Laguna Poreč
HOTELS RESORTS & CAMPING

Plava laguna d.d.

FOR THE YEAR 2011

ANNUAL REPORT

Poreč, June 2012

Plava laguna d.d.

FOR THE YEAR 2011

ANNUAL REPORT

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THE SUPERVISORY BOARD REPORT ON SUPERVISION OVER THE MANAGEMENT OF THE COMPANY'S OPERATIONS, ON THE RESULTS FOLLOWING THE REVIEW OF THE FINANCIAL REPORTS, THE REPORT ON THE SITUATION IN THE COMPANY AND THE PROPOSED DECISION ON THE USE OF PLAVA LAGUNA d.d.'S PROFIT FOR 2011

In the course of business year 2011, the Supervisory Board of the Company held 13 meetings, one of which was constituting meeting given that the General Assembly held on 26 August 2011 increased the number of members to the Supervisory Board from 5 to 7, and a new president of the Supervisory Board was elected, while the auditing committee established by the Supervisory Board met on the weekly basis.

On the basis of Article 300b paragraphs 1 and 2 of the Companies Act, the Management of the joint stock company Plava laguna submitted to the Supervisory Board annual financial reports, the report on the situation in the Company as well as the proposed decision on the use of profit, for the review of the latter.

Pursuant to its authorities under Article 300c paragraph 2 of the Companies Act, and in the presence of the management and the representatives of the auditing company PricewaterhouseCoopers d.o.o. of Zagreb, the Supervisory Board reviewed the submitted financial reports for 2011, the report on the situation in the Company as well as the proposed decision on the use of profit, and on the results thereof submits to the Company's General Assembly this report to conduct a further procedure.

The reviews carried out undoubtedly show that in 2011 the Company's Management, according to its statutory obligations, informed the Supervisory Board in writing and orally of the operational policy and of the other principal issue related to future management of the business operations, of the profitability of operations and profitability of the use of private equity, of the course of business operations, revenues and expenses and the situation in the Company, and in particular of the operations affecting the profitability and liquidity, as well as of other matters that the Supervisory Board considered important.

The results of our review as well as the opinion of the authorised auditor on the reality and objectivity of data shown in the financial reports for 2011, demonstrate that the Company acts in accordance with the law and regulations in force, the Company's general legal instruments and the decisions by the General Assembly.

Financial reports for 2011, which the management is accountable for, are drafted in accordance with the provisions of the Accountancy Act and other pertinent laws and regulations, and they realistically reflect the situation in the company books and correctly reveal the assets and operational state of the Company.

We support the management's proposal on the use of profit. We are of the opinion that the proposal is aligned with the Company's business policy and adopted development guidelines and plans.

Likewise, we fully support the auditing report which confirms that the Company's financial reports for 2011 in all aspects realistically and objectively show the financial situation in the Company.

The Supervisory Board expresses its absolute approval of the submitted financial reports for 2011 and the report on the situation in the Company, as well as their affirming, and leaves their rendering to the Company' General Assembly.

PRESIDENT

Davor Luksic Lederer, m.p.

BOARD OF MANAGERS' REPORT TO THE COMPANY'S SHAREHOLDERS

Dear Shareholders,

We are pleased to be able to report to you at the end of yet another year of the successful business results of Plava laguna in 2011. They come as a product of the Company's long-standing consistent business and development policy, based on balanced development and stable foundations, demonstrating that Plava laguna is constantly present among the market leaders in Croatia in the tourist industry. Not questioning the importance of the latter, the realised business achievement was strongly favoured by the conjuncture of global political and economic changes in the competitive destinations affecting the domicile tourist industry in general.

It is hence important to mention the characteristics of the tourism changes in the country as well as wider and global surrounding, with the aim of better comprehension of physical and financial indicators of the Company's operations.

According to the data by the World Tourism Organisation, the tourism, which begun to recover after extremely unfavourable 2009, in 2010 had a growth in terms of international tourist arrivals by 6,7%, and in 2011 continued to grow somewhat slower, and had 4,4 % growth in arrivals, this being the year in which huge political changes and conflicts took place in Northern Africa and Middle East, as well as natural catastrophes in Japan. Even though some of the regions directly affected by political unrests and natural disasters demonstrated decrease, 2011 in Europe, despite economic difficulties in Euro-zone, brought about a 5,8% growth in tourist arrivals when compared to 2010. Namely, at the beginning of 2011 majority of European countries begun to experience economic recovery and more or less leave the recession, and the tourist turnover commence to grow again, instigated by consumer optimism and announcements of further economic stabilisation. Regardless of the fact that Europe is still the strongest tourism region, its share in total travels is reducing, but not all European regions suffer from equal level of reduction in receptive turnover. Whereas the countries of the Western Europe endure losses, the best indicators are to be found in the countries in Central and Eastern Europe.

Precisely for this reason, 2011 presented a new challenge for the Croatian tourism and all its actors. Aware of the economic situation in the world and the fact that the year would face slower growth at the European tourist market, Croatia was ready when entering the year of 2011, and the yielded results in tourist turnover affirm that Croatia positioned itself as a strong tourist destination. Namely, Croatia is the closest and climate-wise the most convenient tourist destination to a number of European emitive markets, and the positive end result of the tourist season was additionally contributed by several beneficial circumstances such as advantageous allocation of holidays, late Easter and Pentecost in June**,** as well as weakening of recession in the most significant emitive markets, what in turn triggered the need and desire to travel.

Viewed from the aspect of quantitative indicators, 2011 in Croatia counts for 11,5 million realised tourist arrivals what is 8% more than the year before. At the same time, the realised overnight stays, being the next physical indicator of turnover, reveal a similar trend, with absolute figure of 60,4 million overnight stays and 7% increase. However, in addition to the physical aspect, the role of tourism in each national economy is as important as it manages to connect and strengthen different branches and sectors through its own activity, and is thus rightfully called the generator of economic growth and development. This is certainly to be contributed to its financial aspects, expressed in current account within the balance of payment, where the revenues from travel in 2011 amount to 6,6 billion HRK, i.e. grow by 6%. At the same time, Croatia entered 2011 with decrease in the GNP given that the first trimester was 0,8% negative, followed by two trimesters of growth, 0,8% and 0,7% respectively, which finally resulted in the minimal growth of 0,2% at the end of the year, or just above the 2010 when the GNP dropped down by 1,2%.

Basic characteristic of the Company's business operations in described entrepreneurial conditions represents exceptional accomplishment, in relation to both the physical and the financial performances, and regarding the balance-sheet structures.

Considering the physical turnover of the overall operations, in 2011 Plava laguna realised 2.328.512 overnight stays or 6,4% increase, i.e. nominally, 140 thousand overnight stays more in relation to 2010.

Insight into the capacity structure reveals that the increase in the hotels and apartments is 4,8%, while the increase in the physical turnover in camps reaches significant 8,2%, mostly owing to exceptionally favourable weather conditions in August and September. Absolutely positive effect over all types of accommodation was contributed by the later Catholic holidays what constitutes the basis for the expected growth in June, undoubtedly and significantly affecting the overall achievement intensity in the business year.

All traditional emitive markets relevant to the Company maintained stability in the overall structure of realised overnight stays, with significant share of German market which not only assures stability to total operations, but also offers the perspective of future growth, in accordance with the macroeconomic indicators of the country as a whole.

In addition to the mentioned parameters of physical turnover in the Company, the average net price, being the next revenue variable, increased in hotels and apartments by 1,2%, and 1,1% in camps. This is the expected effect of increase in the sale prices, and incentives inbuilt in the Company's sales policy for the 2011 season. Given the currency structure of sale, an additional impulse to the revenue growth is generated by the average higher currency rate for EUR/HRK in the course of the monitored year.

Due to described changes, in 2011 the Company realised 441,1 million HRK of operational revenues what equals to 7,5% or nominally 30,7 million HRK increase.

Simultaneously, the operational expenses grew by 5,2%, or nominally 18,3 million HRK when compared to the previous year and reached the level of 371,7 million HRK. In the structure of material expenses the growth is mainly generated by variable components of expenses due to increase in the physical turnover, while the increase in the category of other expenses was determined by the expenses payable for the concession over the tourist land in the amount of 6,0 million HRK.

In 2011, the Company commenced a major capital project on reconstruction of the hotel Parentium in order to upgrade it to four-star category.

Consequently, and on the basis of the requests by the IAS 36, the estimation of the value of the building and the infrastructure subsequent to partial demolition that may be compensated was carried out, resulting in reduction of value of real estate by 7,8 million HRK, recorded as value adjustment in the long-term assets.

The effect of the Company's financial positions in the current year is 11,2 million HRK representing 1,7 million HRK increase when compared to the year before. This increase is caused by interest revenue growth, as well as currency differences because of higher amounts of the fixed-term deposits in the course of the business year of 2011, generated to a large extent by Company's enhanced operational activity. The EBITDA which the Company generated during the analysed year, in the amount of 174,8 million HRK (calculating before the effects of the reduction in material assets), stands in confirmation of such efficiency.

In the context of the abovementioned changes, in 2011 the Company realised net profit after taxing in the amount of 63,6 million HRK what represents 18,1% or nominally 9,8 million HRK increase in comparison with 2010.

Total assets of the Company on 31 December 2011 amounted to 1,394 billion HRK and had increased by 14,1 million HRK in comparison with the situation recorded on 31 December 2010. Viewed from the aspects of different forms it took, essential changes relate to reduction in the material assets due to depreciation exceeding the value of the capital investments made in the course of 2011, while the increase is recorded at the positions of cash and fixed-term deposits. Capital and reserves amount to 1.340 billion HRK and have full coverage in the Company's long-term assets due to the fact that financial debt is absent from the total resources.

In the development segment of operations in 2011, it is important to point out the previously mentioned capital investment in the fundamental reconstruction of the hotel Parentium, commenced at the very end of 2011, with the aim of its upgrading from the level of 3 to the level of 4 stars along with the extending the offer to include congress tourism and pleasurable gastronomic experience, which in conjunction with the SPA experiences will additionally enrich the Company's tourist product. Opening of the hotel is planned for the beginning of August 2012, and the refurbished hotel will bear the name Laguna Parentium.

In parallel to the reconstruction of the hotel Parentium, in the course of 2011 investments were made in regular maintenance of the existing tourist capacities and infrastructure, which rounds up the investment cycle in the analysed year to 61,5 million HRK.

At the same time, with the aim of further strengthening the market position, efforts were made to support and enhance recognisability of the destination which we belong, and which guest select when making choices about their vacations. Thus, in 2011 the Company made all the necessary preparations to introduce new corporative image and refreshed brand architecture, the presentation of which was carried out in autumn that year. For this purpose common brand was introduced – Laguna Poreč, which consolidates all the components of the company product, and will be directed towards the guests and used in all promotional materials and advertising. Accordingly, a new corporative logo was designed, which through its colours emphasises factors which the guests expect during their vacation – beautiful nature, sun and clear sea.

On the other hand, the company name Plava Laguna d.d. remains as it is and shall be used in the future in all corporative and official communications.

Looking into the future, we are aware that in the forthcoming period we will be facing many challenges; the conditions of business operations at the financial markets as well as in the wider region are still under considerable pressure.

Appreciating what was said before, the Company will create and develop appropriate business policies in the next year as well with the aim of assuring further stable growth and development.

On this path, the invaluable importance belong to the overall contribution and work of our zealous workers and we are using this opportunity to thank them for their exceptional efforts and I believe that the achieved level of trust and dialogue will continue to be a key factor in further business accomplishments of the Company.

Finally, I would like to express my gratitude to all our clients and business partners for their reliance and loyalty, as well as to all Shareholders and members of the Company's Supervisory Board for valuable cooperation and support.

President of the Company

Neven Staver

Neven S.

REVIEW OF THE MOST SIGNIFICANT INDICATORS

	2011	2010
Realized overnight stays	2.328.512	2.188.986
Total Revenue (in 000 HRK)	452.512	419.997
Earnings before taxes (in 000 HRK)	80.599	66.508
Net income (in 000 HRK)	63.586	53.822
EBITDA (profit from operating activity, depreciation and value adj. of l.- term mat. assets) in 000 HRK	174.841	155.898
The Equity capital (in 000 HRK)	1.339.924	1.336.323
Total Assets (in 000 HRK)	1.394.184	1.380.113
Liquidity Ratio (short-term assets / short-term liabilities)	3,5	2,9
Financial stability ratio in % (l.-term assets / capital and l.-term liabil.)	90,2	93,8
Profitability in % (Net income / equity)	4,7	4,0
EBITDA margin in % (EBITDA / operating revenues)	39,6	38,0
Debt to equity ratio in % (total liabilities / equity)	4,0	3,3

INTRUDUCTION OF THE COMPANY

Historical development of the Company

Plava laguna Joint Stock Company was founded in 1957, as a company for catering and tourism, and is considered a pioneer of the tourism in Croatia.

During more than half a century, Plava laguna experienced a number of development stages and organisational changes.

Plava laguna’s birth is closely connected to the camp established by the French nature lovers club “Polynesia” at the peninsula Molindrio as “Plava laguna - Camp Hotel”, having the capacities to accommodate 800 persons.

This was the stage in which the Company set its goals and development direction, determined the intensity and the dynamics of investments, analysed the market and created the tourist offer, and what is very important, it prepared the employees, through training and practice, to become the driving force of the Plava laguna development.

At the very beginning, due to lack of financial resources, the construction projects were modest and the first investment was building the bungalows at the location where today the Hotel Laguna Galijot is, then followed by building the tourist complex Bellevue. A great importance was attributed to the development of sports and sport-related offer, therefore, the construction of the first sports centres and tennis courts was initiated.

Shortly after, from 1966 until 1971, the period of intensive investments commenced when the major part of the built facilities of Plava laguna as we HRKow it today were built. In that period also the foundations for the auto-camp Zelena Laguna were laid.

In the subsequent period that lasted from 1971 until 1976, the complete organisational changes, and integration processes took place in Plava laguna.

At the outset the horizontal integration with the smaller hotel-catering organisations within the Poreč area, as well as with the hotel-tourist company of Novigrad was carried out and, afterwards, also the integration with the entire agricultural and fisheries sector, and trade sector in Poreč.

This way the reproduction chain from the production of goods to the consumer–guest within the same company, was closed. In that period, Plava laguna operated as a specific socialist market economy structure – the Community of the basic organisations of collective labour (Zajednica osnovnih organizacija udruženog rada).

In terms of investments, that was the period of expanding the present offer and additional building of the existing objects as well as the construction of the camp Ulika.

The significant development step in the same period was the business expansion beyond the municipal and regional boundaries, which was accomplished by the construction of the Hotel “Laguna” in Zagreb.

At the beginning of the year 1976 with the enforcement of the Law on Associated Organizations (Zakon o udruženom radu), an organisational transformation of the Company into a Complex Organisation of Associated labour (Složena organizacija udruženog rada – SOUR) was carried out, and by determining the economic subjects on the basis of the type of their operations, four labour organisations were established:

- “Lagunaturist” – work unit for Catering and Tourism
- “Laguna Union” – work unit for Trade of goods
- “Agrolaguna” – work unit for Agricultural production and Food processing
- “Školjka” – work unit for Fishing and Fish processing

The characteristic feature of this period is the commencement of the construction of the marina Červar Porat and the marina Parentium, construction of auto-camp Bijela Uvala, and other facilities not offering board services.

In the year 1987, when the further integrative processes took place, the larger economic systems in Poreč were joined under the new SOUR “Plava laguna”, and for the next three years performed the same business operations as the former SOUR.

With the beginning of the year 1990, the SOUR was disjoined on the basis of the Law on Enterprises (Zakon o poduzećima), and new independent enterprises were created, one of which was “Laguna Poreč”, company for catering and tourism.

New development have happened at the beginning of the year 1991, instigated by entering into force the Law of transformation of the Socially Owned Enterprises (Zakon o pretvorbi društvenih poduzeća), which was a part of the overall process of privatisation in the Republic of Croatia, that reflected to “Laguna Poreč” as well.

Thus, on September 3, 1992, on the basis of the Certificate granted by the Agency for Reconstruction and Development and the Decision of the Founding Assembly, “Laguna Poreč” was transformed into the Joint Stock Company, and on January 26, 1993 officially registered at the Commercial Court in Rijeka.

A dynamic surrounding and the need to adjust to it, have led “Laguna Poreč“ to form, on March 29, 1993, a Subsidiary Company “Laguna Invest”, Limited Liability Company for Technical and Business Services, the basic operation of which was performing activities related to the privatisation of the Company.

The legal constituting of Plava laguna is finally brought to an end in February 1996, by virtue of harmonising the Company’s basic documents with the Commercial Companies Act, i.e. when it was registered in the Court Register of the Commercial Court in Rijeka as Plava laguna, Joint Stock Company for Catering and Tourism whereby the Company also reclaimed the right to its historical name.

The subsequent period is characterized by positive trends in business results, both from the aspect of physical volume and from the aspect of the realized values, as well as by the intensive investment activities directed primarily towards upgrading the level of quality of its accommodation capacities.

Plava laguna, as a Joint Stock Company, has had a quite diversificated ownership structure until 2000, when the Lukšić Group begun the process of overtaking the Company, which when ended, in 2001, resulted in Company having a majority owner who owned 80,34% shares in ordinary stocks.

During 2001, acquisitions of several companies were performed, either by increasing the share in a certain company or by acquiring the share in a certain company for the first time. Thus, Plava laguna Joint Stock Company acquired 89,40% shares of the company Hoteli Croatia Joint Stock Company Cavtat, and 90,48% shares of the Adriatic Joint Stock Company Poreč. Given the size of shareholding in share capital, Adriatic Joint Stock Company was merged with Plava laguna Joint Stock Company on October 1, 2002, which as a result has expanded the segments of its offer also to the nautical tourism.

During the year 2003 by the increase of capital stock in Hoteli Croatia Joint Stock Company the ownership share of Plava laguna Joint Stock Company was raised to 92,28%.

Significant investment activity marked the period from 2003 onwards, and was primarily directed to restructuring part of the portfolio of accommodation capacities as the four-star category objects, which following those activities in 2010 make the important 30,1% share in the total built capacities of the Company, and 72,6% share in the total camps capacities.

Plava laguna is a company behind which there is a period of half of the century, marked with the successful work and development and based on the ecological principles and sustainable development, in the course of which it constantly took the role of the leader in Croatian tourism industry, and by permanent improvement of its total offer and adjustment to the needs of all the more demanding tourist market, achieves enviable physical and above all financial results.

In order not only to maintain, but also to strengthen its position at the very competitive market, in 2011 the brand architecture of Plava laguna was reorganised to build the focused, modern and clear visual identity of the Company. On the basis of the careful market analysis “Laguna Poreč“ was selected as the name of the top-level brand, which supports the renown name of the destination – Poreč, as a significant competitive advantage, and the word Laguna – directly connects all the lower-level brands.
In accordance with these, a new corporate logo was selected, which highlights the beautiful colours of the nature, sun and clear water, but also suggests the quality, modernity and the uniqueness, as well as the attractiveness of the Company’s offer.

Company's business operations

Basic Company's business operations are:

- catering
- tourism

Besides basic ones, the company is registered for performing the following business activities:

- retail trade in non-specialized shops
- wholesale and trade agency
- engineering, project management and technical activities
- international forwarding agency
- international transport of goods and passengers
- construction works
- installation works and other






Ownership structure and organizational chart

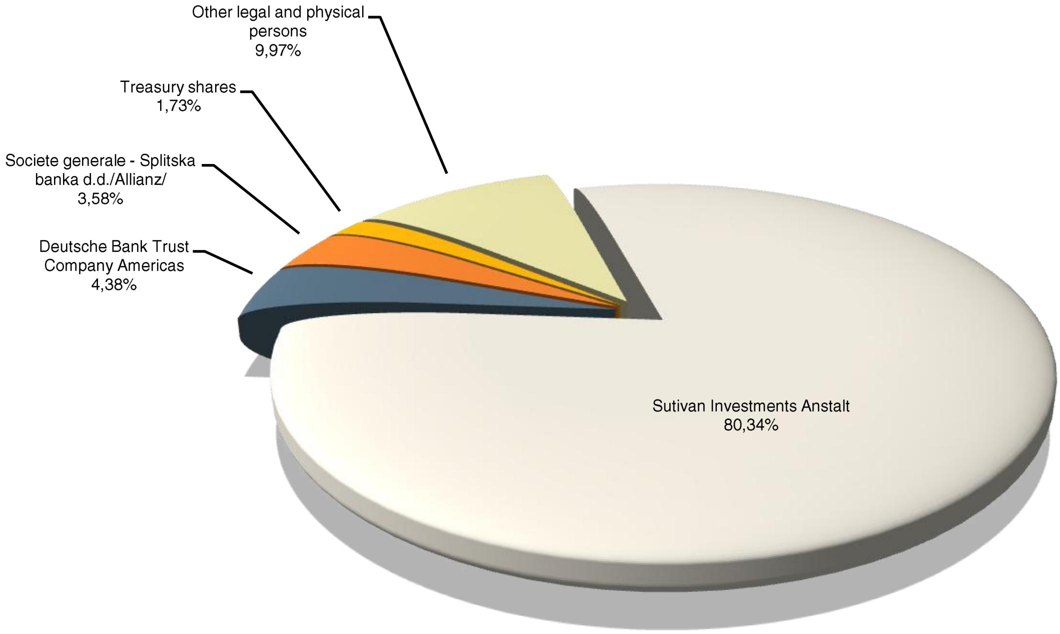
Follows the company's ownership structure as of 31.12.2011.

Ordinary shares owned

Owner	NUMBER OF SHARES	%
Sutivan Investments Anstalt	438.899	80,34
Deutsche Bank Trust Company Americas	23.939	4,38
Societe generale - Splitska banka d.d./Allianz/	19.540	3,58
Treasury shares	9.470	1,73
Other legal and physical persons	54.470	9,97
TOTAL	**546.318**	**100,00**

In the course of 2011, the Company did not acquire additional number of treasury stocks.

The ownership structure of the Company as of 31.12.2011

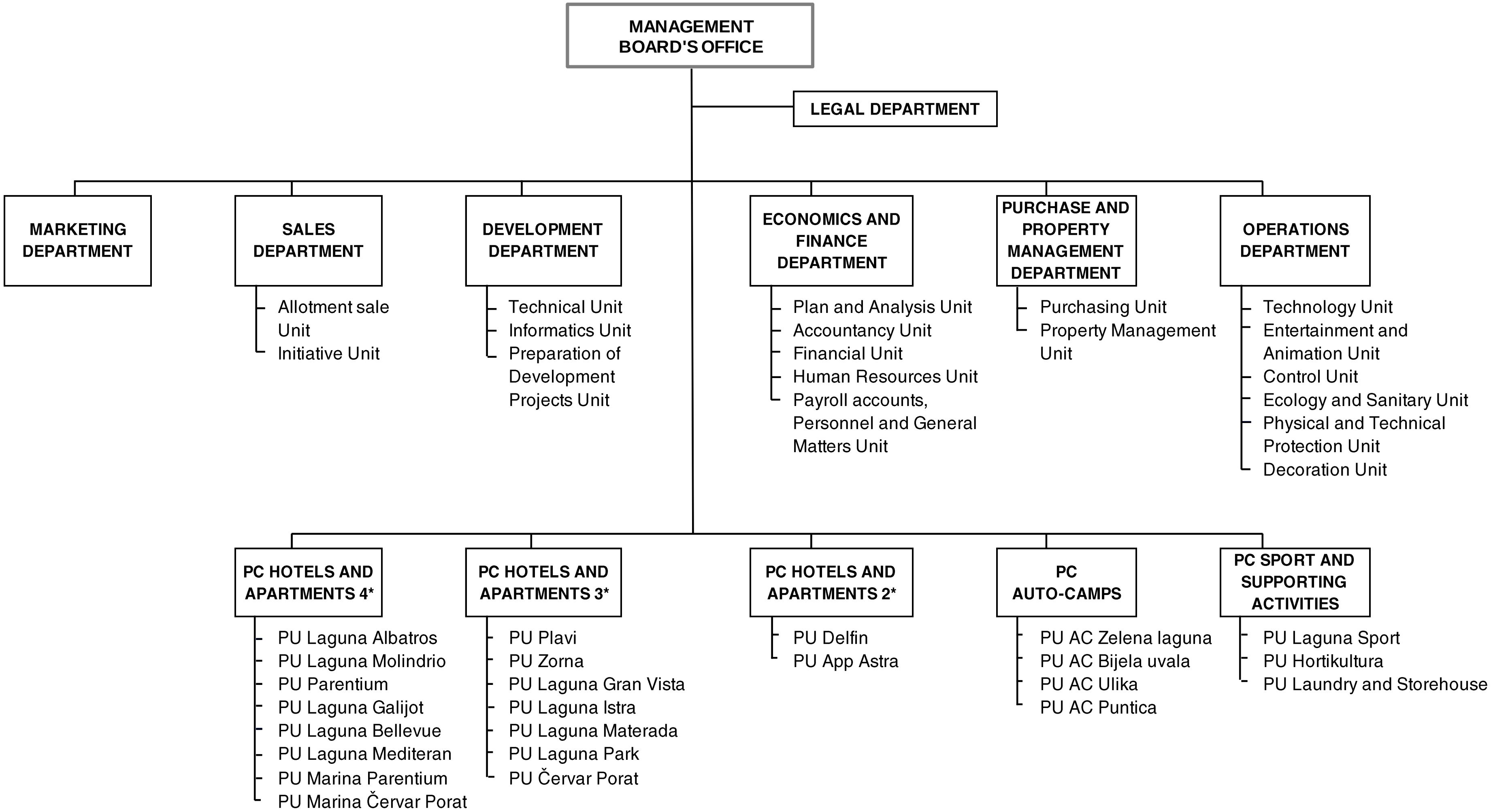


Preferred shares owned

Owner	NUMBER OF SHARES	%
Sutivan Investments Anstalt	105.000	100,0
TOTAL	**105.000**	**100,0**

The organization chart
of the Joint Stock Company

PLAVA LAGUNA j.s.c.



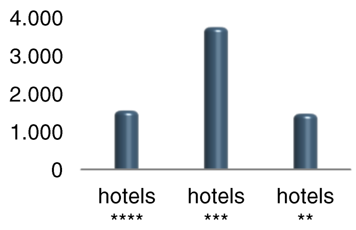
COMPANY'S BUSINESS ACTIVITY IN 2011

Tourist turnover

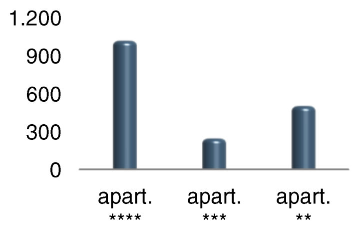
Review of Accommodation Capacities and Realized Overnight stays

	CAPACITY		OVERNIGHT STAYS		INDEX	DAYS OF OCCUPANCY	
D E S C R I P T I O N	2011	2010	2011	2010	'11 / '10	2011	2010
LAGUNA ALBATROS	608	608	89.085	81.375	109	147	134
LAGUNA MOLINDRIO	482	482	91.601	83.596	110	190	173
VILA LAGUNA GALIJOT	174	174	30.069	30.241	99	173	174
VILLAGE LAGUNA GALIJOT	94	94	15.447	13.250	117	164	141
HOTEL LAGUNA PARK	202	202	43.752	36.850	119	217	182
HOTELS 4*	**1.560**	**1.560**	**269.954**	**245.312**	**110**	**173**	**157**
PARENTIUM	666	666	116.585	127.782	91	175	192
LAGUNA MEDITERAN	645	645	106.091	102.026	104	165	158
PLAVI	392	392	63.739	61.096	104	163	156
ZORNA	412	412	52.906	46.256	114	128	112
LAGUNA GRAN VISTA	336	336	38.352	39.818	96	114	119
LAGUNA ISTRA	376	376	48.709	42.741	114	130	114
LAGUNA MATERADA	774	774	112.272	92.107	122	145	119
VILLAGE LAGUNA PARK	152	152	19.758	18.943	104	130	125
HOTELS 3*	**3.753**	**3.753**	**558.412**	**530.769**	**105**	**149**	**141**
DELFIN	1.478	1.478	183.796	182.487	101	124	124
HOTELS 2*	**1.478**	**1.478**	**183.796**	**182.487**	**101**	**124**	**124**
TOTAL: HOTELS	**6.791**	**6.791**	**1.012.162**	**958.568**	**106**	**149**	**141**
APP LAGUNA GALIJOT	332	332	36.820	37.732	98	111	114
VILLE LAGUNA BELLEVUE	76	76	8.789	9.041	97	116	119
APP LAGUNA BELLEVUE	365	365	44.042	42.709	103	121	117
STUDIO APP LAGUNA BELLEVUE	246	246	37.306	37.047	101	152	151
APARTMENS 4*	**1.019**	**1.019**	**126.957**	**126.529**	**100**	**125**	**124**
VILLE LAGUNA PARK	80	80	8.646	7.980	108	108	100
APP LAGUNA PARK	168	168	20.475	19.124	107	122	114
APARTMENS 3*	**248**	**248**	**29.121**	**27.104**	**107**	**117**	**109**
APP ASTRA	504	504	45.586	46.195	99	90	92
APARTMENS 2*	**504**	**504**	**45.586**	**46.195**	**99**	**90**	**92**
TOTAL: APARTMENS	**1.771**	**1.771**	**201.664**	**199.828**	**101**	**114**	**113**
TOTAL: BUILT OBJECTS	**8.562**	**8.562**	**1.213.826**	**1.158.396**	**105**	**142**	**135**
AC BIJELA UVALA	6.000	6.000	518.502	469.202	111	86	78
AC ULIKA	3.000	3.000	285.014	265.485	107	95	89
CAMPS 4*	**9.000**	**9.000**	**803.516**	**734.687**	**109**	**89**	**82**
AC ZELENA LAGUNA	2.700	2.700	246.174	234.057	105	91	87
CAMPS 3*	**2.700**	**2.700**	**246.174**	**234.057**	**105**	**91**	**87**
AC PUNTICA	700	700	64.996	61.846	105	93	88
CAMPS 1*	**700**	**700**	**64.996**	**61.846**	**105**	**93**	**88**
TOTAL: CAMPS	**12.400**	**12.400**	**1.114.686**	**1.030.590**	**108**	**90**	**83**
T O T A L	**20.962**	**20.962**	**2.328.512**	**2.188.986**	**106**	**111**	**104**

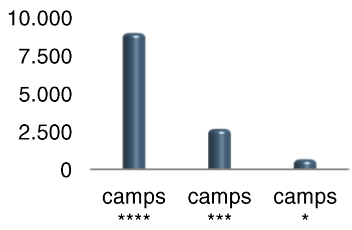
The structure capacity in hotels 2011



The structure capacity in apartments 2011



The structure capacity in camps 2011



Overnight stays per types of accommodation

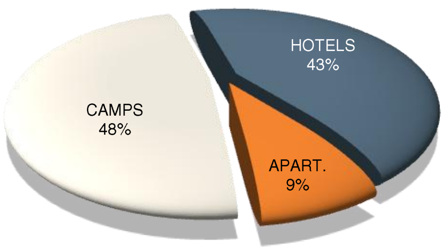
In 2011, Plava laguna had a total of 20.962 beds, in which 2.328.512 overnight stays were realised, being 6,4 % or 140 thousand more than the year before.

Analysing the structure of the capacities it is evident that the majority of overnight stays, i.e. 52,1%, was realised in the segment of hotels and apartments, with 4,8% increase in comparison to the year before. In the camps, where the increase in the physical turnover is even larger and amounts to no less than 8,2%, the exceptionally positive effects was caused by the extraordinarily favourable weather conditions in August and September.

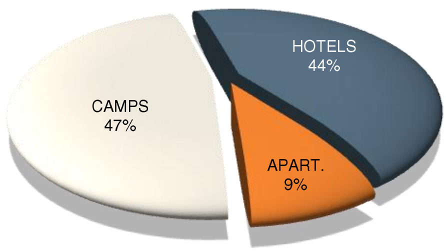
Yet, absolutely the most important effect over the described positive physical indicators in all types of accommodation capacities is owed to the later allocation of the Catholic holidays, which was the basis for the expected increase in June, which indubitably has the predominant influence over the level of accomplishment in the business year.

The largest occupancy of the capacities in 2011 was in the hotels with 149 days, 8 days more than in 2010, and the longest average number of days of stay, or 9 days, was realised in the camps.

Overnight stays per types of accommodation 2011



Overnight stays per types of accommodation 2010



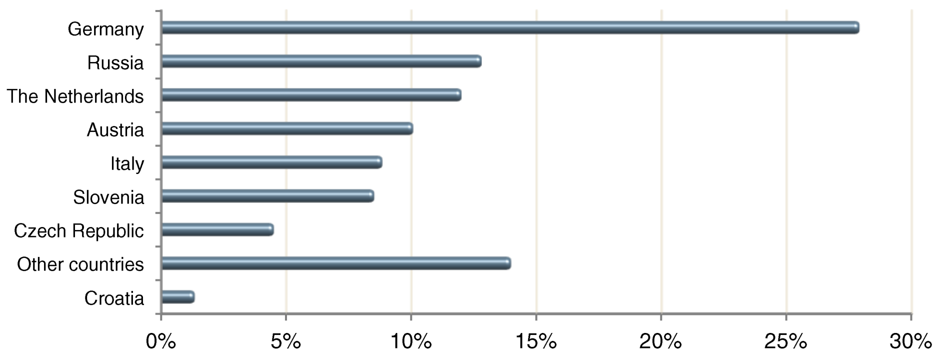
Overnight stays per emitive markets

All traditional emitive markets relevant to the Company maintained stability in the total structure of realised overnight stays, with the considerable share belonging to the German market which in its performances not only offers stability to total business operations, but also the perspective for further growth, in accordance with the macroeconomic indicators for the country as a whole.

Namely, the markets of Germany, the Netherlands, Austria and Italy realised all together 1.369.989 overnight stays in 2011, or 58,8% of all overnight stays in the Company, and in comparison to 2010 there is a 5,8% increase, primarily due to increase in the number of German guests in all segments of accommodation capacities, but more than elsewhere in camps, where the increase reached 12,8%. Taking into account the fact that their overnight stays make for no less than 35,3% in the total overnight stays in the camps, this effect had a significant influence over the Company performance as a whole.

Moreover, the Russian market, which has a representative share in the built objects of Plava laguna in the past years, grew again by 4,9% in 2011.

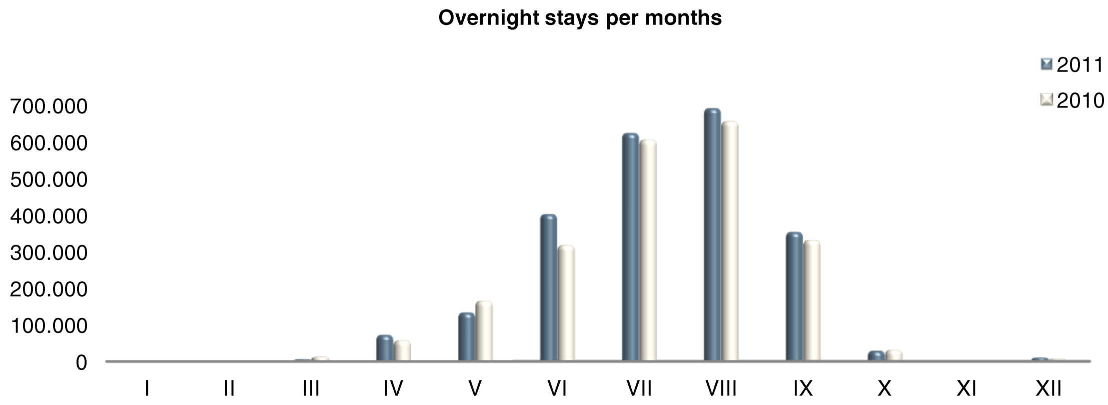
Review of overnight stays per emitive markets 2011



Overnight stays per months

Analysis of changes in the overnight stays month-by-month through the 2011, one may notice that the most significant impact over the incoming physical indicators in all capacity structures was owed to the number of positive circumstances in the form of favourable allocation of Catholic holidays, among others the late Easter in April and Pentecost in June, where along with good months of July and August, precisely the 85 thousand overnight stays increase in June, unquestionably had the prevailing impact over the level of achievement in the business year.

Additionally, in camps where the increase in the physical turnover was even more significant, the exceptionally positive effect was, besides the mentioned June situation, due to extremely good weather conditions at the end of August and in September.

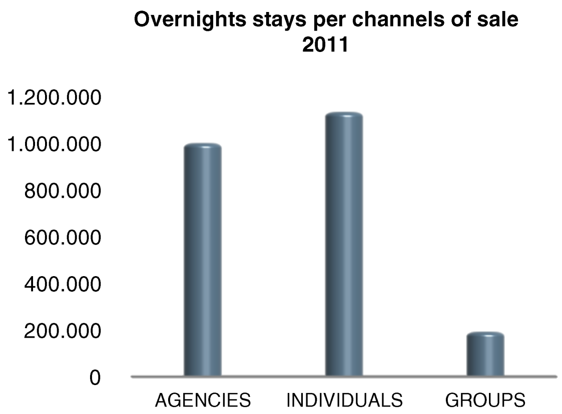


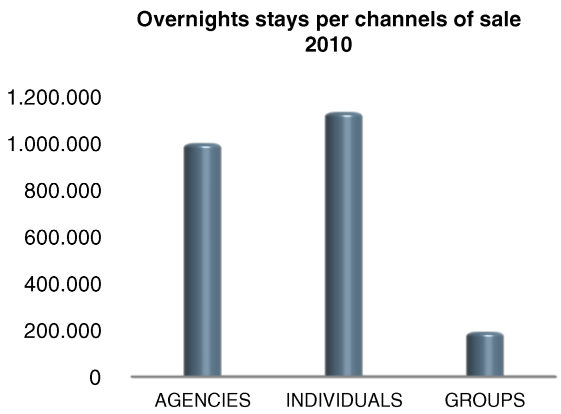
Overnight stays per channels of sale

Insight into the structure of overnight stays by the manner in which the guests arrive, organised accommodation expectedly takes the lead in the total overnights stays in the Company, especially in the structure of overnight stays in the built objects, where the increase was 5,2%, and 6,0% at the Company level.

If one would structure the organised accommodation, it is noticeable that in 2011 the number of overnight stays of agency guests at the level of the built objects as well as at the Company level is 7,8% higher, while in the segment of groups there was a 4,7%decrease in overnight stays.

At the same time, the individual channel of sale realised 3,0% increase in the overnight stays in the built objects, and 7,7% in the camps.





PROFIT AND LOSS ACCOUNT

Profit and Loss Account

In 000 HRK

	DESCRIPTION	2011	2010	INDEX '11 / '10	STRUCTURE IN % 2011	2010
I	SALES REVENUES	416.793	383.730	109	92,1	91,4
1.	Accommodation	354.890	313.105	113	78,4	74,5
2.	Food	60.491	56.985	106	13,4	13,6
3.	Bars	13.399	12.479	107	3,0	3,0
4.	Merchandise	136	130	105	-	-
5.	Sports	1.185	1.167	102	0,3	0,3
6.	Mooring	7.123	6.942	103	1,6	1,7
7.	Granted discount and commissions	-32.037	-17.630	182	-7,1	-4,2
8.	Other revenues	11.606	10.552	110	2,6	2,5
II	REVENUES FROM SALE OF COMP.GOODS, MERCH. AND SERVICES	-	676	-	-	0,2
III	OTHER REVENUES FROM OPERATIONS	21.155	22.461	94	4,7	5,3
	Revenues from the lease of business space	21.155	21.574	98	4,7	5,1
	Revenues from elimination of long-term reserves	-	1	-	-	-
	Other business revenues	-	886	-	-	0,2
IV	OTHER REVENUES	3.168	3.549	89	0,7	0,9
A)	**TOTAL OPERATING REVENUES (I to IV)**	**441.116**	**410.416**	**107**	**97,5**	**97,7**
V	CHANGES IN THE STOCK VALUE OF INTER. AND FINISHED GOODS	-	-	-	-	-
VI	MATERIAL EXPENSES	122.054	113.676	107	32,8	32,1
VII	EMPLOYEES EXPENSES	103.195	103.752	99	27,6	29,4
VIII	DEPRECIATION	97.696	98.921	99	26,3	28,0
IX	VALUE ADJUSTMENT OF LONG-TERM ASSETS	7.775	-	-	2,1	-
X	VALUE ADJUSTMENT OF SHORT-TERM ASSETS	460	567	81	0,1	0,2
XI	PROVISIONS FOR EXPENSES AND AGAINST RISK	78	-	-	-	-
XII	OTHER BUSINESS EXPENSES	40.007	35.819	112	10,8	10,1
XIII	OTHER EXPENSES	481	704	68	0,1	0,2
B)	**TOTAL OPERATING EXPENSES (V to XIII)**	**371.746**	**353.439**	**105**	**100,0**	**100,0**
	PROFIT FROM OPERATING ACTIVITY (A-B)	69.370	56.977	122	-	-
	EBITDA	174.841	155.898	112	-	-
C)	**TOTAL FINANCIAL REVENUES**	**11.396**	**9.581**	**119**	**2,5**	**2,3**
D)	**TOTAL FINANCIAL EXPENSES**	**167**	**50**	**334**	**-**	**-**
	PROFIT FROM FINANCIAL ACTIVITIES (C-D)	11.229	9.531	118	-	-
	T O T A L R E V E N U E S	**452.512**	**419.997**	**108**	**100,0**	**100,0**
	T O T A L E X P E N S E S	**371.913**	**353.489**	**105**	**100,0**	**100,0**
E)	**EARNINGS BEFORE TAXES**	**80.599**	**66.508**	**121**	**-**	**-**
F)	**CORPORATE INCOME TAX AND OTHER TAXES**	**17.013**	**12.686**	**134**	**-**	**-**
G)	**N E T I N C O M E**	**63.586**	**53.822**	**118**	**-**	**-**

Revenues

Total revenue structure

in 000 HRK

ITEM	2011	%	2010	%	INDEX
Revenues from operations	441.116	97,5	410.416	97,7	107
Financial revenues	11.396	2,5	9.581	2,3	119
TOTAL REVENUES	**452.512**	**100,0**	**419.997**	**100,0**	**108**

Value aspect of the quantitative effects of the business operations in 2011, expressed in the amount of the operating revenue demonstrates the expected growing trend in business achievement. Namely, the Company closed the business year with 63,6 million HRK net profit, what as an absolute figure belongs to the very top in the tourist sector in the surroundings.

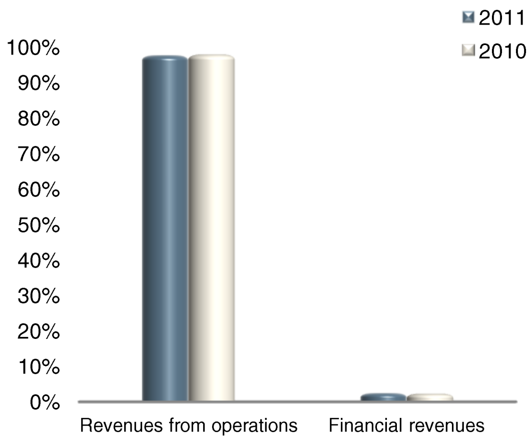
In this context, operating revenue grew by 30,7 million HRK or 7% in comparison to the previous year and primarily in the accommodation and board categories as a result of the larger volume of realised overnight stays along with the stable level of average net price.

Considering the financial activity of the Company, one has to point out that the increase in the financial revenues was generated mainly by the increase in the revenues from interests on cash deposits (1,5 million HRK) as a result of the better operational activities of the Company. Likewise, in 2011 the Company realised the revenue from the subsidiary on the basis of the paid dividend in the amount of 403 thousand HRK in accordance with the decision of the General Assembly of the subsidiary, as well as the revenue from interests and currency differences on the basis of the short-term loan in the amount of 241 thousand HRK.

Nevertheless, it is important to emphasise also the increase in the level of business achievement expressed in the 22% or 12,4 million HRK increase in profits from the operational activity, and the 12% or 18,9 million HRK increase in the EBITDA when compared to the year before.

Mentioned changes resulted in increase in total revenues of the Company by 8% or 32,5 million HRK, or in comparison with the year before from the total of 420 million HRK in 2010 to the total of 452,5 mil HRK in 2011.

The structure of Total Revenues



Expenses

Total expense structure

in 000 HRK

ITEM	2011	%	2010	%	INDEX
Operating expenses	371.746	100,0	353.439	100,0	105
Financial expenses	167	-	50	-	334
TOTAL EXPENSES	**371.913**	**100,0**	**353.489**	**100,0**	**105**

The realised business achievement of the Company was, in addition to the development orientation, contributed by the shaped business policies and instruments for managing individual major expense categories.

In the monitored business year, total expenses grew 5% or 18,4 million HRK, primarily at the position of the operating expenses. Namely, operating expenses follow the trend of operating revenues but with somewhat miler intensity, what results in positive changes in the profitability of the business operations.

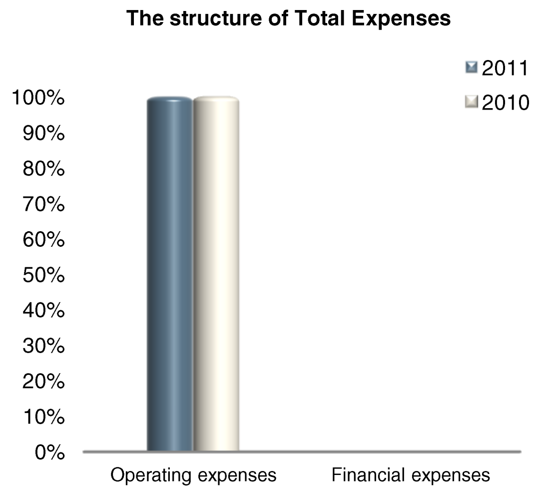
In the structure of operating expenses, the 7% or 8,4 million HRK increase in material expenses, is generated primarily by increase in the variable expense components due to increase in the volume of the physical turnover, and partially due to increase in the fuel prices in the course of 2011.

At the same time, the increase of the operating expenses was caused by the value adjustment in the long-term assets namely the hotel Parentium, in the amount of 7,8 million HRK, because of the commencement of its reconstruction and upgrading to the 4* quality level which is continued in 2012.

The increase in other operating expenses is determined by calculated expenses payable for the concession over the tourist land in the amount of 6 million HRK.

The increase at the positions of financial expenses is caused by value adjustment of the short-term financial assets.

Finally, in the context of explained changes, the Company realise the net profit in the amount of 63,6 million HRK in 2011, what equals 18% or 9,8 million HRK increase in comparison to the year before. This increase is owed to consistent business policy based on balanced development and rationalisation in the management of expenses.



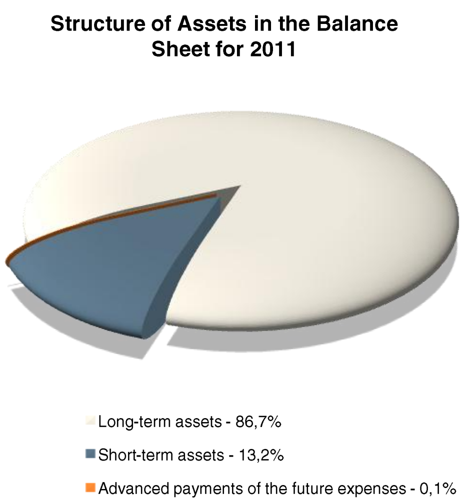
BALANCE SHEET

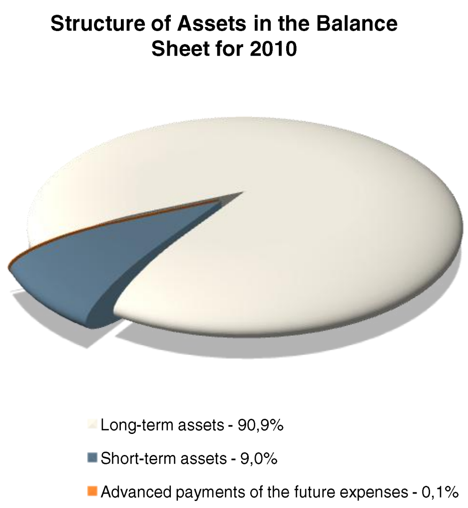
Assets

Assets structure in the balance sheet

in 000 HRK

ITEM	31.12.2011	%	31.12.2010	%
RECEIVABLES FOR SUBSCRIBED BUT UNPAID CAPITAL	-	-	-	-
LONG-TERM ASSETS	1.209.717	86,7	1.255.211	90,9
Intangible assets	303	-	324	-
Tangible assets	1.008.632	72,3	1.052.314	76,2
Financial assets	200.782	14,4	202.573	14,7
Receivables	-	-	-	-
SHORT-TERM ASSETS	183.246	13,2	122.965	9,0
Inventory	2.344	0,2	2.476	0,2
Accounts receivables	8.518	0,6	8.351	0,6
Financial assets	116.203	8,4	79.565	5,8
Cash in register and upon account	56.181	4,0	32.573	2,4
ADVANCED PAYMENTS OF THE FUTURE EXPENSES AND UNDUE COLLECTION OF REVENUES	1.221	0,1	1.937	0,1
TOTAL ASSETS	**1.394.184**	**100,0**	**1.380.113**	**100,0**





Total balance sheet value of the Company's Assets on 31 December 2011 amounted to 1,39 billion HRK what in relation to the same day the year before represents the 14,1 million HRK increase.

From the aspect of different categories of the assets, the long-term assets decreased in value by 45,5 million HRK (or 4%) due to reduction in value of mostly material assets, while the value of the short-term assets considerably increased mainly at the positions of the financial assets and cash.

At the same time, the mentioned changes lead to changes in the term structure of assets positions along with strengthening the share of the short-term assets, which increased in the amount of 4 percentage points from 9% to 13,2%.

However, long-term assets still present dominant assets positions with the 86,7% share.

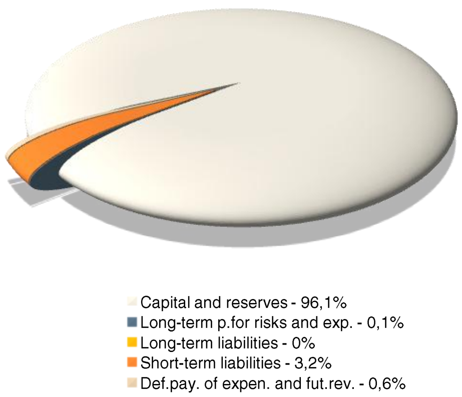
Liabilities

Liabilities structure in the balance sheet

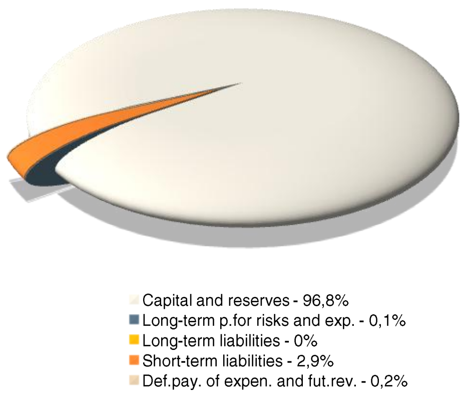
in 000 HRK

ITEM	31.12.2011	%	31.12.2010	%
CAPITAL AND RESERVES	1.339.924	96,1	1.336.323	96,8
LONG-TERM P. FOR RISKS AND EXP.	1.500	0,1	1.500	0,1
LONG-TERM LIABILITIES	-	-	-	-
SHORT-TERM LIABILITIES	44.034	3,2	39.406	2,9
DEF. PAY. OF EXPEN. AND FUT.REV.	8.726	0,6	2.884	0,2
TOTAL LIABILITIES	**1.394.184**	**100,0**	**1.380.113**	**100,0**

Structure of Liabilities in the Balance Sheet for 2011



Structure of Liabilities in the Balance Sheet for 2010



In the structure of liabilities in the balance sheet positions it is necessary to emphasise the high share of the ownership capital and reserves which on 31 December 2011 amounted to 96,1%, and has increased by 3,6 million HRK.

The mentioned increase in value of the ownership capital and reserves is determined, on the one hand, by the profits realised in the current year in the amount of 63,6 million HRK, and on the other hand by the payment of the dividend in the amount of 58,6 million HRK on the basis of the General Assembly decision in the business year of 2011 and reduction of value of other reserves on the basis of revalorisation of financial assets disposable for sale, according to the IAS 39 (1,4 million HRK).

At the same time, there was an increase in the short-term obligations on the basis of difference in the income tax under the annual tax return application.

At the positions of time-differentiated liabilities, there was an increase in value, primarily due to calculated non-invoiced liability for the concession fee related to the tourist land in the amount of 5 million HRK.

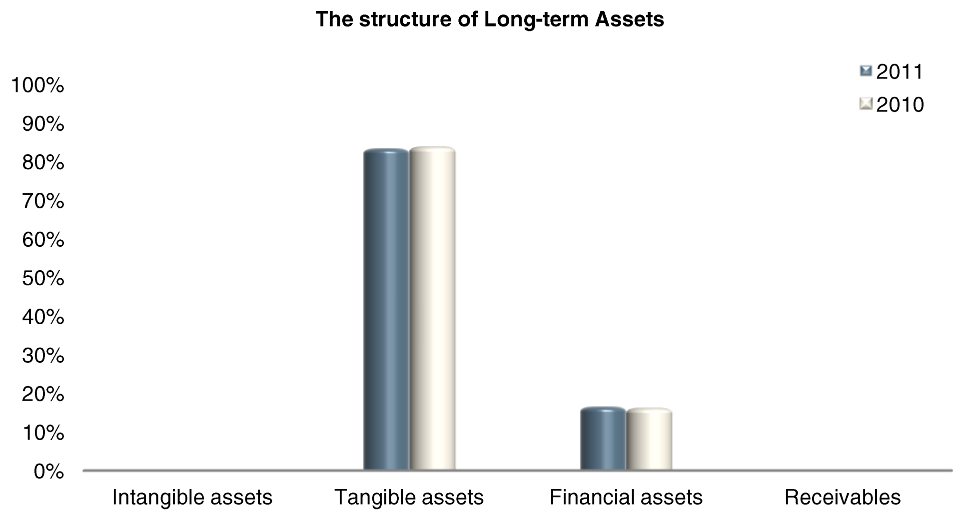
Indicators such as the liquidity ratio (3,5), and the debt to equity ratio (4%) along with total absence of loan debts, as a form of financing of operative and investment processes, point at financial stability of the Company as a significant potential for future growth and development.

Long-term assets

Structure of Long-term assets

in 000 HRK

ITEM	2011	%	2010	%
Intangible assets	303	-	324	-
Tangible assets	1.008.632	83,4	1.052.314	83,8
Financial assets	200.782	16,6	202.573	16,2
Receivables	-	-	-	-
LONG-TERM ASSETS	**1.209.717**	**100,0**	**1.255.211**	**100,0**



Long-term assets as a dominant assets position on 31 December 2011 decreased in value in the amount of 45,5 mil HRK or 4%.

The mentioned decrease in value of the long-term assets derives mostly from the decrease in the value of the material assets in the amount of 43,7 million HRK (or 4%), primarily at the position of construction objects, due to larger amount of depreciation in comparison with the capital investments in the course of 2011, and partially, due to reduction in value of the hotel Parentium (for 7,8 million HRK), as a result of the estimation of compensable value in relation to accountancy value, following the stage of the hotel partial demolition within the project of reconstruction and upgrading to the 4* category.

Long-term financial assets, within which are shown the shares (stocks) in subsidiaries and participating interests, also was reduced in value by 1,8 million HRK (or 1%) due to adjustment to fair value according to the IAS 39.

Likewise, the value of the intangible assets fell due to higher level of depreciation of assets when compared to the investments made.

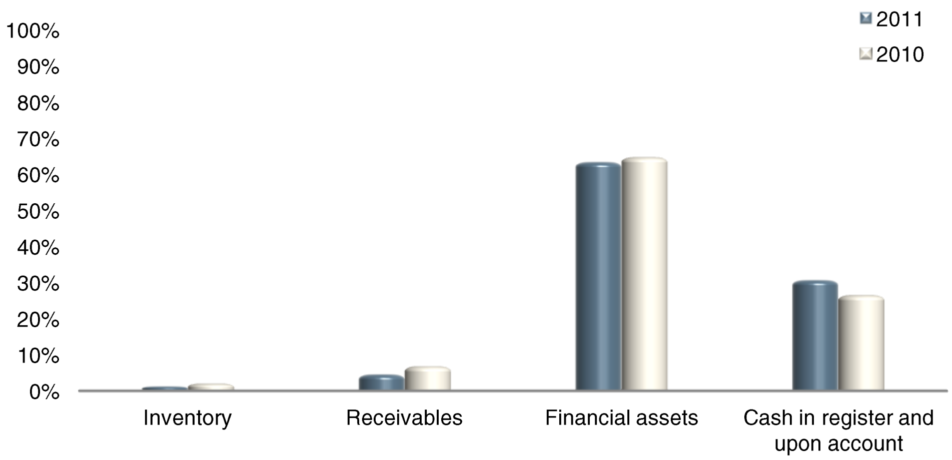
Short-term assets

Structure of Short-term assets

in 000 HRK

ITEM	2011	%	2010	%
Inventory	2.344	1,3	2.476	2,0
Receivables	8.518	4,6	8.351	6,8
Financial assets	116.203	63,4	79.565	64,7
Cash in register and upon account	56.181	30,7	32.573	26,5
SHORT-TERM ASSETS	**183.246**	**100,0**	**122.965**	**100,0**

The structure of Short-term Assets



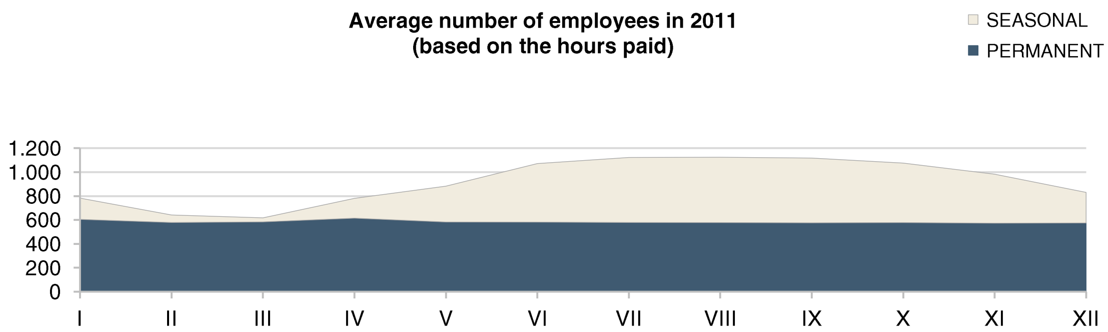
Balance sheet value of the short-term assets on 31 December 2011 signifficantly increased in value by 49% or 60,3 million HRK and amounts to 183,2 million HRK.

In this context, the most evident impact over the increase in value of the short-term assets may be attributed to the increase in value of the financial assets and cash equivalents which grow by 54% or 60,2 million HRK, primarily at the position of deposits with the maturity deadline over 90 days (36,8 million HRK), and at the position of cash where deposits with the maturity deadline up to 90 days are recoded (23,6 million HRK). This increase is brought about by the high level of achievement in the basic activity, and on the other hand, lesser expenses in the investment activities.

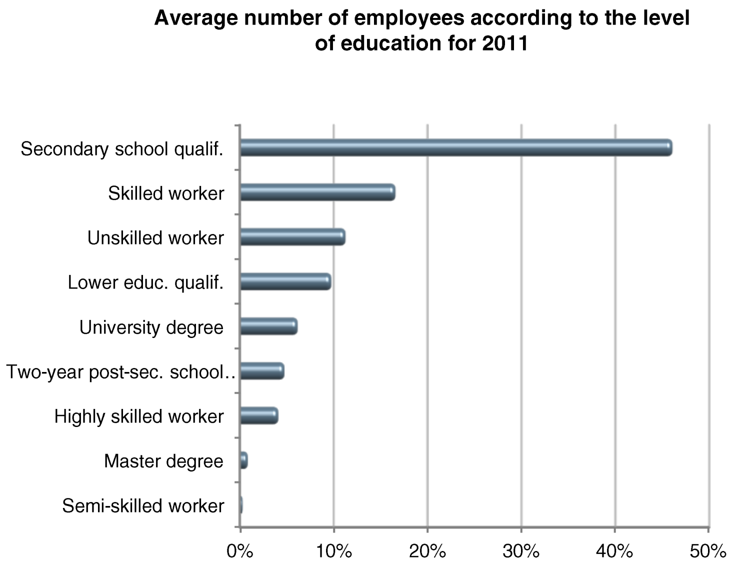
EMPLOYMENT

DESCRIPTION	2011	%	2010	%	INDEX
PERMANENT	585	63,4	623	68,2	94
SEASONAL	337	36,6	290	31,8	116
TOTAL	**922**	**100,0**	**913**	**100,0**	**101**

In 2011, Plava laguna had a minimal increase in the total employment by 1%, with the simultaneous increase in overnight stays by 6,4%, and in the hotels, as the work-wise most intensive operational segment which thus defines the changes in the total employment, the increase by 5,6%. Appreciating the fact that in 2011, the outsourcing cleaning services was expanded to two additional profit units, the mentioned changes demonstrate that respectable level of realised work productivity, and the attention that is paid in the Company to management and engagement of human resources.



In the human resource management area in 2011, the programs oriented to selection, development and retention of the highest quality workers have been continued and expanded, especially in relation to the catering personnel. Special attention was paid to selection and preparation of the personnel that will work within the new hotel Laguna Parentium.



With the aim of expanding the recruiting channels and timely recruiting and selection of seasonal workers, a Facebook page was designed and launched through which, in the course of 2011, an initial contact was made with the largest number of new workers and preparation was made for employment in the tourist season of 2012. By application of the modern selection methods further centralisation and management of human resources in the widest sense was enabled.

As a follow-up to the existing succession program for the management of the profit units of Plava laguna, we initiated the “talent pool” program with the objective of shaping the future linear management – heads of the divisions in the profit units.

INVESTMENTS

In the course of 2011, in accordance with its business position and adopted business policy, Plava laguna continues to invest in the long-term material assets, primarily directed to maintain the existing level and to improve the quality level of its services, with the aim of maintaining and improving its market position.

Total capital investments in 2011, amounted to 61,5 million HRK, and the most significant were:

- Reconstruction of part of the bathrooms and part of the public and outdoor areas of hotel L.Materada,
- Reconstruction of part of the public and outdoor areas and replacement of balcony fences in hotel L.Mediteran,
- Decoration of interior facilities, lighting and the environment of hotels L.Molindrio and Delfin,
- Initial works for a complete reconstruction of hotel Parentium on a 4* level,
- Other investments in decoration of the beaches and horticultural decoration.

ECOLOGY AND SUSTAINABLE DEVELOPMENT

Securing and preserving ecological balance in exploiting the existing natural resources is one of the special Company's goals. The Company invests large efforts in permanent improvement of the state of the environment as the component of the total quality of the tourist product in order to advance its attractiveness and thus also the competitiveness and economic efficiency as a whole. Activities aimed at preserving and improving the environment are considerable elements of the total investments, and their feasibility evident in the long-term benefit for the Company.

Besides the continuous nourishing, enriching and protecting green, flower and other areas managed by the Company, it puts great efforts and implements new technologies attempting to reduce pollution and quantity of waste, and at the same time realize savings in managing natural resources. In this context, the Company regularly performs the following activities:

- Filtering waste waters and so the care and strict control over the use of chemicals.
- Collecting waste oils, with the intention to prevent for the most part the drain of oils and other greases in the sea by continuing and selective collecting of waste oils in the special tanks which are taken by the specialized companies.
- Selective collecting of useful waste by using the containers for selective collecting with the aim of reuse and reduction of the amount of waste.
- Proper care for the large waste is assured through the authorised companies which act in accordance with the environmental protection principles.
- Saving the energy by using more and more the energy-saving devices and lights as well as use of the ecologically acceptable types of energy sources. Great attention is dedicated to education of personnel and informing guests of the rational use of energy.
- Saving the drinking waters by installing perlators and using the additional technologies in watering green areas. Likewise, the guest themselves are encouraged to save energy by means of various notifications and information on the importance of preserving this important resource.
- Care for the preservation of the coastline and monitoring the quality of the sea and informing of the results of the analysis, along the number of forms of ecological messages, represents the Company's activity with the aim of informing guests on the attempts in the field of the environment protection and at the same time motivating to the ecologically acceptable behavior.

The quality of sea and coast, informing the public and upbringing and education for preservation of environment, along with the safety and quality of services are relevant parameters for acquiring and keeping the distinguishing sign "Blue flag" for beaches and marinas awarded by the Foundation for Environmental Education, and ten "Blue flags" are witnesses of high results the Company has achieved in this area.

EXPECTED FUTURE DEVELOPMENT OF THE COMPANY

The Company's development cycle so far has been the product of systematic approach in creating, planning and realisation of the projects determining the Company's identity. Capital investments were made appreciating a clear vision and objectives harmonised with the market requirements and needs; this in turn resulted in strengthening and consolidation of the hotel capacities at the three-star category which in 2011 made 55,3% in the total hotel capacities.

In the course of the past few years, investment activities have particularly been oriented towards additional enhancement and modernisation of the mentioned 3* capacities, creating more pleasurable and attractive experience for the guests. This enabled differentiation from the existing accommodation category where most of those objects belong to generating additional value which is recognised and adequately valued by the demand.

Significant component of the offer belongs to the 2* hotel capacities with the share of 21,8%,and their process enhancement with the aim of maintaining the existing category lasted from 2008 to 2011and included refurbishment of the accommodation sections, common areas and external horticultural decoration. Positive effects of these investments are reflected in ability to realise relatively high price levels along with preserving the sales market.

In the structure of apartment capacities, in addition to the more than 50% share of the four-star accommodation units, the challenge in designing and developing the optimal product is posed by the apartments in the Villas Astra which are of 2-star category and count for 504 beds.

In the period from 2000 to 2008, the Company made significant investments in the hotel segment of its operations by virtue of thorough reconstructions of the part of the capacities in order to upgrade them to the 4* category, so that the share of such objects reached 23,0% in 2011.

Especially demanding was the project on reconstruction of the hotel Laguna Parentium which presently holds the 3* category. The project commenced at the end of the monitored year of 2011. The complexity of this investment is evident in the meaning and perception of the present hotel which has its historical dimension creating additional obligation to design an outstanding product. Project is based on the structure and volume of the investment which will exceed the substantive preconditions for attaining the 4* category. Additionally, all necessary activities were made which included the market analysis and engagement of international professions in the tourist sector with the aim of creating a new business model. Relying on exclusive location, the hotel will offer the atmosphere of relaxation and rest, enriched with various experiences of water and spiced up with gastronomic delights. Opening of the hotel is planned for the commencement of August 2012, under the new name of Laguna Parentium.

An important element of the Company's product is carefully preserved and nourished environment. Dedication to environment is inbuilt in the development policy pursuant to which for a number of years a certain part of resources are directed towards the horticultural decoration as well as decorations of beaches. Certainly, operative maintenance of the greenery demands additional financial expenditures on an annual level which the Company makes with the aim of creating and maintaining environmental orientation on the market.

In the course of 2011, the Company timely performed all necessary activities and actions prescribed by the Tourist and Other Construction Land Non-Estimated in the Ownership -Transformation and Privatisation Procedure Act and accompanying regulations, and hence sent the request to be granted the concession. This is an important precondition in planning the development in specific assets segments, especially camps.

Activities related to development of the study – the Master Plan for the Tourist Resort Zelena Laguna, which included the analysis and improvement of the offer and facilities beyond the services offered in the respective objects, all with the aim of enhancing the offer of this locality. In the forthcoming mid-term period it is necessary to intensify the implementation of the project.

Economic paradigm is the corner stone of every business decision-making related to the Company development which will eventually assure that new value is generated in the future.

BUSINESS RISKS

In performing its operations, Plava laguna is exposed to various financial risks: market risk which includes currency risk, cash flow and fair value interest rate and price risk, as well as credit risk and liquidity risk. The total risk management with the aim of optimizing their influence over the business operations is performed by the Management using various instruments and shaping the business policy and procedures in the Company.

Currency risk is especially evident in Company's business activities given that the sale is predominantly realized at the foreign market, while the Company on the other hand acts at the domestic market where the entry input components, i.e. input prices and other mandatory duties are defined in domestic currency. For that reason the ratio of the foreign currency rate and the domestic currency rate may considerably affect future operations and cash flows, and in turn also cause significant departures from the planned values and aims.

The Company is not exposed to the interest rate risk given that it is not financially indebted, but it is in a certain extent present on some forms of assets, i.e. time deposits, by which is generated the revenue from interests.

The Company holds equity securities classified as financial assets available for sale and is hence exposed to the risk of price change of those securities which are listed at the stock exchange.

Plava laguna through its business policy, typical for the tourist sector in a whole, is reducing the concentration of the credit risk in relation to the receivables from the buyers given that the predominant part of the sale is provided through advance payment. In the segment of assets management and lease of the same, the contracted amount is assured by means of the secured payment instruments. Collectability of claim is monitored by means of the weekly reports on individual state of a claim. Free cash are placed in the time deposits in the high quality banks in Croatia, to limit the exposure to the credit risk towards the respective credit institution.

Liquidity risk management entails maintaining the sufficient amount of money, timely assuring availability of the financial resources through contracting credit lines and capacity to pay all due sums. By means of the daily and weekly reports, the Company is monitoring the state of all forms of cash resources and liabilities and makes the plan of inflows and outflows on a daily basis for the period of one month.

STATEMENT ON APPLICATION OF THE CORPORATE MANAGEMENT CODEX

In accordance with the provisions of Article 272p of the Companies Act, the Management of the Company declares that they voluntarily apply the Corporate Management Codex (hereinafter: the Codex) which was jointly made by the Croatian Financial Services Supervisory Agency and the Zagreb Stock Exchange. Once a year, the Company fills-in the Annual Questionnaire which makes an integral part of the Codex for the period the annual financial reports relates to and submits it to the Zagreb Stock Exchange for the purpose of its publication. This questionnaire reflects the situation and practice of corporate governance accompanied by explanations of a certain divergence from the recommendations contained in the Codex. The Management and the Supervisory Board make permanent efforts aimed at establishing an adequate and transparent corporate governance system and pay due care to efficient system of responsibilities and risk management.

During 2011, the Company did not fully apply the recommendations from the Codex, and the divergences relate to publication of detailed data on awarding the Management and the Supervisory Board, i.e. the statement on the policy of awarding. Furthermore, given that the Supervisory Board of the Company consists of seven members, it did not establish the committee for awarding and appointing but performs these duties itself.

In the course of 2009, the Company commenced publicising quarter, semi-annual and annual financial reports in its own internet pages, and during 2011, these pages contain publicly available all relevant documents related to the meetings of the General Assembly.

Description of fundamental characteristics of risk management and Shareholder data management on 31 December 2011 are contained in this Annual Report.

The rules on appointing and removing members of the Management are contained in the Company's Articles of Incorporation. The members of the management are appointed by the Supervisory Board, hence, according to the most recent decision, the Management consists of one member appointed for the three-year term. The Supervisory Board may revoke its decision on appointment where important reason exists as provided in the statutory provisions.

The Management's authorities are established in the Articles of Incorporation and Companies Act, thus the Company may acquire treasury shares in accordance with Article 233 of the Companies Act, and on the basis of authorization by the general Assembly. Currently, the Management has not been give authorization to acquire such shares.

Amendments and supplements to the Company's Articles of Incorporation are regulated in a manner prescribed by the Act, as provided in Article 61 of the Articles of Incorporation.

The Company's Management conducts business operations independently and unlimitedly, and certain operations listed in Article 38 of the Articles of Incorporation (such as founding a company, purchasing and selling shares in other companies, purchasing and selling real estate above 1% of the share capital value, taking the loan above 2% share capital value and other) the management may perform solely upon the consent of the Supervisory Board.

In accordance with the Articles of Incorporation and the decision by the General Assembly, the Supervisory Board of the company consists of seven members who among themselves elect their president and vice-president. Election of these members is carried out pursuant to the Companies Act, the Articles of Incorporation and the general Assembly's Rules of Procedure, and as long as it is prescribed by the special legislation, workers by virtue of the Working Council have the right to appoint one member. The term of the members in the Supervisory Board lasts four years. The Supervisory Board operates at the meetings held on a monthly basis, where they discuss and decide all matters falling under their competence pursuant to the Companies Act and the Company's Articles of Incorporation.

In accordance with the provisions of Article 250a paragraph 4 and Article 272p paragraph 1 of the Companies Act, this statement is a special section and an integral part of the Annual Report on the Situation in the Company for the year of 2011.

President of the Company

Neven Staver

SUPERVISORY BOARD

Davor Luksic Lederer	President
Patricio Tomas Balmaceda Tafra	Vice president
Oscar Eduardo Hasbun Martinez	Member
Đenio Radić	Member
Borislav Škegro	Member
Davor Domitrovic Grubisic	Member
Stipe Liović	Member

COMPANY MANAGEMENT

MANAGEMENT BOARD

Neven Staver	Member of the Management Board

THE COMPANY EXECUTIVES

mr. Loreto Radojković	Operations Department Manager, PC Sport and supporting activities
Darko Ivić	Sales Department Manager
Damir Mendica	Development Department Manager
Ronald Korotaj	Corporate and Legal affairs Department Manager
Sandra Elisa Touma Massu	Marketing Department Manager
Danira Rančić	Economics and Finance Department Manager
Luciano Daris	Purchase and Property Management Department Manager
Vladimir Zović	PC Hotels and Apartments 4* Manager
Vladimir Mofardin	PC Hotels and Apartments 3* Manager
Franko Beaković	PC Hotels and Apartments 2* Manager
Đulijano Ravnik	PC Auto-camps Manager