase in board revenues, has made a major contribution to the increase of total board revenues. HRK 94,2 million of board revenues are partially driven by this year's business operations of the hotels and resorts in destination Baška. Excluding their business operations, Midscale segment's board revenues are up by more than 10%. Hotel Valamar Diamant 4* hotel is one of the major growth drivers as it had more days of openness coupled with high occupancy levels and as a result of its M.I.C.E. events and its later better production of the group channel. High growth rates have been achieved by the Valamar Club Dubrovnik 3* hotel, mainly as a result of the successful groups acquisition. Valamar Crystal 4* and Valamar Rubin 3* hotels recorded a growth in all sales channels.

In the first half of 2016 the business operations of the Economy hotels and resorts segment are marked by a HRK 0.8 million decrease in relation to the comparable period last year, reaching a level of HRK 31.9 million. The decrease is mainly a result of an unfavourable holiday spread, leading to a smaller number of operating days. The business operations of the Economy segment stabilised in May and June.



Camping resorts have achieved a growth in board revenues across all segments. Total board revenues are up HRK 6.6 million to a HRK 61.3 million level. The Premium camping resorts segment encompasses one campsite, namely campsite Krk 5*, which has achieved a 13.8% growth in board revenues. The growth is a result of HRK 30 higher average daily rate arising from this year's investment to increase the quality and service provided to campsite guests. An 11.2% increase of the daily average rate has resulted in HRK 3.1 million higher board revenues in the Upscale camping resorts segment. HRK 30.2 million generated board revenues are most strongly impacted by investments in the campsite Lanterna 4* and by this year business of the campsite Bunculuka 4* in the Baška destination. Board revenues in the Midscale camping resorts segment amount to HRK 17.3 million. The consolidation of the campsite Zblaće 3* in the first half of 2016 is a result of a 16% growth in board revenues. Namely, early Easter holidays are not beneficial to campsite business operations, leading to a smaller number of operating days and consequently to lower board revenues. The same situation applies to the Economy segment, whose growth is impacted by the new campsite Tunarica 2*.

Over the last years, Valamar Riviera has consolidated its portfolio with a view to clearly differentiating, developing, and repositioning its tourism products. A precise market segments definition, innovative service concepts development, brand management, profitability increase, and return on investment optimisation required a refreshment of the tourism portfolio segmentation for the purpose of excellence in its management.

Hotels and Resorts Overview

	Categorization		Segment		Destination
	2015	2016	2015	2016	
Valamar Dubrovnik President Hotel	*****	*****	Premium	Premium	Dubrovnik
Valamar Isabella Island Resort	****+	***** (4&5)	Premium	Premium	Poreč
Valamar Lacroma Dubrovnik Hotel	****+	****+	Premium	Premium	Dubrovnik
Valamar Club Tamaris	****	****	Upscale	Upscale	Poreč
Valamar Riviera Hotel & Residence	****	****	Upscale	Upscale	Poreč
Valamar Zagreb Hotel	****	****	Upscale	Upscale	Poreč
Hotel & Casa Valamar Sanifor	****	****	Upscale	Upscale	Rabac
Valamar Argosy Hotel	****	****	Upscale	Upscale	Dubrovnik
Valamar Diamant Hotel & Residence	****	****	Midscale	Midscale	Poreč
Valamar Crystal Hotel	****	****	Midscale	Midscale	Poreč
Valamar Pinia Hotel & Residence	***	***	Midscale	Midscale	Poreč
Valamar Rubin Hotel	***	***	Midscale	Midscale	Poreč
Valamar Bellevue Hotel & Residence Albona	****	****	Midscale	Midscale	Rabac
Allegro Hotel	***	***	Midscale	Midscale	Rabac
Miramar Hotel	**	***	Midscale	Midscale	Rabac
Hotel Corinthia	/	***	/	Midscale	Island of Krk
Zvonimir Hotel, Atrium & Villa Adria	/	***** (4&5)	/	Midscale	Island of Krk
Valamar Koralj Romantic Hotel	***	***	Midscale	Midscale	Island of Krk
Valamar Club Dubrovnik	***	***	Midscale	Midscale	Dubrovnik
Naturist Resort Solaris	***	***	Economy	Economy	Poreč
Pical Hotel	***	***	Economy	Economy	Poreč
Tirena Hotel	***	***	Economy	Economy	Dubrovnik
Girandella Tourist Village	**	**	Economy	Economy	Rabac
Lanterna Apartments	**	**	Economy	Economy	Poreč
Marina Hotel & Mediteran Residence	**	**	Economy	Economy	Rabac

Camping Resorts Overview

	Categorization		Segment		Destination
	2015	2016	2015	2016	
Camping Krk	*****	*****	Premium	Premium	Island of Krk
Camping Ježevac	****	****	Upscale	Upscale	Island of Krk
Camping Lanterna	****	****	Upscale	Upscale	Poreč
Camping Marina	****	****	Upscale	Upscale	Rabac
Naturist Camping Bunculuka	/	****	/	Upscale	Island of Krk
Camping Orsera	***	***	Midscale	Midscale	Poreč
Naturist Resort Solaris	***	***	Midscale	Midscale	Poreč
Camping Zablaće	/	***	/	Midscale	Island of Krk
Camping Škrila	***	***	Midscale	Midscale	Island of Krk
Camping Solitudo	***	***	Midscale	Midscale	Dubrovnik
Naturist Camping Istra	**	**	Economy	Economy	Poreč
Camping Brioni	**	**	Economy	Economy	Pula - Puntizela
Camping Tunarica	/	**	/	Economy	Rabac

RESULTS OF THE COMPANY

We are emphasising that the data provided in the current quarterly financial statements are not fully comparable to the data from the previous year on grounds of the described merger processes. The items in the previous period until the merger date, i.e. 27 February 2015, do not include the data for the merged company Valamar hoteli i ljetovališta d.o.o., while the items until 31 March 2016 do not include the data for the merged company Hoteli Baška d.d. All significant changes in the financial statements of the Company should be observed as a result of the transactions concerned in the previous period.

In the period from 1 January 2016 to 30 June 2016, total revenues have increased by HRK 105.0 million to HRK 498.3 million. Sales revenues amount to HRK 416.5 million, accounting for 84% of total revenues (86% in 2015). They are HRK 76.5 million above the same period last year. National sales revenues amount to HRK 43.6 million, accounting for 8.7% of total revenues (9.5% in 2015), and are 17.0% above the previous comparable period. Sales revenues generated on international markets amount to HRK 373.0 million, accounting for 74.9% of total revenues (77.0% in 2015). They are 23.2% above the previous comparable period. Other operating and financial income accounts for 16% of total revenues (14% in 2015). Other business income, amounting to HRK 12.4 million, accounts for 2% of total revenues (3% in 2015) and is 1.0% below.

Accounting for 34% of total operating expenses (37% in 2015), material costs have decreased by HRK 2.1 million to HRK 159.9 million. Staff costs amount to HRK 141.2 million, accounting for 30% of operating expenses (28% in 2015). They are HRK 19.5 million above the same period last year. The increase of staff costs is mainly driven by an increase in the operating volume, the takeover of employees from the merged companies, and, to a lesser degree, an increase in employees' salaries.

Financial income amounts to HRK 69.3 million, indicating a HRK 28.7 million increase compared to the same period last year. The biggest growth item is other financial income with a HRK 35.7 million increase, coming mainly from the sale of the Group's share portfolio to the amount of HRK 34.8 million. Interest income, foreign exchange differences, dividends, and similar income from operations with third parties are up HRK 14.5 million. As a result of the kuna strengthening by almost 2% in relation to euro in the first half of 2016, foreign exchange gains from settling unrealised balance sheet items and repaying credits have recorded the highest growth to the amount of HRK 13.3 million. This has led to a decrease in liabilities denominated in euro and disclosed in kuna in the balance sheet. Despite an increase in the amount of free cash funds in the first half of 2016 in relation to the comparable period last year, a further decrease in market interest rates has impacted the retention of interest income generated from time deposits, a vista accounts, and placements, which was almost flat to the last year's level (a HRK 0.2 million growth). In 2016, dividend revenues from the related company Valamar hoteli i ljetovališta d.o.o. (merged to Valamar Riviera d.d. on 27 February 2015) to the amount of HRK 24.0 million have not been paid out. Unrealised expenses (losses) from financial assets are up HRK 2.5 million, coming from the valuation of EUR/HRK forward transactions contracted for 2016 with a view to protecting against foreign exchange risks.

Financial expenses amount to HRK 25.9 million and are HRK 13.9 million below the same period last year. Interest expenses and foreign exchange differences record a HRK 17.5 million decrease. The valuation of contracted IRSs and forwards in the first half has resulted in an additional liability, i.e. in HRK 3.3 million financial expenses. Other financial expenses are up HRK 0.3 million. The most significant change in relation to the comparable period last year are foreign exchange losses from settling unrealised balance sheet items, recording a



HRK 22.5 million decrease as a result of the mentioned kuna strengthening in relation to euro in the first half of this year. A HRK 5.1 million increase in interest expenses in the first two quarters of this year is a result of an increase in credit debt driven by the withdrawal of funds from granted credit lines for financing the 2015/16 investment cycle and the merger of the Hoteli Baška d.d. in the second quarter of this year and the carryover of their debt.

A good response to marketing and sales activities, sales channels optimisation, and the successful realisation of M.I.C.E. events have resulted in increased operational efficiency of business activities. In the period under consideration, loss before tax has decreased by HRK 87.8 million to HRK 1.6 million profit. Operating loss has decreased by HRK 45.2 million to HRK 41.8 million. The Company's gross margin is 0.4% (-24.4% in 2015).

As at 30 June 2016, the Company's total assets amount to HRK 3,898 million, which is HRK 342.3 million above the previous period.

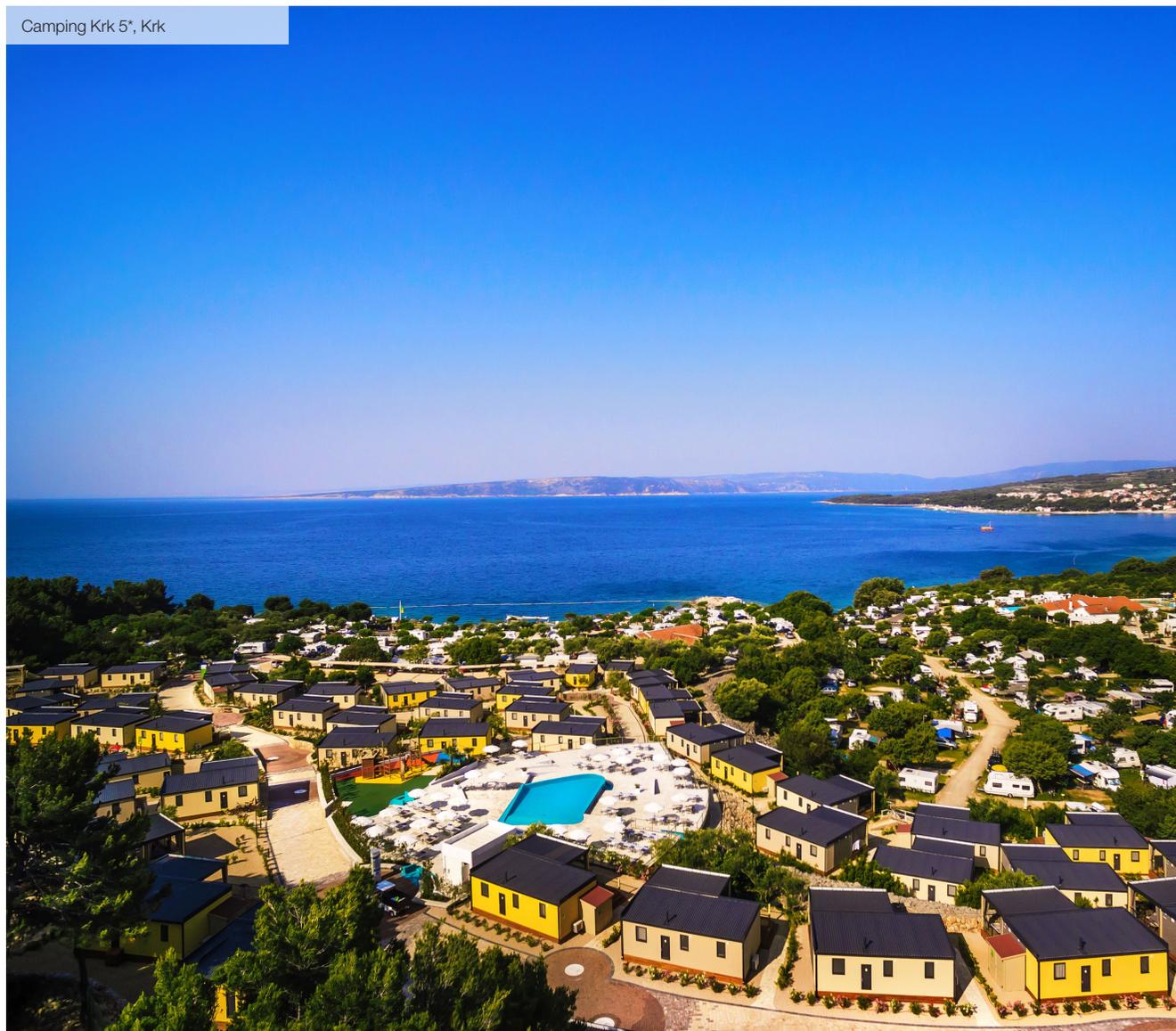
INVESTMENTS 2016

In 2016, investments worth more than HRK 260 million¹⁴ were focused on further increasing the quality of Valamar Riviera's portfolio of hotels, apartments, and campsites. More than 50% of total 2016 investments was earmarked for developing accommodation, services, and contents in campsites operating under the Camping Adriatic by Valamar brand.

With an almost HRK 34 million worth investment cycle, the Krk campsite has become the first five-star campsite in the Republic of Croatia. It is a unique, eco-friendly family camping resort and one of the three Croatian member campsites of the prestigious "Leading Campings of Europe" association. Its distinguishing features are a swimming pool with heated water, a wellness oasis, a promenade with entertaining contents, a children's swimming pool, a children's water playground, and completely refurbished toilet facilities. Its rich offer also includes Maro Mini and Midi clubs for younger children, as well as Teens Club and Hobby Club for older children. The campsite also offers new accommodation capacities under the name Bella Vista Premium Village, comprising 63 designed mobile homes with a view of the sea. Special attention was paid to energy efficiency and sustainable development. The campsite has a unique system for waste water purification and landscape irrigation by utilising purified waste water. More than 300 trees have been planted. The beach is marked by the Blue Flag.

A HRK 87 million investment has raised the Lanterna campsite category from 3 to 4 stars. Lanterna campsite is the leading Istrian campsite, also a member of the "Leading Campings of Europe" association. We have completed the Istrian Village project which got new accommodation capacities. The accommodation offer was improved with innovative accommodation units for those who love luxurious camping, i.e. Glamping, as well with two completely new thematic accommodation zones with 119 new mobile homes in total. A number of plots was renovated, while the campsite's landscape was given a new appearance and the campsite has a refurbished reception area, a new sand beach

Camping Krk 5*, Krk



¹⁴ A portion already recorded in 2015.

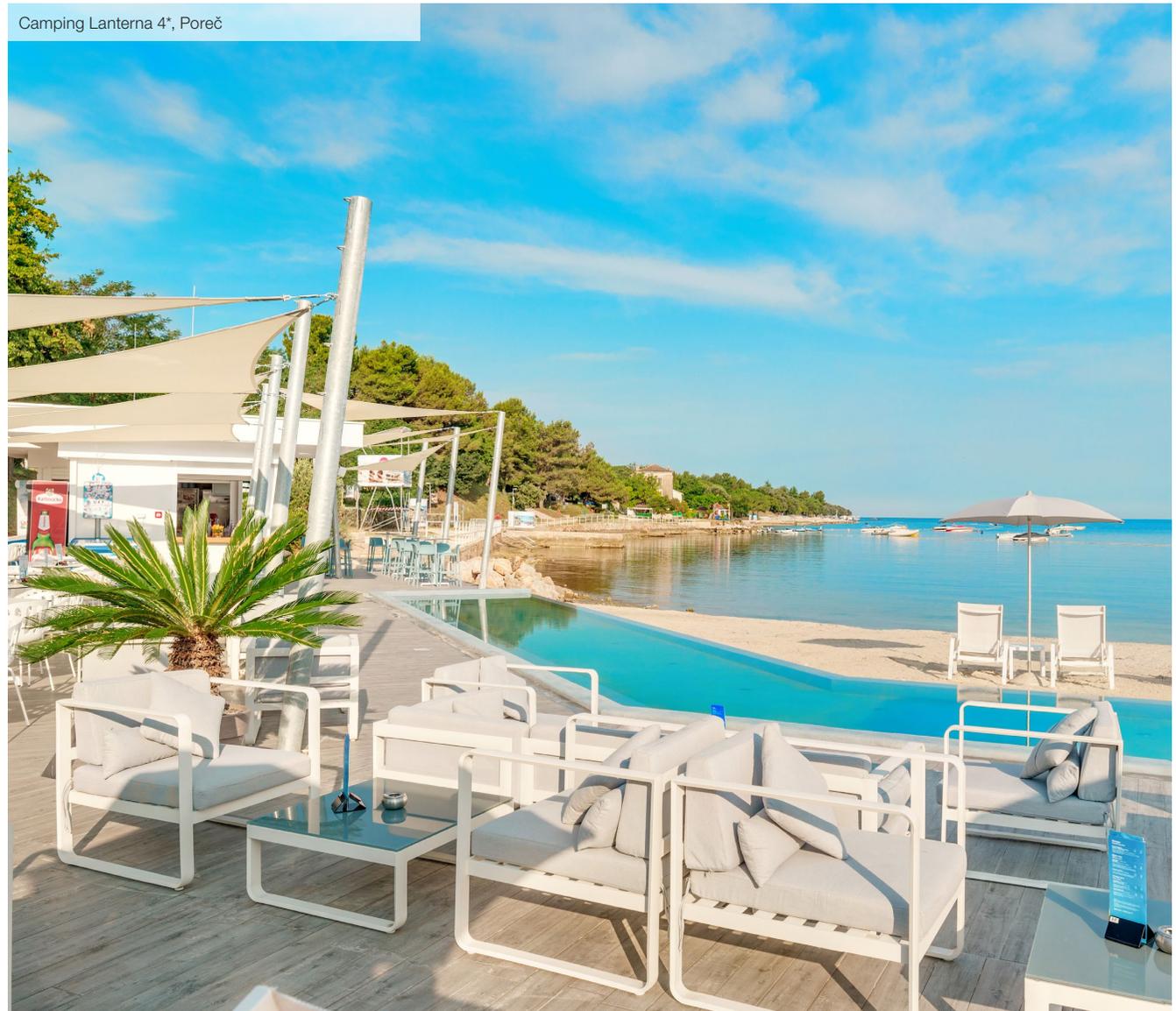
Adria with a beach bar, new Cafe Belvedere, and other contents. The guests of this campsite are able to enjoy a new aqua park with a 1,350 m² surface area, four swimming pools, a multitude of slides, and other attractions for children. The main swimming pool located near the beach was renovated as well, and two toilet facilities were refurbished.

Investments were also made with a view to increasing the quality of other campsites on the island of Krk, in Istria, and in Dubrovnik by improving accommodation, beach offer, and hospitality contents. The camping segment has a potential to develop into innovative camping resorts, i.e. resorts offering higher value-added accommodations and services aiming at high-end customers. Such projects are still difficult to develop as the issue of tourism land has not been resolved yet, and thus Valamar Riviera is still restricted to partial investments in campsite premises and contents. The resolving of tourism land concessions would release a potential for stronger repositioning of campsites both in the Valamar Riviera's portfolio and the entire Croatia. This would place campsites at a high competitiveness level compared to the best camping resorts in Europe.

A HRK 12 million investment has further upgraded the last year's successful project Valamar Isabella Island Resort as the quality of a part of products and services was raised to a five-star level (Miramare annex, Castle, and 7 villas).

This year, Valamar Riviera has also enriched its hospitality offer and completely renovated restaurants ex. Slavija (new contents: restaurant "La Pentola II", alehouse "Kraft", and the beach club "The Beat"), Delfin, and Orsera. A range of other projects, which are considerably increasing the quality of offer and experience at all destinations by generating new contents and improving the existing ones, were also performed. Among a number of projects, the Valamar Diamant 4* hotel's sports hall was adopted into a multifunctional hall for sports and other events. We continued further investments in beaches, personal accommodation improvements, IT and business digitalisation projects, technological processes and energy savings in laundry rooms, and other energy efficiency related projects.

Camping Lanterna 4*, Poreč



INVESTMENTS 2017

With its planned 2017 investments worth more than HRK 750 million, Valamar Riviera continues with its biggest investment cycle in the tourism portfolio so far. More than 50% of total investments is earmarked for raising the quality of tourism products and services at the Rabac destination. Accordingly, next year Rabac guests will be welcomed to a completely new 4-star Family Life Bellevue Resort, i.e. the first TUI Family Life hotel in Croatia, and a fully renovated 4-star Valamar Girandella Resort. These investments will increase the number of high-quality accommodation units and create a range of new water, family, hospitality, and sports contents.

In addition to solid facilities, almost a quarter of total investments will be performed in campsites as part of the campsite investment cycle. With a view to improving the quality and experience of the Lanterna campsite, its reception with commercial and hospitality facilities will be renovated, whilst the campsite's offer will be enriched with new, high-quality mobile homes and new contents for children. The Krk campsite's guests will be welcomed to a fully renovated toilet facility with accompanying contents and a SPA zone. The Ježevac campsite on the island of Krk is expected to have a new zone for mobile homes. Thus, investments will focus on new, high-quality accommodation units and on the improvement of promenades, beaches, and hospitality facilities. At the Baška destination, guests will be welcomed to a fully renovated Zablacé campsite. The quality of accommodation will be improved by offering new mobile homes, renovating camping plots, and developing a reception desk with accompanying contents, 3 toilet facilities with accompanying contents, hospitality facilities, and contents for children. Investments are also being made with a view to increasing the quality of other campsites

Family Life Bellevue Resort (preliminary visualization), Rabac



on the island of Krk, in Istria, and in Dubrovnik by improving accommodation, beach offer, and hospitality contents.

Moreover, a range of other projects is in the pipeline aiming to create new contents and improve the existing ones and thus considerably increase the quality of offer and experience at all destinations (beaches, IT and business digitalisation projects, technological processes and other energy efficiency related projects). The Borik beach in Poreč will be completely renovated and enriched with a range of water, sports, hospitality, and entertainment contents for guests of all age groups.

As a continuously evolving company and in accordance with its strategic goals, Valamar Riviera will perform investments to improve other segments of its business operations in addition to accommodation capacities and service facilities. Valamar Riviera will invest considerable funds to increase the quality and the number of staff accommodation units for internal employees. In order to meet the needs for additional workspace, the expansion of the administration building in Poreč and the administration building in Dubrovnik is also planned.

As indicated in our strategic goals, by continuously raising the quality of portfolio facilities, services, and contents, we are creating the basis for generating added value both for our guests and for all Valamar Riviera's stakeholders. However, a VAT rate at the level of those applied in the Mediterranean countries and the resolution of the tourism land issue would contribute to an additional acceleration of investments, as well as to the growth and development of the entire tourism sector. Unfortunately, the tourism is still not sufficiently recognised as an opportunity for the Croatian economy. Apart from the existing financing programmes provided by the Croatian Bank for Reconstruction and Development, there are no other measures that would significantly accelerate growth and development and thus provide for a level playing field for the Croatian tourism and the tourism in other Mediterranean countries.

Valamar Girandella Resort (preliminary visualization), Rabac



THE RISKS OF THE COMPANY AND THE GROUP

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

The risks management process consists of the following steps:

- 1) Identification of potential operating risks;
- 2) Analysis and assessment of identified risks;
- 3) Defining activities and assigning responsibilities in order to facilitate an effective contribution to risk management;
- 4) Oversight and monitoring of initiatives undertaken with the aim of avoiding the occurrence of risk events;
- 5) Exchange of information/communication on the results of risk management conducted by the Management Board.

The different types of risks encountered by Valamar Riviera in its operations may be classified into the following groups of risk:

- Financial risks
 - linked to financial variables, which lead to difficulties in the service of financial commitments of Valamar Riviera, liquidity, debt management, and exchange rate risk;
- Business risks
 - characteristic of the company's operations, such as supply and demand, competition, constant adaptation to needs dictated by the market, investment, growth of Valamar Riviera, etc.;
- Operational risks
 - which may arise due to failure to observe internal

Valamar Isabella Island Resort 4*&5*, Poreč



- procedures; the human factor – employees, IT system;
- Global risks
 - those caused by natural hazards and disasters, pandemics, food shortages, civic unrest, wars, etc., thus events over which Valamar Riviera has no control nor influence;
- Regulatory risks
 - risks which may arise as a result of failure to comply with effective regulation enacted by the state and local governments; or risks related to the change in tax or other regulation;
- General awareness
 - risks which may arise as a result of failure to comply with effective regulation enacted by the state and local governments; or risks related to the change in tax or other regulation.

Macro-economic development risk

Bearing in mind the fact that almost 95% of the Company and Group's guests are foreign guests who carefully choose their vacation destination in the competitive Mediterranean environment, the stability of a country's macro-economic indicators is very important, with special emphasis being given to the exchange rate and prices of goods and services with a direct impact on guests' purchasing power. Although smaller in share, the number of arrivals of domestic guests to the Company and Group's facilities is important as well, and also impacted by a number of other national macro-economic indicators, such as employment/unemployment, domestic gross product increase/decrease, industrial product increase/decrease, as well as other indicators having a direct impact on the purchasing power of the Croatian citizens and, consequently, on their decision at which of the Adriatic destinations to spend their summer vacation.

Risk related to the change of tax and other regulations

The risk related to the change of tax and other regulations is another significant risk for the Company and the Group and one of the more demanding segments of risk management

with only limited possibilities for the Company and the Group. During previous years, frequent changes of tax regulations had a negative impact on the profitability of the Company and the Group, the most significant being:

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

Such frequent changes of regulations related to tax levies imposed on the economy, which often take place after the Company and the Group have already adopted their business policy and the budget for the following year and agreed on commercial terms and conditions with their business partners, materially distort the financial position of the Company and the Group and jeopardise further investment plans, and thus the trust of investors.

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

Financial risks

In their day-to-day operations and activities undertaken, the Company and the Group are exposed to a number of financial risks, in particular to the following ones:

- 1) Foreign exchange risk;
- 2) Interest rate risk;

- 3) Price risk;
- 4) Credit risk; and
- 5) Liquidity risk.

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

1) Foreign exchange risk

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

2) Interest rate risk

Bank debentures committed at variable rates expose the Company and the Group to cash flow interest rate risk. The Company and the Group periodically use derivative instruments to actively hedge cash flow and fair value interest rate risk exposure by applying interest rate swap from a variable rate to a fixed one. The economic effect of such interest rate swap is the conversion of credits at a variable rate into credits at a fixed rate for pre-committed part of the loan principal protected in this way. The Company and the Group have interest-bearing assets (cash assets and deposits), resulting in the Company and

Group's income and operating cash flows being influenced by changes in market interest rates. This becomes particularly evident during the season when the Company and the Group have significant excess funds at their disposal.

3) Credit risk

Credit risk arises from cash, time deposits and trade receivables, where the Company and the Group have no significant concentration of credit risk. Following the sales policies of the Company and the Group, they commit to collaboration with customers with an appropriate credit history, i.e. their commitment is made conditional upon advance payments, payment of bank securities or by major credit cards (individual customers). With a view to reducing their credit risk, the Company and the Group continuously monitor their exposure to parties they operate with and their credit standing, obtain security instruments (bills of exchange, promissory notes) and thus lowering bad debt risk with regard to services provided.

4) Price risk

The Company and the Group are holders of equity and debt securities and are exposed to price risk of listed equity securities. The Company and the Group do not actively participate in the capital market in terms of investments in equity and debt securities, so that the price risk of equity securities in their possession is not significant.

5) Liquidity risk

Prudent liquidity risk management exercised by the Company and the Group implies maintaining at all times sufficient cash to settle all their liabilities by developing cash flow projections at a monthly, annual and long-term basis. On top of currently available cash, the Company and the Group aim to maintain flexibility in funding by keeping committed credit lines available. Excess funds above the amount required for working capital management are invested in interest-bearing deposits, time deposits, money market deposits and marketable securities, thereby choosing instruments with appropriate maturities or sufficient liquidity in accordance with the projected needs for liquid funds.

6) Share-related risks

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

Business risk

On a daily basis, the Company and the Group face business risks potentially leading the weakening of competitive strength, and thus jeopardising their further stability. In the previous period, the Company and the Group made business decisions contributing to the increase of their competitive strength on the demanding Mediterranean market and thus improved the performance and the efficiency of their business operations, which gave rise to the expectation of continued positive trends in the future as well, subject to prudent long-term strategic management.

Risk related to the tourism branch of the economy

In the Republic of Croatia, tourism has been one of few growing branches of the economy during the last several years marked by the global financial crisis and economic downturn, which have had a significant impact on the Croatian economy as well. Upon joining the European Union, the Republic of Croatia's market has become a part of the large European market, while the membership of the Republic of Croatia in NATO has reduced safety risks. The Tourism Development Strategy of the Republic of Croatia until 2020 (Official Gazette No. 55/13) provides answers to the question what kind of tourism the Republic of Croatia wants and needs to develop by using its comparative advantages as well as knowledge and skills with a view to strengthening the competitive capacity of the Croatian tourism. It is important that the achieved growth rates of the Croatian tourism are maintained

over the following years, an objective to be accomplished only through further strategic considerations in developing tourism products and by investing in the creation of additional values, which will differentiate Croatian tourism from its competitive environment by pointing out its uniqueness, attractiveness and quality.

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

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

Environmental risks

The performance of the Company and Group's business operations can also be affected by environmental risks, primarily with regard to customer satisfaction with the whole experience of staying in Valamar's facilities, reflecting as a result in a reduced number of arrivals. Such risks include, for example, sea water pollution (e.g. as a result of tanker breakage or discharge of chemicals into the sea), but also less intense deterioration of sea quality and shoreline pollution arising from insufficient quality of waste water management and sewage along the Croatian coast of the Adriatic Sea. Likewise, climate changes, such as long drought periods or, on the other hand, long rain periods, can also have a direct impact on how long guests stay in hotels and campsites of the Group and the Company, or can also lead to increased operating costs. This also includes various other natural disasters and adverse climatic events (such as earthquakes, fires, floods), air pollution caused by toxic gas emissions from e.g. industrial plants, etc.

CORPORATE GOVERNANCE

The company Valamar Riviera d.d., as well as the Group, has been continuously developing and acting in compliance with the good corporate governance practice. Through its business strategy, policy, key acts, and business practice, it strives to contribute to transparent and efficient business operations and high-quality links with the environment in which it runs its operations. In 2008, the Company adopted its Code of Corporate Governance with a view to further strengthening and establishing high corporate governance standards. The Management Board fully complies with the provisions of the adopted Code. Since its shares were listed in the Official Market of Zagrebačka burza d.d., the Company has been applying the Code of Corporate Governance of Zagrebačka burza d.d. (in detail in the annual questionnaire published in compliance with the regulations).

The major direct shareholders in accordance with the data from the Central Depository and Clearing Company are listed in the table under the section "Share".

General risk management characteristics are described in the section "The risks of the Company and the Group."

There is a time limit related to the use of voting rights at the General Assembly pursuant to the provisions of the Companies Act – shareholders are required to register their participation within the period stipulated by law. There is no case in which the financial right stemming from securities would be separate from holding the securities. In the Company, there are no

securities with special rights of control nor are there any voting right limitations.

The rules on the appointment and recall of members of the Management Board and members of the Supervisory Board are established by the Articles of Association, in accordance with the provisions of the Companies Act.

The Company can acquire treasury shares pursuant to the decision of the General Assembly of 17 November 2014. The rules on amending the Company's Articles of Association have been established by the Companies Act and there are no additional limitations.

The authorisations of the Management Board members are also fully in accordance with the provisions of the Companies Act.

The corporate bodies of the Company are as follows:

The Management Board: Mr. Željko Kukurin, President of the Management Board, and Mr. Marko Čižmek, Member of the Management Board.

The Supervisory Board: Mr. Gustav Wurmböck, President, Mr. Mladen Markoč, Deputy-president, Mr. Franz Lanschützer, Deputy-president, and members: Mr. Georg Eltz, Mr. Hans Dominik Turnovszky, Mr. Vicko Ferić, and Ms. Mariza Jugovac. For a more efficient performance of its functions and duties as

prescribed by the provisions of the Audit Act the Supervisory Board named:

The Presidium of the Supervisory Board: Mr. Gustav Wurmböck, President, Mr. Mladen Markoč, and Mr. Franz Lanschützer, Deputy-president.

The Audit Committee: Mr. Georg Eltz, President, and members: Mr. Franz Lanschützer, Mr. Mladen Markoč, Mr. Vicko Ferić, and Mr. Dubravko Kušeta.

The Investment Committee: Mr. Franz Lanschützer, President, and members: Mr. Georg Eltz, Mr. Vicko Ferić, Mr. Hans Dominik Turnovszky, and Mr. Gustav Wurmböck.

The Management and the Supervisory Boards primarily act through meetings and by making correspondent decisions, in accordance with effective regulations and Company's bylaws.

RELATED-PARTY TRANSACTIONS

The transactions with related parties within the Group are effected at regular commercial terms and conditions and at market prices.

In the period under consideration, revenues resulting from related-party transactions amounted to HRK 421 thousand (in 2015: HRK 24.7 million) for the Company, and HRK 8 thousand (in 2015: HRK 10 thousand) for the Group, while expenses amounted to HRK 15.1 million (in 2015: HRK 18.6 million) for the Company, and HRK 443 thousand (in 2015: HRK 164 thousand) for the Group.

Balances of related-party receivables and liabilities as at 30 June 2016 amounted to: HRK 151.6 million¹⁵ receivables for the Company (at the end of 2015: HRK 165.0 million¹⁵, and HRK 276 for the Group (at the end of 2015: HRK 2 thousand); HRK 225 thousand liabilities for the Company (at the end of 2015: HRK 306 thousand), and HRK 99 thousand for the Group (at the end of 2015: HRK 405 thousand).

Please note that pursuant to the Hotel Management Contract, from 2004 to 27 February 2015, the Company entrusted the management of its hospitality properties to the leading hospitality management company in Croatia, Valamar hoteli i ljetovališta d.o.o. The services concerned included the management of hotels and other tourism facilities and services, the laundry and other centralised tourism functions, such as procurement, technical maintenance, marketing, sales, human resources, IT, etc. The merger of Valamar hoteli i ljetovališta d.o.o. to the Company (described under Significant Business Events) will contribute to a further increase in operational efficiency.

BRANCH OFFICES OF THE COMPANY

On 2 September 2011, the establishment of branch offices was entered in the court register as follows: Branch Office for Tourism RABAC, with registered office in Rabac, Slobode 80, and Branch Office for Tourism ZLATNI OTOK, with registered office in Krk, Vršanska 8. On 4 October 2013, the establishment of the Branch Office for Tourism DUBROVNIK-BABIN KUK, with registered office in Dubrovnik, Dr. Ante Starčevića 45, was registered, and on 1 October 2014, the Branch Office for Business and Management Consulting ZAGREB, with registered office in Zagreb, Miramarska cesta 24.

The Branch Offices Rabac, Zlatni otok and Dubrovnik-Babin kuk, as economic drivers of their local communities, continue to operate at their destinations supporting their development by further investments, tourism development and participation in social and business activities.

¹⁵ For the most part refers to the re-invoiced amount arising from the investment made in the reconstruction and upgrading of the hotel Valamar Lacroma owned by subsidiary Elafiti Babin-kuk d.o.o.

SHARE

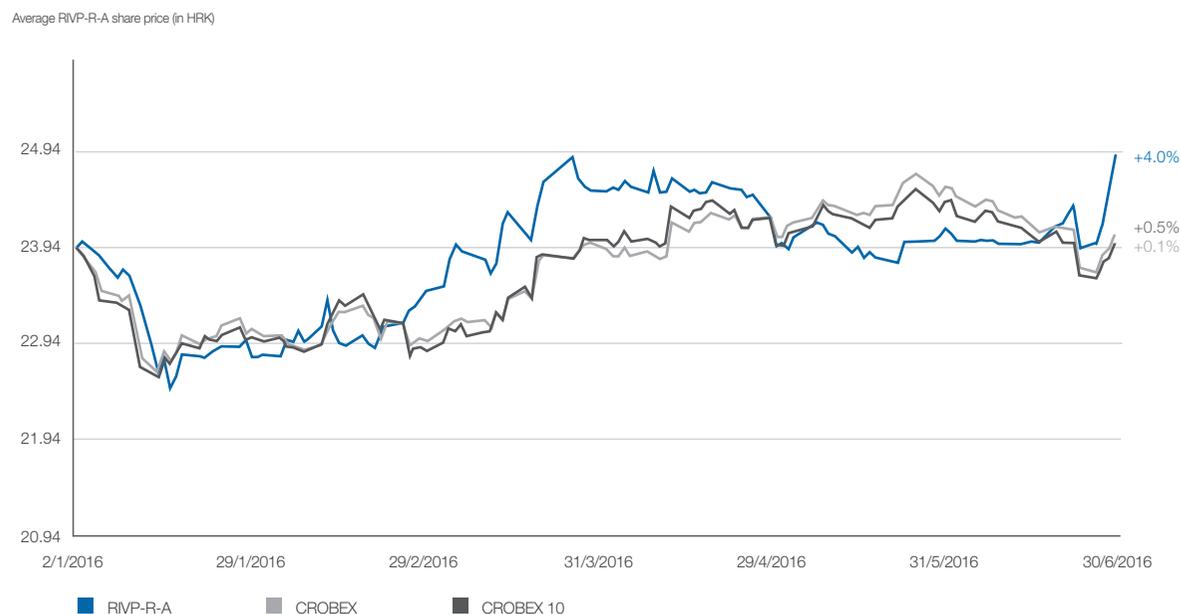
In 2016, the Company acquired 1,440,942 treasury shares on the regulated market, at the total acquisition cost of HRK 35,692,643. The acquisition concerned makes 1.14% of the registered capital. On 30 June 2016, the Company held in total 1,454,078 treasury shares, or 1.15% of the registered capital.

In the period from 1 January 2016 to 30 June 2016, the highest recorded share price in regular trading on the regulated market was HRK 24.97, while the lowest was HRK 22.30. The Company's share price increased by 4.0%, exceeding both CROBEX and CROBEX 10 indices development, which recorded a modest growth of 0.1%, respectively 0.5%. With the regular trading turnover of HRK 663 thousand a day¹⁶, the Valamar Riviera's share is among the 3 most frequently traded shares on the Zagreb Stock Exchange.

Apart from the Zagreb Stock Exchange indices, the share makes a component part of the Vienna Stock Exchange indices (CROX¹⁷ and SETX¹⁸), and SEE Link indices (SEELinX and SEELinX EWI)¹⁹. Zagrebačka banka d.d. and Interkapital vrijednosni papiri d.o.o. perform specialist tasks of ordinary shares of the Company listed in the Official Market of Zagrebačka burza d.d. They provide support to Valamar Riviera's share turnover, which in the period under consideration was 32.2% on average²⁰.

The Company actively holds meetings and conference calls with domestic and foreign investors, thus providing support to high-level transparency, creation of additional liquidity, increase of share value, and involvement of potential investors. In pursuing such an approach, Valamar Riviera can contribute to further growth of the Company's value for the benefit of all stakeholders, with a view to making the Valamar Riviera's share recognisable as the leading Croatian tourism share.

Performance of Valamar Riviera's share and CROBEX and CROBEX 10 indices



Analytical coverage of Valamar Riviera is provided by:

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

¹⁶ Block transactions are excluded from the calculation.

¹⁷ Croatian Traded Index (CROX) is a capitalization-weighted price index and is made up of 12 most liquid and highest capitalized shares of Zagreb Stock Exchange.

¹⁸ South-East Europe Traded Index (SETX) is a capitalization-weighted price index

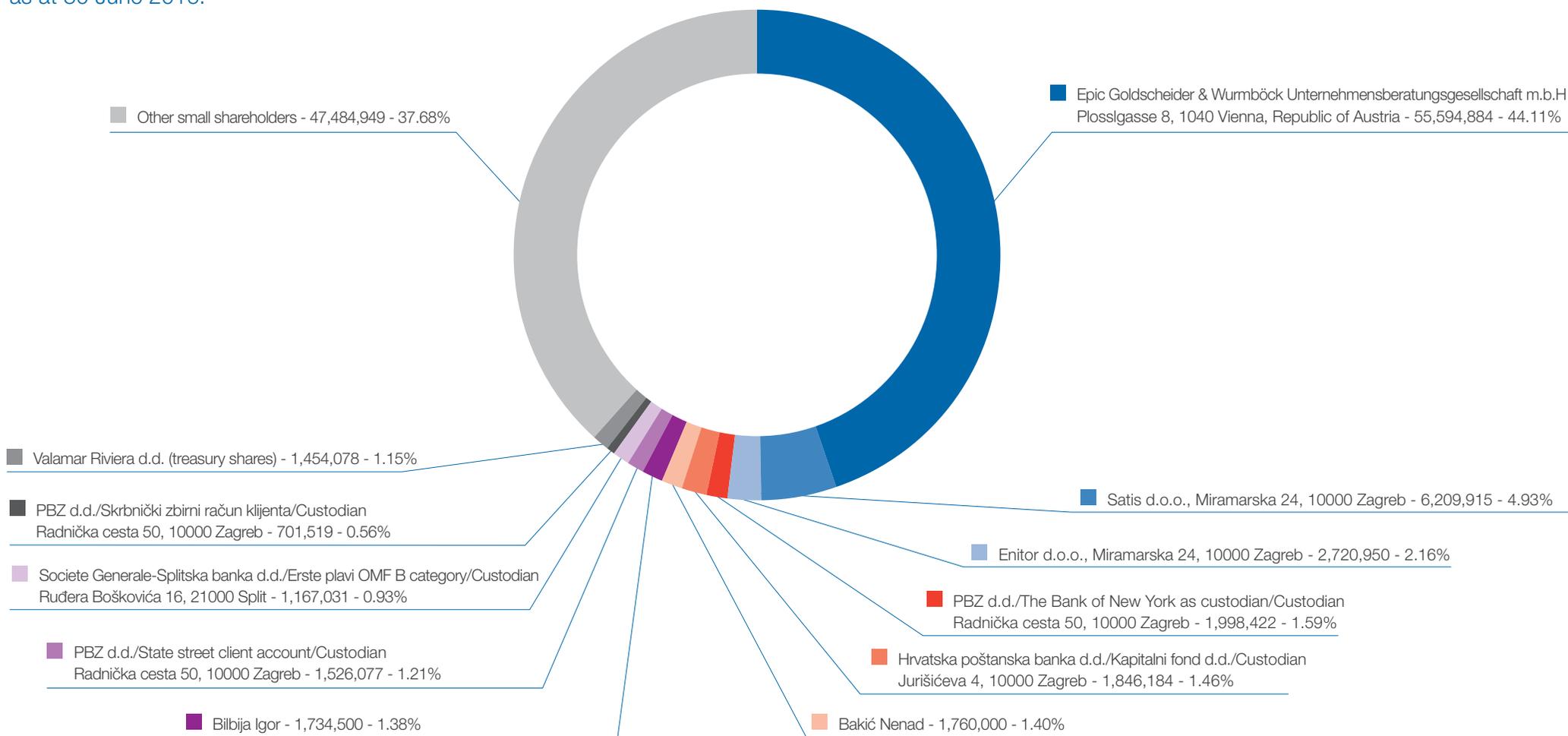
consisting of blue chip stocks traded on stock exchanges in the region of South-eastern Europe (shares listed in Bucharest, Ljubljana, Sofia, Belgrade and Zagreb).

¹⁹ SEE Link is a regional platform for securities trading. It was founded by Bulgarian, Macedonian, and Zagreb Stock Exchange. SEE LinX and SEE LinX EWI are two

"blue chip" regional indices composed of ten most liquid regional companies listed on three Stock Exchanges: five from Croatia, three from Bulgaria, and two from Macedonia.

²⁰ Block transactions are excluded from the calculation. Data refers to the period 1/1 - 30/6/2016.

Overview of major shareholders
as at 30 June 2016:



CORPORATE SOCIAL RESPONSIBILITY

Organisation of the Valamar Riviera's Investors Day and Presentation of the First Integrated Report

As the leading Croatian tourism share and a company with more than 21 thousand shareholders, on 9 June 2016, Valamar Riviera organised its first Investors Day, making a step forward towards not only its present and future investors, but also the wider public. On that occasion, a new 2020 development strategy and goals were presented, as well as the first 2015 Integrated Annual Report published on the Zagreb Stock Exchange and available on the corporate web-site (more details in chapter "Integrated report 2015" on page 30).

The first Valamar Riviera's Investors Day was met with great interest by media and investors, including 30 funds, banks, analytics, broker, 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 tourism destination development projects make an integral part of the Valamar Riviera's business operations.

Umbrella Corporate Social Responsibility Programmes

More than six decades long tradition of involvement in the local community and its focus on a comprehensive social prosperity is reflected in Valamar Riviera's eight umbrella corporate social responsibility programmes, being also of particular importance in the planning of all key investment projects. This is particular evident in energy efficiency and environmental protection projects. Thus, as of the beginning of 2016, through the HEP's ZelEn (Green Energy) Project, Valamar Riviera has been purchasing electricity generated

Camping Bunculuka 4*, Baška



exclusively from renewable sources, resulting in a 60% annual reduction in greenhouse gas emissions. Currently, Valamar Riviera has 43 electrical vehicles. Within the energy efficiency programme, at the beginning of June this year, an e-charging station was ceremonially opened in front of the Valamar Diamant hotel in Poreč. By the end of the next year, Valamar Riviera plans to have a total of 7 e-charging stations, which is the current trend at a global level, recognised and welcomed by an increasing number of ecologically aware guests and local communities.

Valamar Riviera has been continuously working on the education of its employees and the local community with a view to raising environmental awareness and supporting various projects related to the protection of the Adriatic Sea and seaward side. For the third year in a row, this spring saw the successful implementation of the “We love the Adriatic Sea” project, focused on beach and sea bed cleaning and education on the importance of sea and Adriatic seaward side preservation. The competition took place in Poreč, Rabac, Baška, Krk, and Dubrovnik, while money donations awarded by the project were granted to Dubrovnik Diving Club, Adriatic Maritime Institute, Horizont-Poreč Sailing Club, Štinjan Sea Sport Fishing Club from Pula, “Rudar” Football Club from Labin, “Mladi Rudar” Handball Club, Bioteka Association promoting biology and related sciences, and Rabac Association for Underwater Activities, which organised a number of beach and sea bed cleaning actions in the pre-season.

For the third year in a row, Valamar Riviera also conducted the competition “A thousand days at the Adriatic Sea”, awarding more than a thousand free overnight stays, including full-board or half-board service, in one of its hotels, resorts, or campsites. Donations to associations, schools, and institutions are granted with a view to supporting projects for work with children without proper parental care, children from low-income families, children with certain health difficulties who would benefit from staying at the seaside in terms of treatment or recovery, and children with special needs. In 2016, free overnight stays for children groups and their expert leaders were granted to the following competition participants:

- Restart Association
- Mate Lovrak Primary School
- PGŽ DAMDOM Foster Parents’ Association
- SOS Children’s Village Croatia
- Komarevo Primary School
- 1. Čakovec Primary School
- “Korak dalje” (Step Further) Association
- Katarina Zrinska Mečenčani Primary School
- Uspon (Rise) Association
- “Mali zmaj” (Little Dragon) Association
- Petrinjčica Kindergarten
- Project of Civil Democratic Initiative – P.G.D.I.
- “Lattice” Association for Support to Persons with Intellectual Difficulties
- Krapina Association of Persons with Intellectual Difficulties
- “Sfera” (Sphere) Association
- Association of Parents of Children with Disabilities Vukovar Butterflies 2/2
- “Roma Future” Young Roma’s Association from Rijeka
- “DIRA Rijeka” Association
- Velika Gorica Upbringing and Education Centre
- “Podravsko sunce” (Podravina Sun) Koprivnica Upbringing, Education, and Rehabilitation Centre
- “Zvezdice” (Little Stars) Disabled Persons’ Association, Gunja
- POGLED (LOOK) Autism Association, Nedelišće
- “Zipka” (Crib) Varaždin County Association of Foster Parents of Children and Youth
- Ghia Staff Basketball Club, Pazin
- 22nd June Primary School
- “Big Heart” Čazma Association of Foster Parents of Children and Adults
- “Sunce” (Sun) Association from Novi Marof
- “Kolibrići” (Hummingbirds) Association of Parents of Vitally Threatened Children

Key Events at Destinations

With a view to developing tourism destinations at which it runs its business, Valamar Riviera supports a number of events as a sponsor, partner, host, or organiser. In the first six months of this year, a range of major and excellently organised events was held.

This year’s best example is the Poreč Open Air Festival, whose initiator, partner, and major sponsor is Valamar Riviera and which on 9 June has turned the City of Poreč into a big open-air stage. This festival of life will take place in Poreč until 10 September 2016, providing all Valamar’s guests and the citizens of Poreč and nearby towns and villages with the opportunity to enjoy every day excellent music and urban rhythms, jugglers and acrobats’ performances, street performances, cinema and theatre programmes, and a number of other special events. At the end of June, another great event, i.e. the Swatch Major Series Poreč tournament, a prestigious tournament for players and a true summer sports and entertainment spectacle sponsored by Valamar Riviera, took place in Poreč. This year’s tournament was played at the central court in the Peškera Bay and at five additional courts in the vicinity of the Valamar Zagreb hotel and in Zelena Laguna.

Also worth mentioning is the fourth issue of the “Artist on Vacation” project in Valamar, transforming Poreč into a melting pot of the most prominent world avant-garde artists and their fans. The project, organised in collaboration with the Institute for the Research of the Avant-Garde and the Marinko Sudac Collection, takes place in Valamar’s hotels, with a mission to present different legacies of a true avant-garde by inviting world renowned avant-garde artists as guests. Valamar Riviera has founded an Art Colony, which hosted more than 200 renowned artists over the last 33 years. Artists are accommodated in Valamar’s facilities, while works of art created in the Art Colony and donated by the artists are displayed in Valamar Riviera’s hotels, thus enriching their interior whilst presenting a part of modern artistic creation to Valamar’s guests.

Valamar Riviera strongly supported and participated in the creation of positive and social value of the Dubrovnik Sentimento Festival, a unique international cultural, educational, and rehabilitation programme taking place in the Valamar Dubrovnik President hotel.

The ceremonial opening of the Valamar’s first e-charging station in front of the Valamar Diamant hotel in May also announced the “Nikola Tesla EV Rally Croatia 2016”. It is the biggest and the most important e-mobility event of the year in Croatia and the region that took place at the beginning of June.

AWARDS AND CERTIFICATES 2016

Valamar Riviera has been continuously investing to increase the quality of its products, services, and contents, as recognised on a daily basis by the wider community, peers, institutions, and partners. Only in the first half of 2016, Valamar Riviera's hotels, resorts, and campsites have received prestigious awards and certificates. Valamar Riviera's facilities continuously receive high rates from guests and excellent reviews on the most prominent travel portals. Thus, all five Dubrovnik hotels have received the "2016 Certificate of Excellence" on the basis of guests' reviews on Hotels.com, while TripAdvisor has once again awarded the "2016 Travellers' Choice Award" to Valamar Riviera's facilities in several categories. Increased quality of Valamar Riviera's campsites has been recognised by the renowned camping associations ADAC and ANWB, which have awarded the "Best Camping 2016" and "Best Campsite" awards to campsites Krk and Lanterna.

Awarding organisation	Award	Winner
ADAC	Best Camping 2016	Camping Lanterna, camping Krk
ANWB	Best Campsite	Camping Lanterna, camping Krk
Camping2be.com	Camping2be 2016 Award	Camping Lanterna
Croatian Committee of the Foundation for Environmental Education	Golden Plaque	Valamar Duborvnik President Beach
DCC Europa-Preis	Camping Award 2016	Camping Krk
FEE (Foundation for Environmental Education)	Blue Flag	Valamar Duborvnik President Beach, Cava Beach
Hotels.com	2016 Certificate of Excellence	Valamar Lacroma Dubrovnik Hotel, Valamar Duborvnik President Hotel, Valamar Argosy Hotel, Tirena Hotel, Valamar Club Dubrovnik
IHAC	IHAC reward	Valamar Argosy Hotel, Tirena Hotel
Kongres magazine	TOP 10 Premium Resorts Meeting Hotels	Valamar Lacroma Dubrovnik
TripAdvisor	2016 Travellers' Choice Winner	Valamar Club Tamaris
TripAdvisor	2016 Travellers' Choice Winner	Valamar Riviera Hotel
TripAdvisor	2016 Travellers' Choice Winner	Valamar Isabella Hotel
TripAdvisor	2016 Travellers' Choice Winner	Valamar Duborvnik President Hotel
TripAdvisor	2016 Certificate of Excellence	Valamar Argosy Hotel

INTEGRATED REPORT 2015

On Valamar Riviera's Investors Day was presented the first 2015 Integrated Annual Report. The Report, using G4 GRI Guidelines, primarily aims at presenting a strategic and long-term insight into the Company's business operations to all key stakeholders, including Valamar Riviera's shareholders, employees, partners, guests, and wider community, with a particular focus on corporate social responsibility, it being the basis of the Company's sustainable business operations and further development.

Our Business model

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

Our Vision

To drive a paradigm shift in regional tourism development. To harness a symbiotic relationship between hospitality and destination management that develops local economies, builds sustainable futures and creates a more enriching guest experience.

Our Mission

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

Our Core Values

1) Guest-loving

We make our guests feel very welcome and highly appreciated.

2) Ambitious

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

3) Responsible

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

4) Innovative

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

5) Proud

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

Our Strategic Goals By 2020

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

Invest HRK 1.5 - 2.0 billion in the portfolio over the coming period while maintaining a solid balance sheet and generate premium returns by steadily growing EBITDA margin to 35-38% with a sustainable net debt/EBITDA ratio.

Strengthen direct relationships with guests by achieving 50% of revenue from direct bookings and 30% of returning guests.

Broaden and optimize business through strategic partnerships with internationally recognized players in order to prolong the season and diversify the customer base.

Be recognized as the most desirable employer in tourism by paying above-average wages for Croatia, achieving 70% seasonal worker return rate and developing more than 80% of our management internally.

Steer sustainable and socially responsible development of destinations by investing at least 2.5% of revenues in corporate social responsibility, education, tourism and destination projects.

Create substantial value for shareholders by significantly increasing our market capitalization.

Offer attractive and sustainable dividends to our shareholders.

Our Strategic Initiatives to Realize Our Strategic Goals

1) Focus on the guest

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

2) Empower employees & organization

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

3) Growth strategy

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

4) Strive for excellence in innovation and digitization

Be a leading innovator in leisure hospitality industry in Europe and leverage opportunities provided by digitization to fully meet our guests' needs.

5) Play a leading role

Play a leading role in the development of Croatian tourism, our destinations and corporate social responsibility.

Strategic goals are subject to a disclaimer mentioned in the Integrated Company Annual Report and Corporate Social Responsibility 2015 on page 110.

The report is available at the Zagreb Stock Exchange's and Valamar Riviera's website: www.valamar-riviera.com.

Valamar Lacroma 4*, Dubrovnik



OTHER INFORMATION

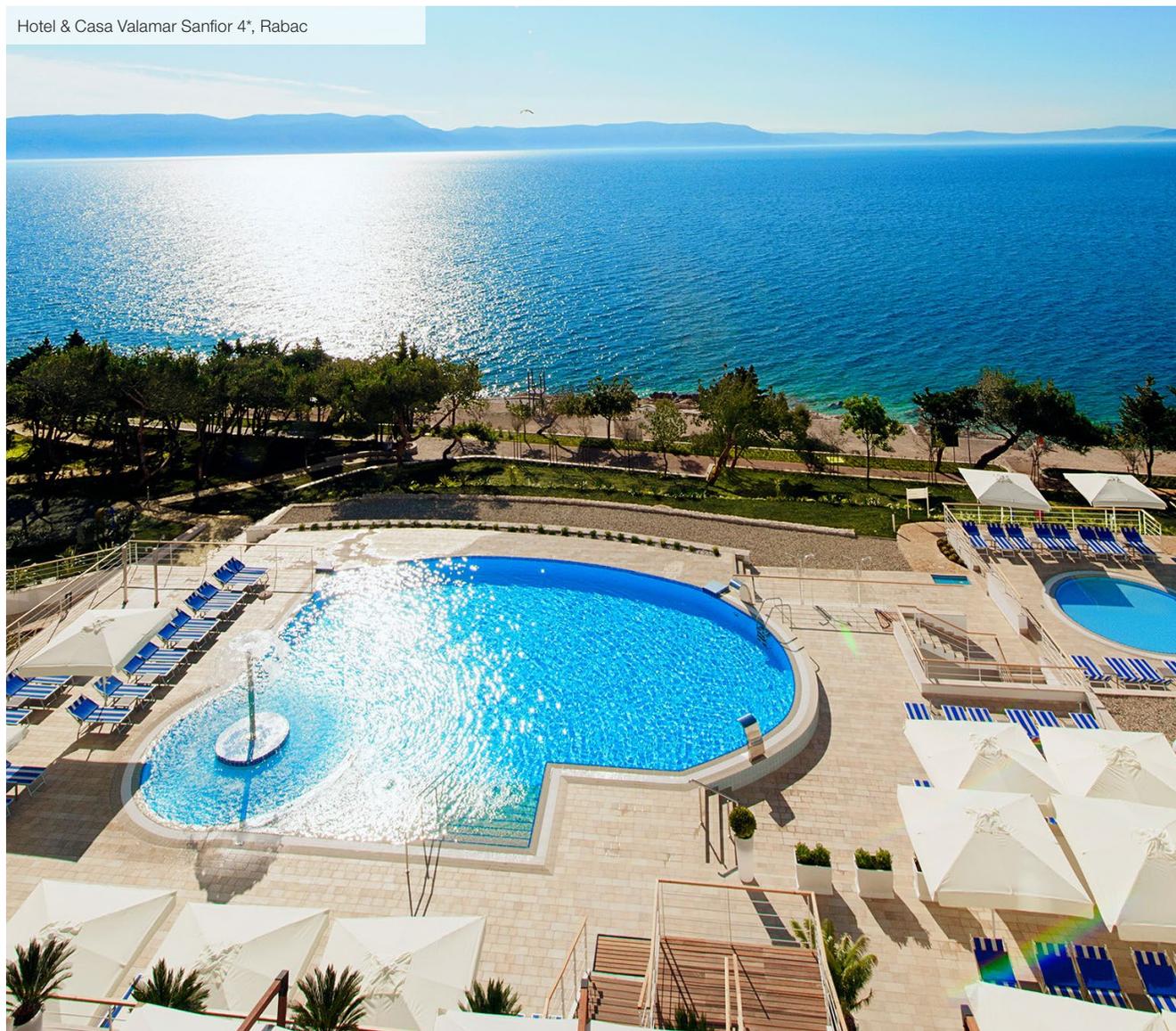
As one of the largest employers in Croatia (on 30 June 2016, the Company employed 3,806 workers, 1,037 of them permanent and 2,769 seasonal), the Company and the Group systematically and continuously invest in human resources development by applying top quality practices and an integral strategic approach to human resources management (transparent hiring process, clear objectives, employees' performance measurement and rewarding of performance, opportunities for employees' career development, investment in employees' development, and encouraging two-way communication through various channels).

In the course of the second quarter of 2016 and the first half of 2016, the Company's Management Board performed the actions provided for by law and the Articles of Association with respect to the management and representation of the Company, and planned a business policy that was implemented with prudent care. The Company's Management Board will continue to undertake all the necessary measures in order to ensure sustainability and business growth. The quarterly separate and consolidated financial statements for the second quarter of 2016 and the interim report of the Company's Management Board covering the period from 1 January 2016 to 30 June 2016 were adopted by the Management Board on 26 July 2016.

Company's Management Board expresses its gratitude to all shareholders, business partners and guests for their support and trust, and particularly to all employees for their contribution.

Management Board of the Company

Hotel & Casa Valamar Sanfior 4*, Rabac



RESPONSIBILITY FOR THE QUARTERLY FINANCIAL STATEMENTS

In Poreč, 26 July 2016

In accordance with provisions of Law on Capital Market, Marko Čižmek, Management board member responsible for finance, treasury and IT business as well as relations with institutional investors and Ljubica Grbac director of department of finance and accounting, procurator and person responsible for finance and accounting, together as persons responsible for the preparation of quarterly reports of company VALAMAR RIVIERA d.d. seated in Poreč, Stancija Kaligari 1, OIB 36201212847 (hereinafter: Company), hereby make the following

STATEMENT

According to our best knowledge

- The shortened set of consolidated and unconsolidated semiannual financial reports including financial reports for the second quarter of 2016 are prepared in accordance with applicable standards of financial reporting and represent a true and fair view of the assets and obligations, profit and loss, financial position and Company's business as well as the companies included in the consolidation.
- Interim report of the Company's Management Board for the period between 1 January and 30 June 2016 contains the true presentation of development, results and position of the Company and companies included in the consolidation, with description of significant risks and uncertainties which the Company and companies included in the consolidation are exposed to.



Marko Čižmek
Management Board member

VALAMAR RIVIERA d.d.
POREČ (5)



Ljubica Grbac
Director of Department of Finance
and Accounting

Reporting period: from 1.1.2016 to 30.6.2016

Quarterly financial report TFI-POD

Tax number (MB):	<u>3474771</u>
Company registration number (MBS):	<u>040020883</u>
Personal identification number (OIB):	<u>36201212847</u>
Issuing company:	<u>Valamar Riviera d.d.</u>
Postal code and place	<u>52440 Poreč</u>
Street and house number:	<u>Stancija Kaligari 1</u>
E-mail address:	<u>uprava@riviera.hr</u>
Internet address:	<u>www.valamar-riviera.com</u>
Municipality/city code and name:	<u>348 Poreč</u>

County code and name:	<u>18 Istarska</u>	Number of employees: (period end)	<u>3.841</u>
		NKD code:	<u>5510</u>

Consolidated report: YES

Companies of the consolidation subject (according to IFRS):

Seat:	MB:
<u>Valamar hoteli i ljetovališta d.o.o. Zagreb</u>	<u>01537369</u>
<u>Valamar hotels & resorts GmbH Frankfurt</u>	<u>04724750667</u>
<u>Hoteli Baška d.d. Baška</u>	<u>03035140</u>
<u>Mirta Bašćanska d.o.o. Baška</u>	<u>01841017</u>
<u>Vala Bašćanska d.o.o. Baška</u>	<u>02086131</u>
<u>Baškaturist d.o.o. Baška</u>	<u>03849236</u>
<u>Puntižela d.o.o. Pula</u>	<u>03203379</u>
<u>Citatis d.o.o. Zagreb</u>	<u>02626969</u>
<u>Bastion upravljanje d.o.o. Zagreb</u>	<u>01877453</u>
<u>Elafiti Babin kuk d.o.o. Dubrovnik</u>	<u>01273094</u>
<u>Magične stijene d.o.o. Dubrovnik</u>	<u>02315211</u>
<u>Palme turizam d.o.o. Dubrovnik</u>	<u>02006103</u>
<u>Pogača Babin Kuk d.o.o. Dubrovnik</u>	<u>02236346</u>
<u>Bugenvilia d.o.o. Dubrovnik</u>	<u>02006120</u>

Bookkeeping service:

Contact person:

Sopta Anka

(only surname and name)

Telephone:

052/408 188

Telefaks:

052/408 110

E-mail address:

anka.sopta@riviera.hr

Family name and name:

Kukurin Željko, Čižmek Marko

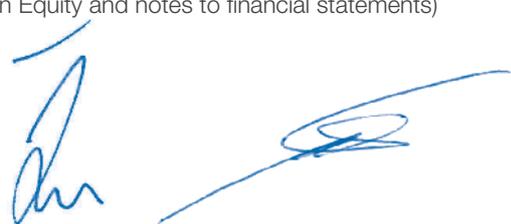
(person authorized to represent the company)

Documents disclosed:

1. Financial statements
(Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity and notes to financial statements)
2. Management Interim Report
3. Declaration of the persons responsible for preparing the issuer's statements

VALAMAR RIVIERA d.d.
POREČ (5)

L.S.



(signature of the person authorized to represent the company)

Balance Sheet (as of 30.6.2016)

Company: Valamar Riviera d.d.

Position 1	AOP 2	Previous period 3	Current period 4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	3.190.008.042	3.192.105.027
I. INTANGIBLE ASSETS (004 to 009)	003	17.006.943	19.474.035
1. Expenditure for development	004		
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005	10.327.568	9.147.935
3. Goodwill	006	6.567.609	6.567.609
4. Advances for purchase of intangible assets	007		
5. Intangible assets in progress	008	111.766	3.758.491
6. Other intangible assets	009		
II. PROPERTY, PLANT AND EQUIPMENT (011 to 019)	010	3.065.294.774	3.103.693.633
1. Land	011	659.328.328	659.064.989
2. Buildings	012	2.052.868.793	1.990.605.844
3. Plant and equipment	013	203.822.037	185.776.554
4. Tools, working inventory and transportation assets	014	64.897.404	65.771.085
5. Biological assets	015		
6. Advances for purchase of tangible assets	016	5.072.180	5.013.480
7. Tangible assets in progress	017	32.731.559	152.744.313
8. Other tangible assets	018	24.833.592	23.362.203
9. Investment in real-estate	019	21.740.881	21.355.165
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	46.547.373	6.106.730
1. Share in related parties	021	1.241.421	1.513.799
2. Loans to related parties	022		
3. Participating interests (shares)	023	140.000	140.000
4. Loans to companies with participating interest	024		
5. Investments in securities	025	44.761.794	4.102.900
6. Loans, deposits, etc.	026	404.158	350.031
7. Other non-current financial assets	027		
8. Equity-accounted investments	028		
IV. RECEIVABLES (030 to 032)	029	645.153	565.172
1. Receivables from related parties	030		
2. Receivables arising from sales on credit	031	286.116	258.121
3. Other receivables	032	359.037	307.051
V. DEFERRED TAX ASSET	033	60.513.799	62.265.457
C) CURRENT ASSETS (035+043+050+058)	034	355.363.412	432.786.055
I. INVENTORIES (036 to 042)	035	9.761.018	15.403.070
1. Raw materials and supplies	036	8.951.383	14.212.262
2. Production in progress	037		
3. Finished products	038		
4. Merchandise	039	64.641	445.814
5. Advances for inventories	040		
6. Long term assets held for sale	041	744.994	744.994
7. Biological assets	042		
II. RECEIVABLES (044 to 049)	043	26.681.432	87.251.797
1. Receivables from related parties	044	458	980
2. Receivables from end-customers	045	13.147.988	72.525.164
3. Receivables from participating parties	046	253	253
4. Receivables from employees and members of the company	047	485.727	4.183.007
5. Receivables from government and other institutions	048	9.285.057	2.218.324
6. Other receivables	049	3.761.949	8.324.069
III. CURRENT FINANCIAL ASSETS (051 to 057)	050	165.680	3.394.831
1. Share in related parties	051		
2. Loans to related parties	052		
3. Participating interests (shares)	053		
4. Loans to companies with participating interest	054		
5. Investments in securities	055		
6. Loans, deposits, etc.	056	24.845	702.190
7. Other financial assets	057	140.835	2.692.641
IV. CASH AND CASH EQUIVALENTS	058	318.755.282	326.736.357
D) PREPAYMENTS AND ACCRUED INCOME	059	21.247.239	90.068.591
E) TOTAL ASSETS (001+002+034+059)	060	3.566.618.693	3.714.959.673
F) OFF BALANCE SHEET ITEMS	061	54.717.679	54.675.282

Balance Sheet (as of 30.6.2016) (continued)
Company: Valamar Riviera d.d.

Position 1	AOP 2	Previous period 3	Current period 4
EQUITY AND LIABILITIES			
A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	1.901.690.680	1.796.932.333
I. SUBSCRIBED SHARE CAPITAL	063	1.672.021.210	1.672.021.210
II. CAPITAL RESERVES	064	-373.815	3.573.938
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	62.737.202	85.417.585
1. Legal reserves	066	61.906.040	67.198.750
2. Reserve for own shares	067	34.344.407	44.815.284
3. Treasury shares and shares (deductible items)	068	33.513.245	36.125.572
4. Statutory reserves	069		
5. Other reserves	070		9.529.123
IV. REVALUATION RESERVES	071	31.189.526	52.569
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	30.576.912	36.541.451
1. Retained earnings	073	30.576.912	36.541.451
2. Loss carried forward	074		
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	075	105.441.776	-770.660
1. Net profit for the period	076	105.441.776	
2. Net loss for the period	077		770.660
VII. MINORITY INTEREST	078	97.869	96.240
B) PROVISIONS (080 to 082)	079	87.186	0
1. Provisions for pensions, severance pay and similar liabilities	080		
2. Provisions for tax liabilities	081	16.011	
3. Other provisions	082	71.175	
C) NON-CURRENT LIABILITIES (084 to 092)	083	1.331.861.034	1.409.664.984
1. Liabilities to related parties	084		
2. Liabilities for loans, deposits, etc.	085		
3. Liabilities to banks and other financial institutions	086	1.306.223.976	1.384.883.884
4. Liabilities for advances	087		
5. Trade payables	088		
6. Commitments on securities	089		
7. Liabilities to companies with participating interest	090		
8. Other non-current liabilities	091	2.833.087	4.909.709
9. Deferred tax liabilities	092	22.803.971	19.871.391
D) CURRENT LIABILITIES (094 to 105)	093	229.556.759	418.421.969
1. Liabilities to related parties	094	70.585	
2. Liabilities for loans, deposits, etc.	095		
3. Liabilities to banks and other financial institutions	096	139.838.023	102.245.902
4. Liabilities for advances	097	14.788.881	171.954.191
5. Trade payables	098	47.731.018	84.408.547
6. Commitments on securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	15.738.902	26.652.393
9. Taxes, contributions and similar liabilities	102	7.870.246	29.278.029
10. Liabilities arising from share in the result	103	45.653	72.403
11. Liabilities arising from non-current assets held for sale	104	2.832	
12. Other current liabilities	105	3.470.619	3.810.504
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	103.423.034	89.940.387
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	3.566.618.693	3.714.959.673
G) OFF BALANCE SHEET ITEMS	108	54.717.679	54.675.282
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
A) ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	109	1.901.592.811	1.796.836.093
2. Attributable to minority interest	110	97.869	96.240

Income statement (period 1.1.2016 to 30.6.2016)
Company: Valamar Riviera d.d.

Position	AOP	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
I. OPERATING INCOME (112 to 113)	111	355.409.985	331.426.428	435.205.124	382.399.363
1. Sales revenues	112	342.821.905	325.805.705	419.648.604	373.594.742
2. Other operating revenues	113	12.588.080	5.620.723	15.556.520	8.804.621
II. OPERATING COSTS (115+116+120+124+125+126+129+130)	114	440.414.953	295.630.439	480.337.361	314.088.254
1. Change in inventories of work in progress	115				
2. Material expenses (117 to 119)	116	147.151.247	118.205.173	148.171.187	116.327.628
a) Costs of raw materials	117	80.644.792	67.954.871	91.528.406	73.956.864
b) Cost of goods sold	118	391.622	383.168	565.037	522.162
c) Other material expenses	119	66.114.833	49.867.134	56.077.744	41.848.602
3. Employee benefits expenses (121 to 123)	120	126.494.254	88.912.055	145.598.450	99.175.730
a) Net salaries	121	75.441.730	53.689.061	88.067.739	60.821.970
b) Tax and contributions from salary expenses	122	33.047.039	22.668.388	35.959.658	23.919.867
c) Contributions on salary	123	18.005.485	12.554.606	21.571.053	14.433.893
4. Depreciation and amortisation	124	114.797.426	57.410.123	131.402.096	65.782.544
5. Other expenses	125	47.403.991	28.576.011	50.855.450	31.476.380
6. Write down of assets (127+128)	126	235.807	108.959	41.750	38.525
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128	235.807	108.959	41.750	38.525
7. Provisions	129				
8. Other operating costs	130	4.332.228	2.418.118	4.268.428	1.287.447
III. FINANCIAL INCOME (132 to 136)	131	16.968.671	12.544.923	71.958.746	38.265.346
1. Interest, foreign exchange differences, dividends and similar income from related parties	132				
2. Interest, foreign exchange differences, dividends and similar income from third parties	133	12.694.032	10.095.517	29.112.485	5.326.376
3. Income from investments in associates and joint ventures	134				
4. Unrealised gains (income) from financial assets	135	3.353.518	1.849.173	5.873.651	4.962.161
5. Other financial income	136	921.121	600.233	36.972.610	27.976.809
IV. FINANCIAL EXPENSES (138 to 141)	137	41.226.017	8.327.230	29.484.748	13.782.708
1. Interest, foreign exchange differences, dividends and similar expenses from related parties	138				
2. Interest, foreign exchange differences, dividends and similar expenses from third parties	139	39.196.488	7.674.253	22.995.327	10.617.729
3. Unrealised losses (expenses) from financial assets	140	1.671.778	405.278	4.926.588	2.873.481
4. Other financial expenses	141	357.751	247.699	1.562.833	291.498
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142				
VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES	143				
VII. EXTRAORDINARY - OTHER INCOME	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL INCOME (111+131+142+144)	146	372.378.656	343.971.351	507.163.870	420.664.709
X. TOTAL EXPENSES (114+137+143+145)	147	481.640.970	303.957.669	509.822.109	327.870.962
XI. PROFIT OR LOSS BEFORE TAXES (146-147)	148	-109.262.314	40.013.682	-2.658.239	92.793.747
1. Profit before taxes (146-147)	149	0	40.013.682	0	92.793.747
2. Loss before taxes (147-146)	150	109.262.314	0	2.658.239	0
XII. TAXATION	151	-637.338		-1.885.951	
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-108.624.976	40.013.682	-772.288	92.793.747
1. Profit for the period (149-151)	153	0	40.013.682	0	92.793.747
2. Loss for the period (151-148)	154	108.624.976	0	772.288	0

Income statement (period 1.1.2016 to 30.6.2016) (continued)
Company: Valamar Riviera d.d.

Position	AOP	Previous period		Current period	
		Cummulative	Quarter	Cummulative	Quarter
1	2	3	4	5	6

ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)

XIV. PROFIT OR LOSS FOR THE PERIOD

1. Attributable to majority owners	155	-108.623.872	40.008.387	-770.660	92.790.215
2. Attributable to minority interest	156	-1.104	5.295	-1.628	3.532

STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)

I. PROFIT OR LOSS FOR THE PERIOD (=152)	157	-108.624.976	40.013.682	-772.288	92.793.747
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 to 165)	158	6.553.118	6.553.118	-33.432.007	-24.973.318
1. Exchange differences from international settlement	159				
2. Changes in revaluation reserves of long-term tangible and intangible assets	160				
3. Profit or loss from re-evaluation of financial assets held for sale	161	6.553.118	6.553.118	-33.432.007	-24.973.318
4. Profit or loss from cash flow hedging	162				
5. Profit or loss from hedging of foreign investments	163				
6. Share of other comprehensive income/loss from associated companies	164				
7. Actuarial gains/losses from defined benefit plans	165				
III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166	1.310.624	1.310.624	-2.684.410	-882.806
IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158-166)	167	5.242.494	5.242.494	-30.747.597	-24.090.512
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	-103.382.482	45.256.176	-31.519.885	68.703.235

ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)

VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD

1. Attributable to majority owners	169	-103.381.378	45.250.881	-31.518.257	68.699.703
2. Attributable to minority interest	170	-1.104	5.295	-1.628	3.532

Cash flow statement - indirect method (period 1.1.2016 to 30.6.2016)
Company: Valamar Riviera d.d.

Position 1	AOP 2	Previous period 3	Current period 4
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before tax	001	-108.623.872	-2.658.239
2. Depreciation and amortisation	002	114.797.426	131.402.096
3. Increase of current liabilities	003	229.382.350	226.457.330
4. Decrease of current receivables	004		
5. Decrease of inventories	005		
6. Other cash flow increases	006	52.997	79.981
I. Total increase of cash flow from operating activities (001 to 006)	007	235.608.901	355.281.168
1. Decrease of current liabilities	008		
2. Increase of current receivables	009	51.956.990	60.570.365
3. Increase of inventories	010	3.521.848	5.642.052
4. Other cash flow decreases	011	64.435.302	84.618.767
II. Total decrease of cash flow from operating activities (008 to 011)	012	119.914.140	150.831.184
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	115.694.761	204.449.984
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	0	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of non-current assets	015		
2. Proceeds from sale of non-current financial assets	016		40.252.142
3. Interest received	017		
4. Dividend received	018		
5. Other proceeds from investing activities	019		
III. Total cash inflows from investing activities (015 to 019)	020	0	40.252.142
1. Purchase of non-current assets	021	587.227.435	172.268.048
2. Purchase of non-current financial assets	022		
3. Other cash outflows from investing activities	023	3.980.415	1.751.658
IV. Total cash outflows from investing activities (021 to 023)	024	591.207.850	174.019.706
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	591.207.850	133.767.564
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issue of equity securities and debt securities	027	9.284.451	1.628
2. Proceeds from loans and borrowings	028	423.887.474	41.067.788
3. Other proceeds from financing activities	029	1.310.623	
V. Total cash inflows from financing activities (027 to 029)	030	434.482.548	41.069.416
1. Repayment of loans and bonds	031		
2. Dividends paid	032		37.330.521
3. Repayment of finance lease	033		
4. Purchase of treasury shares	034	4.462.755	35.692.643
5. Other cash outflows from financing activities	035		30.747.597
VI. Total cash outflows from financing activities (031 to 035)	036	4.462.755	103.770.761
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES (030-036)	037	430.019.793	0
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES (036-030)	038	0	62.701.345
Total increases of cash flows (013-014+025-026+037-038)	039	0	7.981.075
Total decreases of cash flows (014-013+026-025+038-037)	040	45.493.296	0
Cash and cash equivalents at the beginning of period	041	195.201.504	318.755.282
Increase of cash and cash equivalents	042		7.981.075
Decrease of cash and cash equivalents	043	45.493.296	0
Cash and cash equivalents at the end of period	044	149.708.208	326.736.357

Statement of changes in equity (period 1.1.2016 to 30.6.2016)
Company: Valamar Riviera d.d.

Position 1	AOP 2	Previous year 3	Current year 4
1. Subscribed share capital	001	1.672.021.210	1.672.021.210
2. Capital reserves	002	-373.815	3.573.938
3. Reserves from profit	003	62.737.202	85.417.585
4. Retained earnings or loss carried forward	004	30.576.912	36.541.451
5. Net profit or loss for the period	005	105.441.776	-770.660
6. Revaluation of tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of available for sale assets	008	31.189.526	52.569
9. Other revaluation	009		
10. Total equity and reserves (AOP 001 to 009)	010	1.901.592.811	1.796.836.093
11. Foreign exchange differences from foreign investments	011		
12. Current and deferred taxes	012		
13. Cash flow hedge	013		
14. Change of accounting policies	014		
15. Correction of significant mistakes of prior period	015		
16. Other changes	016		
17. Total increase or decrease of equity (AOP 011 to 016)	017	0	0
17 a. Attributable to majority owners	018	1.901.592.811	1.796.836.093
17 b. Attributable to minority interest	019	97.869	96.240

Notes to Financial Statements

(1) The notes to financial statements include additional and supplemental information not presented in the Balance Sheet, Income Statement, Cash Flow Statement or the Statement of Changes in Equity in accordance with the provisions of the relevant financial reporting standards.

Companies of the consolidation subject 2015.	Balance sheet-previous period 31.12.2015.	Balance sheet-current period 30.6.2016.
Valamar hoteli i ljetovališta d.o.o.		Yes (merged to Valamar Riviera d.d. 27.2.2015.)
Citatis d.o.o.		Yes (merged to Bastion d.o.o. 12.11.2015.)
Mirta Bašćanska d.o.o.		Yes (merged to Hoteli Baška d.d. 13.1.2016.)
Vala Bašćanska d.o.o.		Yes (merged to Hoteli Baška d.d. 13.1.2016.)
Baškaturist d.o.o.		Yes (merged to Hoteli Baška d.d. 13.1.2016.)
Hoteli Baška d.d.		Yes (merged to Valamar Riviera d.d. 31.3.2016.)
Valamar hotels & resorts GmbH	Yes	No
Bastion upravljanje d.o.o.	Yes	Yes
Elafiti Babin kuk d.o.o.	Yes	Yes
Magične stijene d.o.o.	Yes	Yes
Palme turizam d.o.o.	Yes	Yes
Pogača Babin Kuk d.o.o.	Yes	Yes
Bugenvilia d.o.o.	Yes	Yes
Puntžela d.o.o.	Yes	Yes

Companies of the consolidation subject: 2016.	Income statement-previous period 30.6.2015.	Income statement-current period 30.6.2016.
Valamar hoteli i ljetovališta d.o.o.	1.1.-27.2. (merged to Valamar Riviera d.d. 27.2.2015.)	-
Citatis d.o.o.	01.1.-30.6. (merged to Bastion d.o.o. 12.11.2015.)	-
Mirta Bašćanska d.o.o.	-	1.1.-13.1. (merged to Hoteli Baška d.d. 13.1.2016.)
Vala Bašćanska d.o.o.	-	1.1.-13.1. (merged to Hoteli Baška d.d. 13.1.2016.)
Baškaturist d.o.o.	-	1.1.-13.1. (merged to Hoteli Baška d.d. 13.1.2016.)
Hoteli Baška d.d.	-	1.1.-31.3. (merged to Valamar Riviera d.d. 31.3.2016.)
Valamar hotels & resorts GmbH	-	-
Bastion upravljanje d.o.o.	1.1.-30.6.	1.1.-30.6.
Elafiti Babin kuk d.o.o.	1.1.-30.6.	1.1.-30.6.
Magične stijene d.o.o.	1.1.-30.6.	1.1.-30.6.
Palme turizam d.o.o.	1.1.-30.6.	1.1.-30.6.
Pogača Babin Kuk d.o.o.	1.1.-30.6.	1.1.-30.6.
Bugenvilia d.o.o.	1.1.-30.6.	1.1.-30.6.
Puntžela d.o.o.	1.1.-30.6.	1.1.-30.6.

Balance Sheet (as of 30.6.2016)

Company: Valamar Riviera d.d.

Position 1	AOP 2	Previous period 3	Current period 4
ASSETS			
A) RECEIVABLES FOR SUBSCRIBED NOT PAID CAPITAL	001		
B) NON-CURRENT ASSETS (003+010+020+029+033)	002	3.171.672.610	3.369.427.170
I. INTANGIBLE ASSETS (004 to 009)	003	9.202.261	12.853.159
1. Expenditure for development	004		
2. Concessions, patents, licenses, trademarks, service marks, software and other rights	005	9.090.495	9.094.668
3. Goodwill	006		
4. Advances for purchase of intangible assets	007		
5. Intangible assets in progress	008	111.766	3.758.491
6. Other intangible assets	009		
II. PROPERTY, PLANT AND EQUIPMENT (011 to 019)	010	2.379.794.741	2.797.027.212
1. Land	011	519.577.779	592.402.633
2. Buildings	012	1.525.902.691	1.755.623.425
3. Plant and equipment	013	189.682.352	184.992.333
4. Tools, working inventory and transportation assets	014	63.877.369	65.636.651
5. Biological assets	015		
6. Advances for purchase of tangible assets	016	5.072.180	5.013.480
7. Tangible assets in progress	017	32.557.369	151.849.708
8. Other tangible assets	018	24.663.310	23.360.827
9. Investment in real-estate	019	18.461.691	18.148.155
III. NON-CURRENT FINANCIAL ASSETS (021 to 028)	020	625.876.740	400.938.921
1. Share in related parties	021	584.753.048	396.526.788
2. Loans to related parties	022		
3. Participating interests (shares)	023	140.000	140.000
4. Loans to companies with participating interest	024		
5. Investments in securities	025	40.983.692	3.922.102
6. Loans, deposits, etc.	026		350.031
7. Other non-current financial assets	027		
8. Equity-accounted investments	028		
IV. RECEIVABLES (030 to 032)	029	136.460.510	136.380.529
1. Receivables from related parties	030	135.815.357	135.815.357
2. Receivables arising from sales on credit	031	286.116	258.121
3. Other receivables	032	359.037	307.051
V. DEFERRED TAX ASSET	033	20.338.358	22.227.349
C) CURRENT ASSETS (035+043+050+058)	034	363.445.425	440.835.937
I. INVENTORIES (036 to 042)	035	9.604.766	15.403.070
1. Raw materials and supplies	036	8.810.975	14.212.262
2. Production in progress	037		
3. Finished products	038		
4. Merchandise	039	48.797	445.814
5. Advances for inventories	040		
6. Long term assets held for sale	041	744.994	744.994
7. Biological assets	042		
II. RECEIVABLES (044 to 049)	043	51.857.599	102.222.650
1. Receivables from related parties	044	29.181.921	15.751.522
2. Receivables from end-customers	045	12.765.099	71.837.498
3. Receivables from participating parties	046		
4. Receivables from employees and members of the company	047	485.286	4.092.572
5. Receivables from government and other institutions	048	7.009.354	2.218.174
6. Other receivables	049	2.415.939	8.322.884
III. CURRENT FINANCIAL ASSETS (051 to 057)	050	185.980	3.415.630
1. Share in related parties	051		
2. Loans to related parties	052	20.300	20.800
3. Participating interests (shares)	053		
4. Loans to companies with participating interest	054		
5. Investments in securities	055		
6. Loans, deposits, etc.	056	24.845	702.190
7. Other financial assets	057	140.835	2.692.640
IV. CASH AND CASH EQUIVALENTS	058	301.797.080	319.794.587
D) PREPAYMENTS AND ACCRUED INCOME	059	20.594.349	87.783.638
E) TOTAL ASSETS (001+002+034+059)	060	3.555.712.384	3.898.046.745
F) OFF BALANCE SHEET ITEMS	061	54.717.679	54.675.282

Balance Sheet (as of 30.6.2016) (continued)
Company: Valamar Riviera d.d.

Position 1	AOP 2	Previous period 3	Current period 4
EQUITY AND LIABILITIES			
A) ISSUED CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	2.088.581.493	1.993.697.305
I. SUBSCRIBED SHARE CAPITAL	063	1.672.021.210	1.672.021.210
II. CAPITAL RESERVES	064	109.139	3.573.938
III. RESERVES FROM PROFIT (066+067-068+069+070)	065	67.203.861	89.884.244
1. Legal reserves	066	61.906.040	67.198.750
2. Reserve for own shares	067	34.344.407	44.815.284
3. Treasury shares and shares (deductible items)	068	29.046.586	31.658.913
4. Statutory reserves	069		
5. Other reserves	070		9.529.123
IV. REVALUATION RESERVES	071	31.431.842	120.668
V. RETAINED EARNINGS OR LOSS CARRIED FORWARD (073-074)	072	211.961.240	226.506.669
1. Retained earnings	073	211.961.240	226.506.669
2. Loss carried forward	074		
VI. NET PROFIT OR LOSS FOR THE PERIOD (076-077)	075	105.854.201	1.590.576
1. Net profit for the period	076	105.854.201	1.590.576
2. Net loss for the period	077		
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 to 082)	079	0	0
1. Provisions for pensions, severance pay and similar liabilities	080		
2. Provisions for tax liabilities	081		
3. Other provisions	082		
C) NON-CURRENT LIABILITIES (084 to 092)	083	1.164.439.231	1.401.131.718
1. Liabilities to related parties	084		
2. Liabilities for loans, deposits, etc.	085		
3. Liabilities to banks and other financial institutions	086	1.158.888.007	1.376.329.639
4. Liabilities for advances	087		
5. Trade payables	088		
6. Commitments on securities	089		
7. Liabilities to companies with participating interest	090		
8. Other non-current liabilities	091	2.833.086	4.909.709
9. Deferred tax liabilities	092	2.718.138	19.892.370
D) CURRENT LIABILITIES (094 to 105)	093	205.346.633	413.537.839
1. Liabilities to related parties	094	204.906	125.197
2. Liabilities for loans, deposits, etc.	095		
3. Liabilities to banks and other financial institutions	096	125.355.698	101.431.212
4. Liabilities for advances	097	12.944.972	168.871.265
5. Trade payables	098	43.376.126	83.891.715
6. Commitments on securities	099		
7. Liabilities to companies with participating interest	100		
8. Liabilities to employees	101	14.943.850	26.412.741
9. Taxes, contributions and similar liabilities	102	6.643.162	28.932.526
10. Liabilities arising from share in the result	103		59.985
11. Liabilities arising from non-current assets held for sale	104		
12. Other current liabilities	105	1.877.919	3.813.198
E) ACCRUED EXPENSES AND DEFERRED INCOME	106	97.345.027	89.679.883
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107	3.555.712.384	3.898.046.745
G) OFF BALANCE SHEET ITEMS	108	54.717.679	54.675.282
ADDITION TO BALANCE SHEET (only for consolidated financial statements)			
A) ISSUED CAPITAL AND RESERVES			
1. Attributable to majority owners	109		
2. Attributable to minority interest	110		

Income statement (period 1.1.2016 to 30.6.2016)
Company: Valamar Riviera d.d.

Position	AOP	Previous period		Current period	
		Cumulative	Quarter	Cumulative	Quarter
1	2	3	4	5	6
I. OPERATING INCOME (112 + 113)	111	352.561.204	328.368.023	428.954.339	378.538.652
1. Sales revenues	112	340.024.539	322.658.493	416.545.792	370.422.878
2. Other operating revenues	113	12.536.665	5.709.530	12.408.547	8.115.774
II. OPERATING COSTS (115+116+120+124+125+126+129+130)	114	439.491.086	294.801.142	470.716.677	314.766.159
1. Change in inventories of work in progress	115				
2. Material expenses (117 to 119)	116	162.047.807	124.552.435	159.900.604	122.411.408
a) Costs of raw materials	117	80.115.307	67.622.514	90.469.259	73.268.144
b) Cost of goods sold	118	387.545	381.569	565.038	522.163
c) Other material expenses	119	81.544.955	56.548.352	68.866.307	48.621.101
3. Employee benefits expenses (121 to 123)	120	121.679.941	87.946.316	141.185.679	98.289.066
a) Net salaries	121	72.853.985	53.133.370	86.014.541	60.318.723
b) Tax and contributions from salary expenses	122	31.367.196	22.302.496	35.034.227	23.919.867
c) Contributions on salary	123	17.458.760	12.510.450	20.136.911	14.050.476
4. Depreciation and amortisation	124	107.139.171	53.654.687	118.284.009	61.947.268
5. Other expenses	125	46.286.221	28.210.471	49.699.510	31.290.485
6. Write down of assets (127+128)	126	235.807	108.959	41.750	38.525
a) non-current assets (except financial assets)	127				
b) current assets (except financial assets)	128	235.807	108.959	41.750	38.525
7. Provisions	129				
8. Other operating costs	130	2.102.139	328.274	1.605.125	789.407
III. FINANCIAL INCOME (132 to 136)	131	40.619.996	12.272.495	69.275.275	38.181.248
1. Interest, foreign exchange differences, dividends and similar income from related parties	132	24.037.704	0		
2. Interest, foreign exchange differences, dividends and similar income from third parties	133	12.307.654	9.823.091	26.827.021	5.242.279
3. Income from investments in associates and joint ventures	134				
4. Unrealised gains (income) from financial assets	135	3.353.517	1.849.171	5.873.651	4.962.161
5. Other financial income	136	921.121	600.233	36.574.603	27.976.808
IV. FINANCIAL EXPENSES (138 to 141)	137	39.865.518	7.753.523	25.922.361	13.073.988
1. Interest, foreign exchange differences, dividends and similar expenses from related parties	138				
2. Interest, foreign exchange differences, dividends and similar expenses from third parties	139	37.835.989	7.100.546	20.366.260	9.909.008
3. Unrealised losses (expenses) from financial assets	140	1.671.778	405.278	4.926.588	2.873.481
4. Other financial expenses	141	357.751	247.699	629.513	291.499
V. SHARE OF PROFIT FROM ASSOCIATED COMPANIES	142				
VI. SHARE OF LOSS FROM ASSOCIATED COMPANIES	143				
VII. EXTRAORDINARY - OTHER INCOME	144				
VIII. EXTRAORDINARY - OTHER EXPENSES	145				
IX. TOTAL INCOME (111+131+142+144)	146	393.181.200	340.640.518	498.229.614	416.719.900
X. TOTAL EXPENSES (114+137+143+145)	147	479.356.604	302.554.665	496.639.038	327.840.147
XI. PROFIT OR LOSS BEFORE TAXES (146-147)	148	-86.175.404	38.085.853	1.590.576	88.879.753
1. Profit before taxes (146-147)	149	0	38.085.853	1.590.576	88.879.753
2. Loss before taxes (147-146)	150	86.175.404	0	0	0
XII. TAXATION	151				
XIII. PROFIT OR LOSS FOR THE PERIOD (148-151)	152	-86.175.404	38.085.853	1.590.576	88.879.753
1. Profit for the period (149-151)	153	0	38.085.853	1.590.576	88.879.753
2. Loss for the period (151-148)	154	86.175.404	0	0	0

Income statement (period 1.1.2016 to 30.6.2016) (continued)
Company: Valamar Riviera d.d.

Position	AOP	Previous period		Current period	
		Cummulative	Quarter	Cummulative	Quarter
1	2	3	4	5	6

ADDITION TO PROFIT AND LOSS ACCOUNT (only for consolidated financial statements)

XIV. PROFIT OR LOSS FOR THE PERIOD

1. Attributable to majority owners	155	-86.175.404	38.085.853	1.590.576	88.879.753
2. Attributable to minority interest	156				

STATEMENT OF OTHER COMPREHENSIVE INCOME (only for IFRS adopters)

I. PROFIT OR LOSS FOR THE PERIOD (=152)	157	-86.175.404	38.085.853	1.590.576	88.879.753
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXES (159 to 165)	158	2.048.322	2.048.322	-33.999.145	-24.982.265
1. Exchange differences from international settlement	159				
2. Changes in revaluation reserves of long-term tangible and intangible assets	160				
3. Profit or loss from re-evaluation of financial assets held for sale	161	2.048.322	2.048.322	-33.999.145	-24.982.265
4. Profit or loss from cash flow hedging	162				
5. Profit or loss from hedging of foreign investments	163				
6. Share of other comprehensive income/loss from associated companies	164				
7. Actuarial gains/losses from defined benefit plans	165				
III. TAXATION OF OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166	409.664	409.664	-2.687.971	-884.594
IV. NET OTHER COMPREHENSIVE INCOME FOR THE PERIOD (158-166)	167	1.638.658	1.638.658	-31.311.174	-24.097.671
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168	-84.536.746	39.724.511	-29.720.598	64.782.082

ADDITION TO STATEMENT OF OTHER COMPREHENSIVE INCOME (only for consolidated financial statements)

VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD

1. Attributable to majority owners	169
2. Attributable to minority interest	170

Cash flow statement - indirect method (period 1.1.2016 to 30.6.2016)
Company: Valamar Riviera d.d.

Position 1	AOP 2	Previous period 3	Current period 4
CASH FLOWS FROM OPERATING ACTIVITIES			
1. Profit before tax	001	-86.175.404	1.590.576
2. Depreciation and amortisation	002	107.139.171	118.284.009
3. Increase of current liabilities	003	189.597.342	231.414.966
4. Decrease of current receivables	004		
5. Decrease of inventories	005		
6. Other cash flow increases	006	52.997	
I. Total increase of cash flow from operating activities (001 to 006)	007	210.614.106	351.289.551
1. Decrease of current liabilities	008		
2. Increase of current receivables	009	27.609.556	115.458.931
3. Increase of inventories	010	2.638.110	5.641.868
4. Other cash flow decreases	011	58.217.939	52.062.667
II. Total decrease of cash flow from operating activities (008 to 011)	012	88.465.605	173.163.466
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (007-012)	013	122.148.501	178.126.085
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (012-007)	014	0	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Proceeds from sale of non-current assets	015		
2. Proceeds from sale of non-current financial assets	016		39.024.277
3. Interest received	017		
4. Dividend received	018		
5. Other proceeds from investing activities	019		2.549
III. Total cash inflows from investing activities (015 to 019)	020	0	39.026.826
1. Purchase of non-current assets	021	221.994.698	169.461.124
2. Purchase of non-current financial assets	022		
3. Other cash outflows from investing activities	023	175.702.232	530.826
IV. Total cash outflows from investing activities (021 to 023)	024	397.696.930	169.991.950
B1) NET INCREASE OF CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	0	0
B2) NET DECREASE OF CASH FLOW FROM INVESTING ACTIVITIES (024-020)	026	397.696.930	130.965.124
CASH FLOW FROM FINANCING ACTIVITIES			
1. Proceeds from issue of equity securities and debt securities	027		
2. Proceeds from loans and borrowings	028	263.384.553	153.895.331
3. Other proceeds from financing activities	029	1.638.658	
V. Total cash inflows from financing activities (027 to 029)	030	265.023.211	153.895.331
1. Repayment of loans and bonds	031		110.035.621
2. Dividends paid	032		37.330.521
3. Repayment of finance lease	033		
4. Purchase of treasury shares	034	4.462.755	35.692.643
5. Other cash outflows from financing activities	035	9.251.135	
VI. Total cash outflows from financing activities (031 to 035)	036	13.713.890	183.058.785
C1) NET INCREASE OF CASH FLOW FROM FINANCING ACTIVITIES (030-036)	037	251.309.321	0
C2) NET DECREASE OF CASH FLOW FROM FINANCING ACTIVITIES (036-030)	038	0	29.163.454
Total increases of cash flows (013-014+025-026+037-038)	039	0	17.997.507
Total decreases of cash flows (014-013+026-025+038-037)	040	24.239.108	0
Cash and cash equivalents at the beginning of period	041	166.188.610	301.797.080
Increase of cash and cash equivalents	042		17.997.507
Decrease of cash and cash equivalents	043	24.239.108	0
Cash and cash equivalents at the end of period	044	141.949.502	319.794.587

Statement of changes in equity (period 1.1.2016 to 30.6.2016)
Company: Valamar Riviera d.d.

Position 1	AOP 2	Previous year 3	Current year 4
1. Subscribed share capital	001	1.672.021.210	1.672.021.210
2. Capital reserves	002	109.139	3.573.938
3. Reserves from profit	003	67.203.861	89.884.244
4. Retained earnings or loss carried forward	004	211.961.240	226.506.669
5. Net profit or loss for the period	005	105.854.201	1.590.576
6. Revaluation of tangible assets	006		
7. Revaluation of intangible assets	007		
8. Revaluation of available for sale assets	008	31.431.842	120.668
9. Other revaluation	009		
10. Total equity and reserves (AOP 001 to 009)	010	2.088.581.493	1.993.697.305
11. Foreign exchange differences from foreign investments	011		
12. Current and deferred taxes	012		
13. Cash flow hedge	013		
14. Change of accounting policies	014		
15. Correction of significant mistakes of prior period	015		
16. Other changes	016		
17. Total increase or decrease of equity (AOP 011 to 016)	017	0	0
17 a. Attributable to majority owners	018		
17 b. Attributable to minority interest	019		

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