Laguna Poreč

HOTELS RESORTS & CAMPING

Plava laguna d.d.

FOR THE YEAR 2012

ANNUAL REPORT

Poreč, June 2013

Plava laguna d.d.

FOR THE YEAR 2012

ANNUAL REPORT

CONTENTS

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 2012

In the course of business year 2012, the Supervisory Board of the Company held 11 meetings, 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 2012, 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 2012 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 2012, 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 2012, 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 2012 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 2012 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 Lukšić Lederer v.r.

BOARD OF MANAGERS' REPORT TO THE COMPANY'S SHAREHOLDERS

Dear Shareholders,

It is my pleasure to be able to report on successful business results of Plava laguna in year 2012 at the end of this fiscal year.

In order to better understand the actual physical and financial business indicators of the Company, I will review the characteristics of tourist movements in the country but also on a more global scale.

According to the World Tourism Organization, the global tourism for the first time last year exceeded the figure of one billion arrivals and with about 1,03 billion arrivals recorded a 4% increase than in the previous year. According to this data, the countries of Asia and the Pacific recorded the best results in the world tourism with 7% increase in arrivals compared to year 2011. Nevertheless, Europe still maintains the status of the most visited region in the world with around 535 million arrivals and 3% increase compared to the previous year. At the same time, Central and Eastern Europe recorded the largest increase in international arrivals of 8%, Western Europe 3% and southern (Mediterranean) Europe 2%.

In accordance with these movements, the quantitative characteristics of tourist activities in the Republic of Croatia also represent record breaking results with 62,7 million realized overnight stays and 4% increase compared to the previous year. Accordingly, foreign tourists account for 92% of the total tourist traffic measured by realized overnight stays and record 5% increase. In 2012, the most numerous, as in previous years, were tourists from Germany with 13,9 million overnight stays generating a 12% increase. They are followed by the guests from Slovenia with 6,2 million overnight stays although this is a decrease compared to the previous year. Following are the overnights stays from the Austrian market with a stable upward trend, while the Italian market decreased for 9,2% due to the recession of the country's economy. At the same time, revenues from tourism increased by 3,2% compared to the previous year, leading to the growth of tourism revenues in the total GDP of the Republic of Croatia with 14,7% in 2011 to a 15,4% in the observed 2012, according to the Ministry of Tourism.

Mentioned tourist traffic in the Republic of Croatia is concentrated in seven coastal counties whose share in total overnight stays is 96%. Thus, the highest tourist traffic during the 2012, was realized in the Istria County with a share of 32% in total overnight stays of the Republic of Croatia and a 4% increase compared to the previous year.

The Company's business activities in 2012 were largely influenced by the upward trend of the tourist traffic in the destination as a whole, with that representing the external determinant, and on the other side by the extensive capital project of the hotel Laguna Parentium reconstruction with a goal to obtain a four-star category hotel as an internal determinant for the result positioning.

In the observed period, the Company achieved last year's level of overnight stays of 2,3 million kuna, while on a comparable capacity level, with the exception of hotel Laguna Parentium opened in August 2012, achieved 4% more overnight stays than in the previous year. Causes of positive movements lie in the intensification of activities related to the group sales segment, while campsite business was directly influenced by favorable weather conditions and increased demand from the Dutch market especially in the month of July.

Following the physical indicators with 5% increase of average net rate in hotels and apartments, which is a cumulative effect of the new product hotel Laguna Parentium and the increase in rates to the extent consistent with the so far balanced sales policy, the Company realized 454,9 operating income that represents 3% increase or 13,8 million kuna in nominal terms in 2012. Due to the already traditional success in the conduct of business operations and control of the relevant cost categories, the Company has confirmed the level of business performance measured by EBITDA margin of 40,0% and the absolute figure of 182,1 million kuna representing a growth of 4% or 7,3 million kuna in nominal terms compared to the previous year.

The effect of the financial position in 2012 amounts to even 19,4 million kuna which represents an increase of 8,2 million and is primarily a consequence of received dividends from the subsidiary Hoteli Croatia j.s.c. in the amount of 10,9 million compared to the previous year's 0,4 million.

Ultimately, the Company in 2012 realized net profit in amount of 106,3 million kuna which represents an increase of nominally 42,7 million, which, besides already explained movements, is a consequence of a favorable fiscal environment in terms of the Corporate Tax Law and the possibility of using tax benefit on reinvested profits.

Total assets of the Company on the last day of the reporting period amounted to 1,45 billion kuna which represents an annual increase of 52,2 million. Due to the fact of significant investment cycle that exceeds 186 million kuna financed from own resources, the balance sheet structure is changed in the direction of strengthening of tangible fixed assets. Therefore, the Company's ability to service outstanding but also future liabilities during the first quarter of 2013 is unquestionable, considering the sufficient level of available funds, which further confirms the positive size of the working capital where current assets exceed the equivalent obligations on the balance sheet almost three times.

When operational achievements are abstracted and other company activities in 2012 reviewed, then it must be noted that an extremely intensive work has been invested in the realization of development projects throughout the year. This is supported by the level of the investment of 186 million kuna, where significant resources, effort and commitment were required by the investment in the reconstruction of hotel Laguna Parentium, given the importance and the traditional role of this hotel in tourist history of the destination. Respectable investments are permanently diverted by the Company into the preservation and enhancement of natural resources, especially the beaches and coastline, where in the period of the past five years, since 2008, the Company invested over 23 million kuna. This is based on the awareness about the meaning of motifs such as the sea and the sun in overall tourist offer.

Important business events during 2012 should also include the preparation for the process of merger of Hotel Bonavia j.s.c. Rijeka with Plava laguna with legal validity starting from 1st January, 2013. With the present status change, the 4* hotel facility portfolio is expanded outside the destination together with the sales markets worked on so far, while in the merged company, conditions are being created for increased efficiency of the business system as a whole. Plava laguna j.s.c. at the end of an extremely dynamic year 2012, after an abundant investment cycle, still has a strong and stable base, making it more prone to further growth and development but also more efficient for the absorption of any market disturbances.

Furthermore, based on the key factors for success, the Company will continue to proceed with the implementation of the adopted business philosophy and on that way, the overall contribution and the work of our loyal employees will be invaluable, therefore I hereby thank them for all their efforts and achieved level of mutual trust and understanding.

Finally, I would like to thank all our customers and business partners for their trust and loyalty, as well as all the shareholders and the members of the Supervisory Board for valuable cooperation and support.

President of the Company

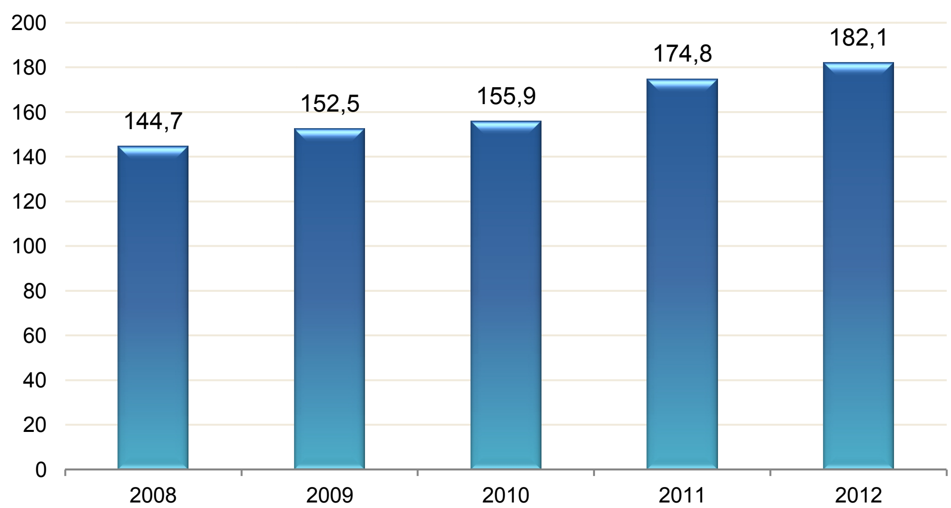
Neven Staver

Neven S.

REVIEW OF THE MOST SIGNIFICANT INDICATORS

	2012	**2011**
Realized overnight stays	2.333.628	2.328.512
Total Revenue (in 000 HRK)	474.332	452.512
Earnings before taxes (in 000 HRK)	106.563	80.599
Net income (in 000 HRK)	106.274	63.586
EBITDA (profit from operating activity, depreciation and value adj. of l.- term mat. assets) in 000 HRK	182.107	174.841
The Equity capital (in 000 HRK)	1.384.900	1.339.924
Total Assets (in 000 HRK)	1.446.430	1.394.184
Liquidity Ratio (short-term assets / short-term liabilities)	2,5	3,5
Financial stability ratio in % (l.-term assets / capital and l.-term liabil.)	93,5	90,2
Profitability in % (Net income / equity)	7,7	4,7
EBITDA margin in % (EBITDA / operating revenues)	40,0	39,6
Debt to equity ratio in % (total liabilities / equity)	4,4	4,0

EBITDA growth over the years 2008 - 2012



INTRUDUCTION OF THE COMPANY

Historical development of the Company

Plava laguna is a company backed by more than half a century of successful operation and development, based on ecological principles and sustainable development, during which it continuously occupied leadership position in the Croatian tourism, and by permanent enrichment of its overall offer and adjustment to the needs of ever more demanding tourist market, achieves remarkable physical and especially financial results.

The core business of the company is hospitality and tourism and in addition to that, the Company is registered to carry out other activities as well.

Plava laguna is a company with total assets of 1,4 billion kuna and employs an average of more than 900 employees. In its accommodation capacities, refined and adapted to the guests through ongoing investments, it can daily accommodate over 20 thousand guests of whom more than 8 thousand in hotels and apartments and over 12 thousand in camps, with which it annually realizes almost 2,5 million overnight stays. Also, it has 360 berths in two marinas and a number of restaurants and bars, sports and other facilities that are complementing the basic accommodational offer.

Joint stock company Plava laguna was founded in 1957 as a company for hospitality and tourism and it is one of the first tourist companies in Croatia.

Plava laguna began its own development path on the camp established on the peninsula Molindrio by the French club for nature lovers "Polynesia", as "Plava laguna – Camp Hotel" with a capacity for 800 persons.

At the very beginning, due to lack of funding, building projects were modest and the first investment was building of bungalows on the site of today's hotel Laguna Galijot, and then the tourist resort Bellevue. A lot of attention was paid to the development of sports and such offer and therefore first sports centers and tennis courts were built.

From 1966 all the way until 1971, a very intense investment period lasted during which most of the Plava laguna's fixed accommodation facilities were built and the foundations laid for the Zelena laguna campsite.

In the period that follows, from 1971 until 1976, upgrading of existing facilities continues and campsite Ulika was built. The main characteristics of this period is the beginning of the construction of the marina Červar Porat and the marina Parentium, construction of the campsite Bijela Uvala and many service facilities.

In the same period, horizontal integration with smaller hotel and catering organizations in former municipality of Poreč was completed, as well as with the hotel and tourism company from Novigrad, and a significant step in the development during that period was the business expansion beyond the regional framework, which was accomplished through the construction of hotel Laguna in Zagreb. Overall activity was consolidated in a work organization for hospitality and tourism Lagunaturist.

In 1987, bigger economic systems in Poreč are being joint in the SOUR Plava laguna (autonomous cooperative work organization) and already in 1990, pursuant to the Company Law, there was a disassociation of SOUR and founding of new independent companies, one of which was Laguna Poreč, company for hospitality and tourism.

New changes with the beginning of 1991 were provoked with the entry into force of the Transformation of Socially Owned Enterprises Act, which started the process of privatization in Croatia and thus in Laguna Poreč. On 3rd of September, 1992 pursuant to the Decision of the Agency for Restructuring and Development and the decision of the Constituent Assembly, Laguna Poreč was transformed into a joint stock company, and on the 26th of January, 1993 it was officially registered with the Commercial Court in Rijeka. Plava laguna finally rounds up its legal constitution in February 1996 by the adjustment of the fundamental documents of the Company with the Companies Act and with the act of registration in the register of the Commercial Court in Rijeka as Plava laguna, joint stock company for hospitality and tourism, the company also returned to its historical name.

Plava laguna as a joint stock company had quite a diversified ownership structure until year 2000 when the Lukšić Group initiated the process of the company's take over and with the completion in 2001, the Group has the majority shareholder with 80,34% in ordinary shares.

During 2001, acquisitions of several companies were made. Thus, Plava laguna j.s.c. acquired 89,40% shares in Hoteli Croatia j.s.c. Cavtat and 90,48% shares in Adriatic j.s.c. Poreč. Given the portion of the share in the original capital, Adriatic j.s.c. was merged with Plava laguna j.s.c. on the 1st of October, 2002 which in that way also extended its offer on the nautical tourism segment. With the recapitalization of the company Hoteli Croatia in 2003, ownership share of Plava laguna j.s.c. increased to 92,28%.

Significant activity in terms of investments that characterizes the period from 2003 until today, has primarily been directed towards restructuring a part of the portfolio of accommodation facilities to a 4* category and subsequently in 2012, it was positioned as a share of 37,0% in total fixed capacities of the Company and 94,4% in total campsites capacities.

In order to develop a focused, modern and clear visual identity of the company, Plava laguna's brand architecture was reorganized in 2011. Based on careful market research, umbrella company brand name "Laguna Poreč" was chosen and accordingly also a new corporate logo , which colors emphasize the beautiful nature, the sun and the clear sea, but also suggests the quality, modernity, uniqueness and attractiveness of the company offer.

During 2012, all necessary preparations were completed for the merger of the company Hotel Bonavia j.s.c. Rijeka with the j.s.c. Plava laguna, with the legal effect from the 1st of January, 2013 with which Plava laguna further enriches its portfolio with a 4* category hotel of a different business type.

Ownership structure and organizational chart

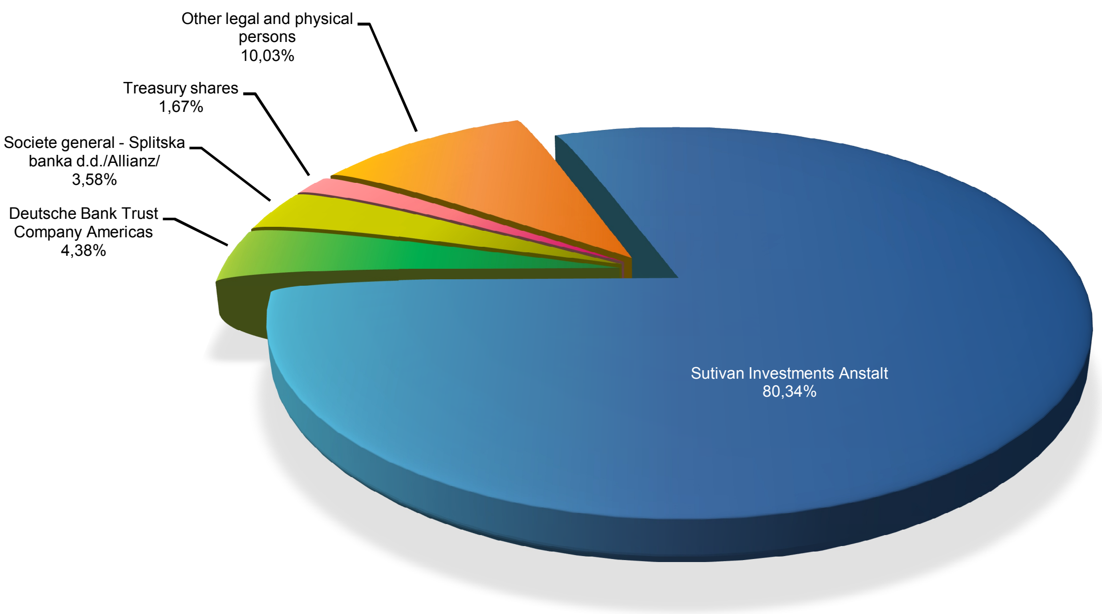
Follows the company's ownership structure as of 31.12.2012.

Ordinary shares owned

Owner	NUMBER OF SHARES	%
Sutivan Investments Anstalt	438.899	80,34
Deutsche Bank Trust Company Americas	23.939	4,38
Societe general - Splitska banka d.d./Allianz/	19.540	3,58
Treasury shares	9.120	1,67
Other legal and physical persons	54.820	10,03
TOTAL	**546.318**	**100,00**

In the ownership structure of the Company in 2012, there was a diminution of the number of own shares. Namely, 350 treasury shares were allocated to a special account with the Central Depository & Clearing Company, pursuant to the Trustee Agreement for receiving shares and payments in cash, in order to implement the merger of Hotel Bonavia j.s.c. with Plava laguna j.s.c. as of 1st of January, 2013.

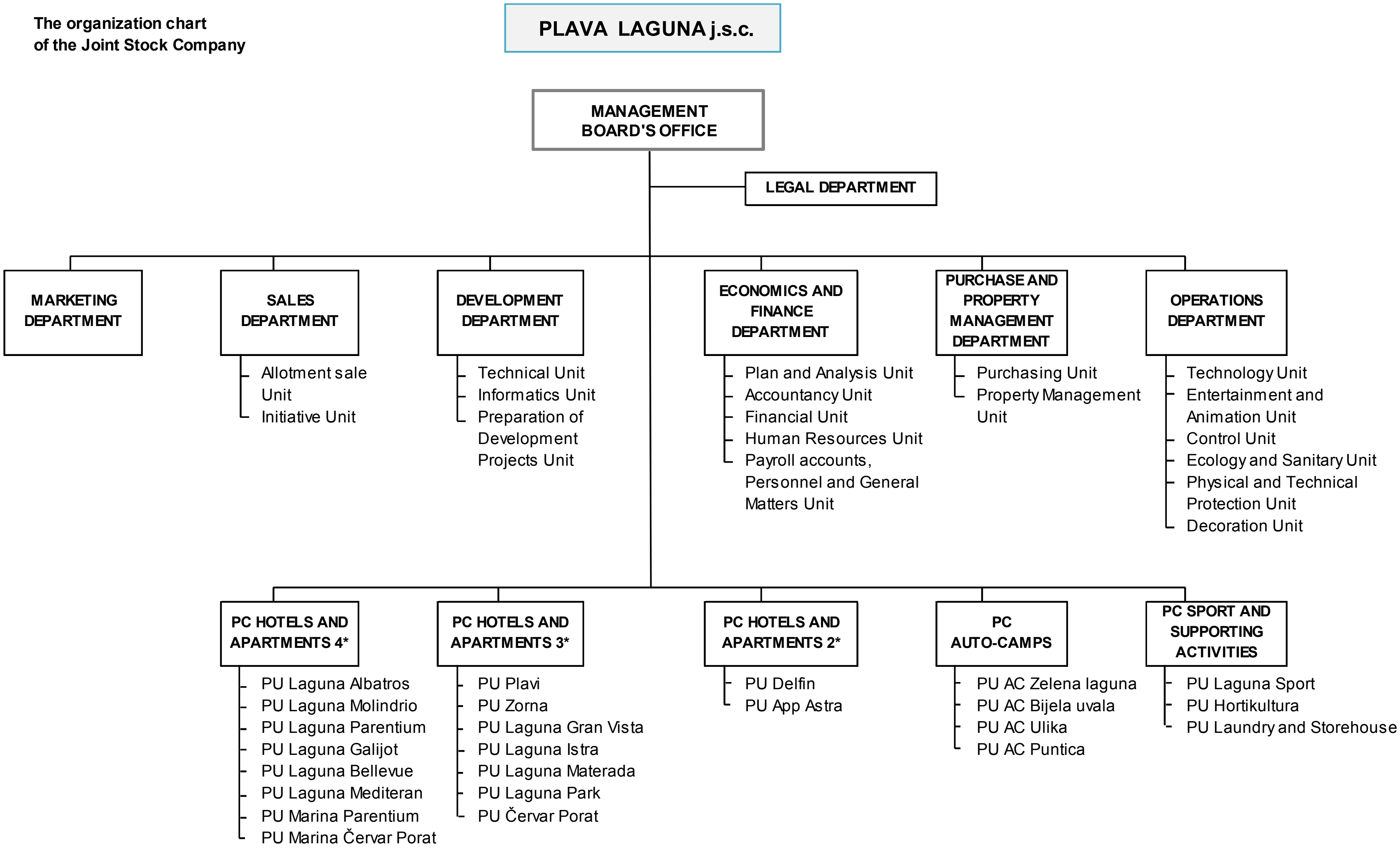
The ownership structure of the Company as of 31.12.2012



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



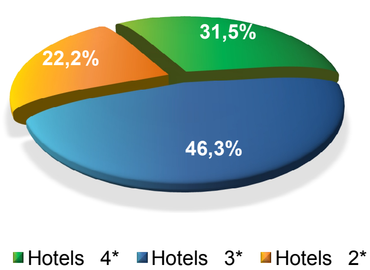
COMPANY'S BUSINESS ACTIVITY IN 2012

Tourist turnover

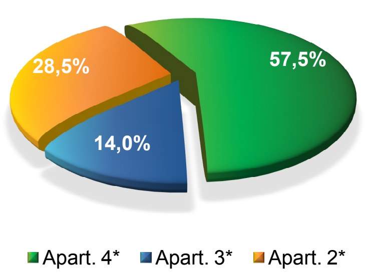
Review of Accommodation Capacities and Realized Overnight stays

DESCRIPTION	CAPACITY 2012	CAPACITY 2011	OVERNIGHT STAYS 2012	OVERNIGHT STAYS 2011	INDEX '12 / '11	DAYS OF OCCUPANCY 2012	DAYS OF OCCUPANCY 2011
LAGUNA ALBATROS	608	608	100.731	89.085	113	166	147
LAGUNA MOLINDRIO	482	482	100.767	91.601	110	209	190
LAGUNA PARENTIUM (2011 3*)	538	666	36.609	116.585	31	68	175
VILA LAGUNA GALIJOT	174	174	29.663	30.069	99	171	173
VILLAGE LAGUNA GALIJOT	94	94	15.212	15.447	98	162	164
HOTEL LAGUNA PARK	202	202	40.917	43.752	94	203	217
HOTELS 4* (2011 without Laguna Parentium)	**2.098**	**1.560**	**323.899**	**269.954**	**120**	**154**	**173**
LAGUNA MEDITERAN	645	645	102.073	106.091	96	158	165
PLAVI	392	392	63.391	63.739	99	162	163
ZORNA	412	412	56.514	52.906	107	137	128
LAGUNA GRAN VISTA	336	336	39.866	38.352	104	119	114
LAGUNA ISTRA	376	376	50.874	48.709	104	135	130
LAGUNA MATERADA	774	774	125.981	112.272	112	163	145
VILLAGE LAGUNA PARK	152	152	20.151	19.758	102	133	130
HOTELS 3* (2011 with Laguna Parentium)	**3.087**	**3.753**	**458.850**	**558.412**	**82**	**149**	**149**
DELFIN	1.478	1.478	197.874	183.796	108	134	124
HOTELS 2*	**1.478**	**1.478**	**197.874**	**183.796**	**108**	**134**	**124**
TOTAL: HOTELS	**6.663**	**6.791**	**980.623**	**1.012.162**	**97**	**147**	**149**
APP LAGUNA GALIJOT	332	332	37.968	36.820	103	114	111
VILLE LAGUNA BELLEVUE	76	76	8.815	8.789	100	116	116
APP LAGUNA BELLEVUE	365	365	41.181	44.042	94	113	121
STUDIO APP LAGUNA BELLEVUE	246	246	32.979	37.306	88	134	152
APARTMENS 4*	**1.019**	**1.019**	**120.943**	**126.957**	**95**	**119**	**125**
VILLE LAGUNA PARK	80	80	7.659	8.646	89	96	108
APP LAGUNA PARK	168	168	18.242	20.475	89	109	122
APARTMENS 3*	**248**	**248**	**25.901**	**29.121**	**89**	**104**	**117**
APP ASTRA	504	504	46.637	45.586	102	93	90
APARTMENS 2*	**504**	**504**	**46.637**	**45.586**	**102**	**93**	**90**
TOTAL: APARTMENS	**1.771**	**1.771**	**193.481**	**201.664**	**96**	**109**	**114**
TOTAL: BUILT OBJECTS	**8.434**	**8.562**	**1.174.104**	**1.213.826**	**97**	**139**	**142**
AC ZELENA LAGUNA (2011 3*)	2.700	2.700	257.318	246.174	105	95	91
AC BIJELA UVALA	6.000	6.000	545.831	518.502	105	91	86
AC ULIKA	3.000	3.000	288.198	285.014	101	96	95
CAMPS 4* (2011 without AC Zelena lag.)	**11.700**	**9.000**	**1.091.347**	**803.516**	**136**	**93**	**89**
AC PUNTICA	700	700	68.177	64.996	105	97	93
CAMPS 2*	**700**	**700**	**68.177**	**64.996**	**105**	**97**	**93**
TOTAL: CAMPS	**12.400**	**12.400**	**1.159.524**	**1.114.686**	**104**	**94**	**90**
TOTAL	**20.834**	**20.962**	**2.333.628**	**2.328.512**	**100**	**112**	**111**

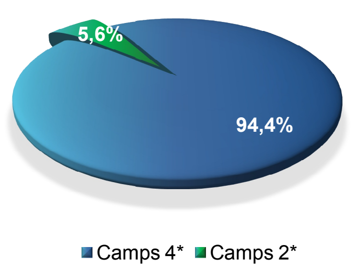
The structure capacity in hotels 2012



The structure capacity in apartments 2012

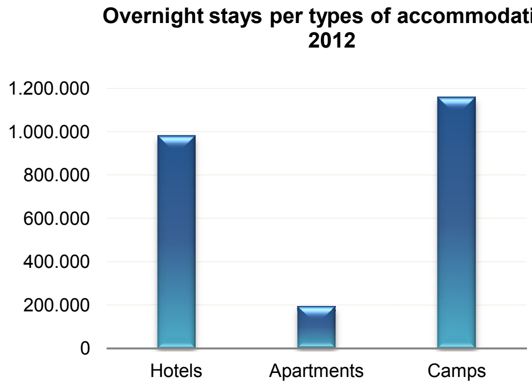


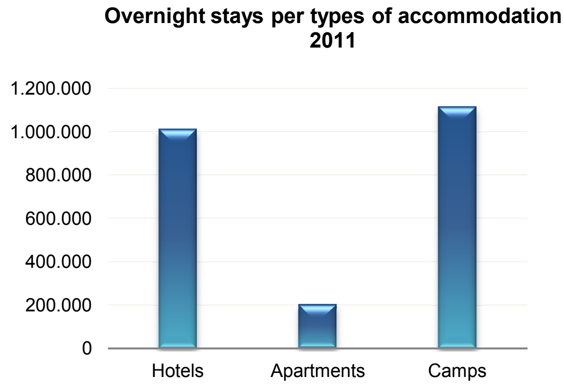
The structure capacity in camps 2012



The physical volume of transactions in the Company in 2012 is determined by the upward movement of tourist turnover in the destination and by the extensive capital project of restructuring hotel L. Parentium with the aim of gaining a 4* category, due to which the Company has operated with diminished capacity throughout the year (hotel opened on 4 Aug 2012).

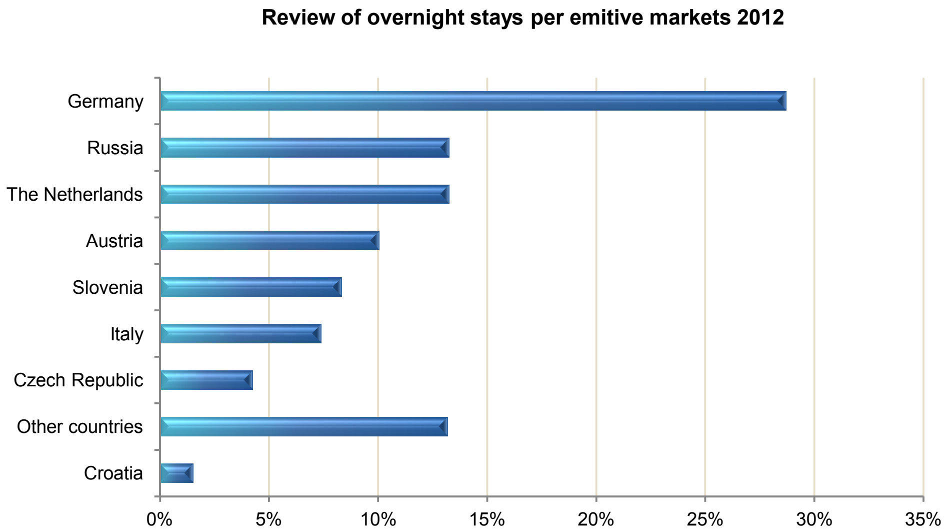
In mentioned conditions, the Company as a whole in 2012 realized previous year's level of overnight stays 2,3 million.





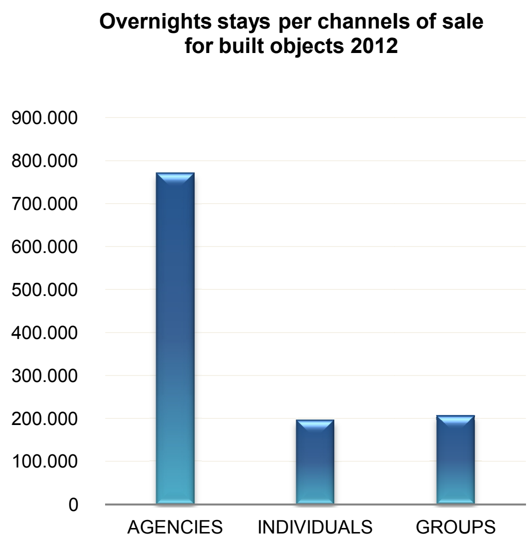
In the Company's hotels and apartments, due to limitations in available capacity, 3,3% lower level of overnight stays was realized compared to the previous year, while on a comparable level (excluding hotel Parentium in 2011) an increase of 3,7% overnight stays is recorded.

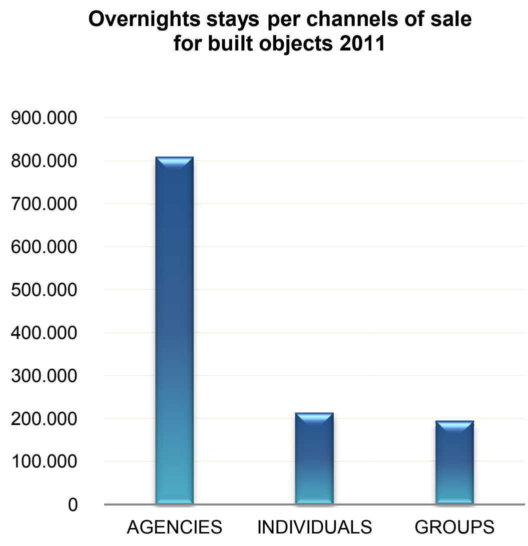
In the segment of campsites, an increase of even 4% was generated which is a very successful physical outcome considering the record breaking levels of overnight stays realized in the previous year. This was especially influenced by favorable weather conditions and increased demand from the Dutch market, especially in July.



Already traditional emissive markets of Germany, Netherlands, Austria and Italy in 2012 realized 1.388.845 overnight stays which represents a slight increase compared to 2011, with a positive trend and growth for the Company's most significant German market (3% increase) and also very important Dutch market with total increase in overnight stays of 10,6%, especially in the segment of campsites. Austrian market kept its stable level and share in Company's overnight stays, while the Italian market significantly decreased (16%), a trend that is as a consequence of a recession in the country's economy, recorded also in the surroundings.

In 2012, an upward trend of overnight stays from the Russian market continued which has for several years been the most significant emissive market of the Company in the segment of hotels and apartments which reaches the share of as much as 26,3%.





Although in 2012 as well the agency guests were expectedly a dominant sales channel in the fixed capacity category, despite a slight drop in the share compared to the previous year (from 66,5% to 65,7%), the intensification of activities in the group sales segment resulted with a significant increase in overnight stays of 6,7% (when excluding hotel Parentium in 2011, even 26%) and thus positioning the channel to 17,6% share or moving for 1,8 percentage points compared to the previous year.

PROFIT AND LOSS ACCOUNT

Profit and Loss Account

In 000 HRK

	DESCRIPTION	2012	2011	INDEX '12 / '11	STRUCTURE IN % 2012	STRUCTURE IN % 2011
I	SALES REVENUES	430.647	416.793	103	90,8	92,1
1.	Accommodation	369.978	354.890	104	78,0	78,4
2.	Food	59.135	60.491	98	12,5	13,3
3.	Bars	13.936	13.399	104	2,9	3,0
4.	Merchandise	133	136	98	-	-
5.	Sports	1.294	1.185	109	0,3	0,3
6.	Mooring	6.930	7.123	97	1,5	1,6
7.	Granted discount and commissions	-33.299	-32.037	104	-7,0	-7,1
8.	Other revenues	12.540	11.606	108	2,6	2,6
II	REVENUES FROM SALE OF COMP.GOODS, MERCH. AND SERVICES	-	-	-	-	-
III	OTHER REVENUES FROM OPERATIONS	21.240	21.155	100	4,5	4,7
	Revenues from the lease of business space	20.780	21.155	98	4,4	4,7
	Revenues from elimination of long-term reserves	-	-	-	-	-
	Other business revenues	460	-	-	0,1	-
IV	OTHER REVENUES	3.006	3.168	95	0,6	0,7
A)	**TOTAL OPERATING REVENUES (I to IV)**	**454.893**	**441.116**	**103**	**95,9**	**97,5**
V	CHANGES IN THE STOCK VALUE OF INTER. AND FINISHED GOODS	-	-	-	-	-
VI	MATERIAL EXPENSES	124.535	122.054	102	33,9	32,8
VII	EMPLOYEES EXPENSES	103.588	103.195	100	28,1	27,8
VIII	DEPRECIATION	94.980	97.696	97	25,8	26,3
IX	VALUE ADJUSTMENT OF LONG-TERM ASSETS	-	7.775	-	-	2,1
X	VALUE ADJUSTMENT OF SHORT-TERM ASSETS	696	460	151	0,2	0,1
XI	PROVISIONS FOR EXPENSES AND AGAINST RISK.	1.344	78	-	0,4	-
XII	OTHER BUSINESS EXPENSES	41.805	40.007	104	11,4	10,8
XIII	OTHER EXPENSES	818	481	170	0,2	0,1
B)	**TOTAL OPERATING EXPENSES (V to XIII)**	**367.766**	**371.746**	**99**	**100,0**	**100,0**
	PROFIT FROM OPERATING ACTIVITY (A-B)	87.127	69.370	126	-	-
	EBITDA	182.107	174.841	104	-	-
C)	**TOTAL FINANCIAL REVENUES**	**19.439**	**11.396**	**171**	**4,1**	**2,5**
D)	**TOTAL FINANCIAL EXPENSES**	**3**	**167**	**2**	**-**	**-**
	PROFIT FROM FINANCIAL ACTIVITIES (C-D)	19.436	11.229	173	-	-
	T O T A L R E V E N U E S	**474.332**	**452.512**	**105**	**100,0**	**100,0**
	T O T A L E X P E N S E S	**367.769**	**371.913**	**99**	**100,0**	**100,0**
E)	**EARNINGS BEFORE TAXES**	**106.563**	**80.599**	**132**	**-**	**-**
F)	**CORPORATE INCOME TAX AND OTHER TAXES**	**289**	**17.013**	**2**	**-**	**-**
G)	**N E T I N C O M E**	**106.274**	**63.586**	**167**	**-**	**-**

The development of the core business of the Company, based on capital investments and improving standards in the accommodation segment continued during 2012. Business year 2012 marks the project of the reconstruction of hotel Laguna Parentium with the aim of gaining 4* category, which represents the most demanding and the most extensive single capital project in the recent history of the Company.

As a valuable achievement in 2012, the increase in total revenues of 21,8 million kuna compared to the previous year, is to be emphasized, as a result of the growth in the operational revenues category of 13,8 million and revenue from financial activities of 8 million.

In the structure of operational revenues, significant increase of 3% is noted in board revenue or nominally 11,7 million kuna, despite the fact of non-availability of the significant hotel capacity in part of the main season, due to the completion of works on the reconstruction of hotel Laguna Parentium to a 4* level. The result originates from the 5% increase in average net price in hotels and apartments with somewhat lower level of realized overnight stays, as an effect of the newly renovated hotel and increased volume in camps.

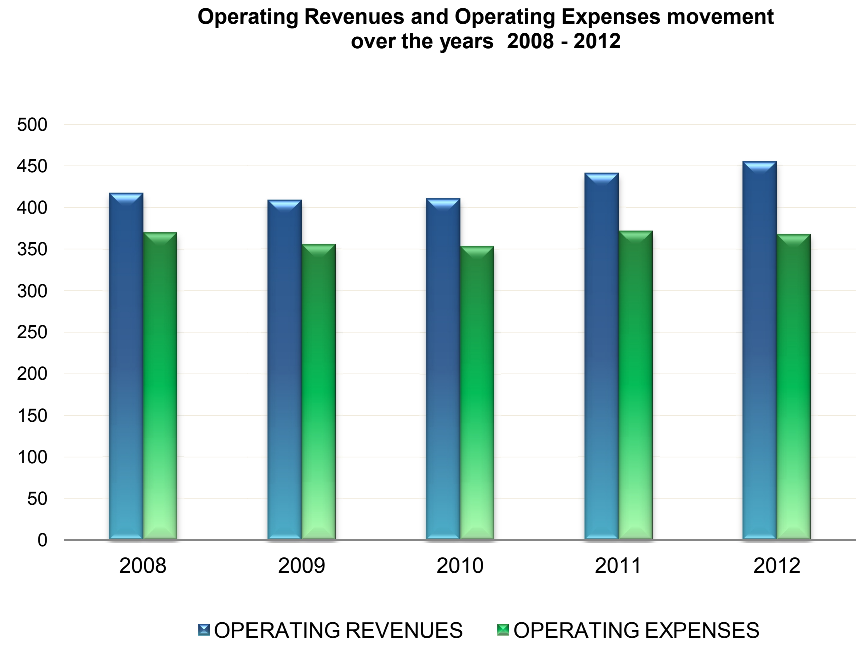
The increase in revenue from financial activities is determined by the dividends received from subsidiary Hoteli Croatia j.s.c. in the amount of 10,9 million kuna compared to last year's 0,4 mil and the increase in interest income on foreign currency term deposits.

Comprehensive management and control of cost categories, in addition to orientation towards development, contributed to the achieved business success in 2012.

Namely, in the observed period, 367,8 million kuna in total expenses were realized which is 1% decrease or 4,1 mil in nominal terms compared to the previous year. This is a result of the diminution in value of hotel Parentium in 2011, before the beginning of the reconstruction with the aim of reducing the accounting value to the recoverable value. Excluding the effect mentioned and the depreciation, business expenditure increased for 6,5 million kuna due to the increase of material costs and other business expenses. Thus, the increase of material costs is mainly caused by the increase in costs of energy, as well as the costs related to the opening of the newly renovated hotel while on the other side, there is a significant savings on the costs of water due to water reductions introduced over the summer months.

Increased levels of business performance of the Company is converted in the EBITDA growth of 4% or nominally 7,3 million compared to the previous year with which the level of 182,1 million has been achieved together with EBITDA margin of 40%.

Following these developments, in 2012 realized net profit amounted to 106,3 million kuna with emphasis on the fact that the Company, when filing for tax return, used tax benefit on reinvested profits.



Balance sheet

Assets structure in the balance sheet

in 000 HRK

ITEM	31.12.2012	%	31.12.2011	%
RECEIVABLES FOR SUBSCRIBED BUT UNPAID CAPITAL	-	-	-	-
LONG-TERM ASSETS	1.296.938	89,7	1.209.717	86,7
Intangible assets	295	-	303	-
Tangible assets	1.098.996	76,0	1.008.632	72,3
Financial assets	197.647	13,7	200.782	14,4
Receivables	-	-	-	-
SHORT-TERM ASSETS	148.037	10,2	183.246	13,2
Inventory	2.582	0,2	2.344	0,2
Accounts receivables	19.359	1,3	8.518	0,6
Financial assets	120.307	8,3	116.203	8,4
Cash in register and upon account	5.789	0,4	56.181	4,0
ADVANCED PAYMENTS OF THE FUTURE EXPENSES AND UNDUE COLLECTION OF REVENUES	1.455	0,1	1.221	0,1
TOTAL ASSETS	**1.446.430**	**100,0**	**1.394.184**	**100,0**

Liabilities structure in the balance sheet

in 000 HRK

ITEM	31.12.2012	%	31.12.2011	%
CAPITAL AND RESERVES	1.384.900	95,8	1.339.924	96,1
LONG-TERM P. FOR RISKS AND EXP.	2.000	0,1	1.500	0,1
LONG-TERM LIABILITIES	-	-	-	-
SHORT-TERM LIABILITIES	51.021	3,5	44.034	3,2
DEF. PAY. OF EXPEN. AND FUT.REV.	8.509	0,6	8.726	0,6
TOTAL LIABILITIES	**1.446.430**	**100,0**	**1.394.184**	**100,0**

Total balance sheet value of the Company property as at 31 December 2012 amounts to 1,45 billion kuna which compared to the same day last year represents an increase of 52,2 million.

In the structure of property position, mentioned increase is generated by the increase in tangible fixed assets in the value of 90,4 mil kuna due to a significant investment cycle during 2012 that exceeds 186 mil kuna, and among which the reconstruction of hotel Laguna Parentium to a 4* level sets itself apart. This led to strengthening of tangible fixed assets in the structure of the property positions from 72,3% at the end of year 2011 to a 76% in year 2012.

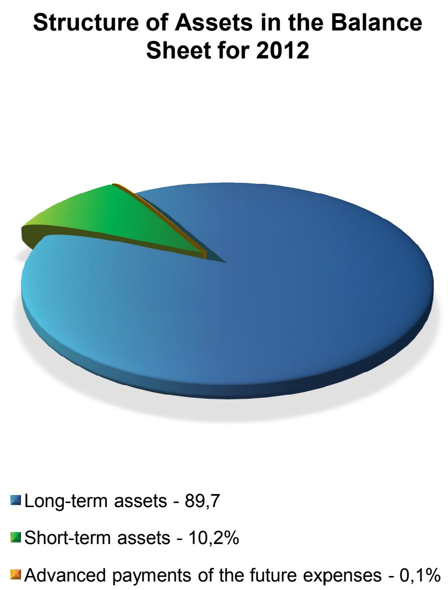
At the same time, current assets decreased in value for 35,2 mil kuna which is the effect of financing the investment cycle from own resources, savings and operating earnings in 2012. Within the same category, receivables increased due to higher amount paid on the basis of corporate income tax, considering the Company, in accordance with the Income Tax Act used the tax benefit for reinvested profit for 2012. The same needs to be entered into the original capital within six months from filing tax returns.

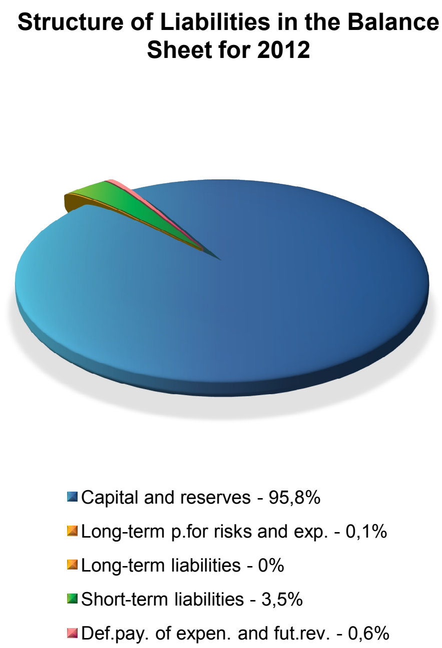
Mentioned movements confirm the dominant share of fixed assets in the term structure of active property position (89,7%).

In the structure of liabilities of balance sheet positions, it is necessary to note the high share of share capital and reserves as at 31 December 2012 that amounts to 95,8% and increased by 45 mil kuna.

Mentioned increase in the value of the share capital and reserves is determined on the one side by the profit in the current year of 106,3 mil kuna and on the other side by the dividend payment to shareholders of the Company in the amount of 58,6 mil kuna and the decrease in value of other reserves based on the revaluation of financial assets available for sale in accordance with the IAS 39 (2,7 mil kuna).

Indicators such as liquidity coefficient (2,5) and debt to equity ratio (4,4%) with a complete absence of credit indebtedness indicate financial stability of the Company as a basic premise for future growth and development.



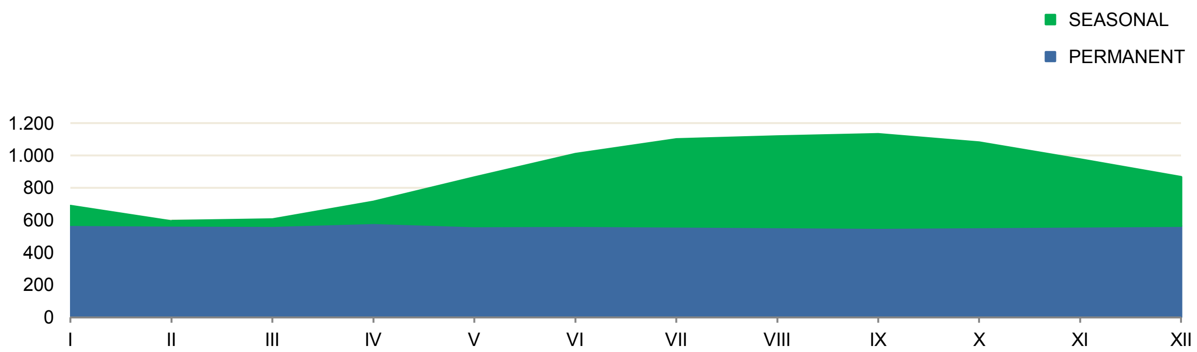


Employment

DESCRIPTION	2012	%	2011	%	INDEX
PERMANENT	563	62,7	585	63,4	**96,2**
SEASONAL	335	37,3	337	36,6	**99,4**
TOTAL	**898**	**100,0**	**922**	**100,0**	**97,4**

In accordance with the physical volume of business realized, Plava laguna recorded a 2,6% decline in total employment in 2012 compared to the previous year, which was greatly affected by the late opening of hotel L.Parentium due to investment.

Average number of employees in 2012
(based on the hours paid)



Opening of the renovated hotel Laguna Parentium in the peak season marked the year 2012 in the segment of seasonal employment.

Thanks to centralized human resources management functions as well as to the well-established recruitment process, required number of personnel of the right structure has been secured for the tourist season on time.

For the purpose of continuous improvement of service quality, a special program has been designed for the introduction of new employees to the work called Customer care, through which pass all the new workers during the first days of their involvement in the company.

In the area of education, well-established programs continue to be carried out and through the scholarships in collaboration with the Faculty of Tourism and Hospitality Management Opatija, professional education has been made possible for several employees with the acquiring of the title "Food and beverage department specialist".

INVESTMENTS

In accordance with the strategic orientation towards process improvement of Plava laguna's assets, also during 2012, further development of the company continued with large investment activities aiming at raising the quality of accommodation and services.

Total value of capital investments in the observed year amounted to 186,1 million kuna.

Investment activity in 2012 was marked by a particularly demanding project of a thorough reconstruction of hotel L. Parentium into a 4* category with very high criteria for creating an excellent product, given the importance and traditional role of the hotel.

With the stated investment, company's offer has been enriched with an exclusive hotel that relying on its unique location offers an atmosphere of relaxation and leisure, enhanced with the experience of water and culinary delights.

Among other most important investments, the following can be distinguished:

- Decoration of the restaurant, terrace, pool terrace, accommodation units interior and part of the beaches in the tourist resort L. Galijot
- Reconstruction of parts of public and outside areas, arrangement of the swimming pool area with the sunbathing deck and a pool bar with terraces of hotel L.Materada
- Replacement of a part of the exterior woodwork and furniture, and arrangement of a beach promenade of the tourist resort L.Bellevue
- Arrangement of the swimming pool area with the sunbathing deck in campsites Bijela Uvala and Ulika
- Other investments in the beaches and landscaping.

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

Developmental cycle of the Company to present day is the product of a comprehensive approach to the design, planning and implementation of projects that determine the company identity. Capital investments have been carried out taking into consideration the clear vision and goals harmonized with the demands and needs of the market, which determined the actual structure of the quality of accommodation facilities but also other assets of the Company. At the hotel accommodation level, this resulted with a consolidation of three-star category facilities which in year 2012 accounted for a share of 46,3% of the total hotel capacity.

In recent years, investment activities in particular, have been directed towards the refinement and modernization of 3* facilities and especially hotels Laguna Mediteran and Laguna Materada, creating a more comfortable and attractive experience for guests. Thus, differentiation from the existing accommodation class these hotels belong to is accomplished, generating added value that demand recognizes and adequately evaluates.

Significant part of the offer consists of two-star category hotel facilities with a share of 22,2% and for which improvement of processes, with the intention of keeping the existing category, lasted from 2008 to 2011 and included refurbishment of the accommodation units and common areas, as well as outdoor horticulture arrangement. Positive effects of investments are reflected in the remarkable achievement of price levels while preserving the sales market.

Singularly the largest capital investments since 2000 to the present day are realized in the thorough reconstruction of hotels mainly 2* category but also 3* category in order to meet the 4* quality level with which the share of the same reached 31,5% in 2012.

Particularly demanding reconstruction project of hotel Laguna Parentium, the Company started close to the end of the reporting year 2011. The complexity of this investment reflected itself in the significance and the perception of the hotel that has its historical dimension, thus creating an even stronger commitment to create an excellent product. The project was based on the structure and the scope of investment that would exceed the requirements for acquiring the 4* category. The hotel was opened on 4th of August, 2012 and relying on an exclusive location offers an atmosphere of relaxation and leisure, enriched with the experience of water and seasoned with culinary delights.

During 2012, the Company prepared for the implementation of the Hotel Bonavia j.s.c. merger procedure with legal validity starting from 1st of January, 2013 with which the tourism portfolio of the company has been enriched with a 4* hotel of a different business model.

In the future, there is the impending work on drafting new design solutions for four hotels with former Lotos prefix in their names (Zorna, Plavi, Gran Vista and Laguna Istra).

In the structure of apartment capacity, alongside more than half the share of four-star accommodation units, the challenge in finding and developing the optimal product is represented in the apartment Villa Astra, two-star category with 504 beds and the apartments of Laguna Park.

An important component of the company's products is carefully preserved and cultivated environment. Stated commitment has been transformed into development policy through which an aliquot part of the funds is being directed to landscaping as well as arranging the beaches for many years now.

During 2011, the Company has timely performed all necessary steps and actions stipulated by the Law on Tourist and Other Construction Land for the land that has not been evaluated in the transformation and privatization processes and accompanying regulations, and accordingly applied for the concession. This represents an important prerequisite for planning the development of certain segments of the assets, especially campsites.

Furthermore, in future periods, the implementation of the Master Plan for tourist village Zelena Laguna should be planned as the purpose of it is to improve the offer and facilities beyond already existing services, all aiming at the improvement of the overall site.

In addition to the above, opportunities for growth and qualitative changes in the structure of capacity through external growth and acquisitions, will continue to be observed and evaluated.

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 2012, 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 2012, 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 2012 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 2012.

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