



*Annual report on the state of the company*

*Jadranka d.d. Mali Lošinj*

*Consolidated for 2009.*

*Mali Lošinj, 30<sup>th</sup> April  
2010*

## **Contents:**

- 1. Company introduction*
- 2. Letter of the managing director*
- 3. Supervisory Board report*
- 4. The company's development and its future expected  
development Explanation of operating results*
- 5. Explanation of operating results*
- 6. Risks*
- 7. Product and services quality*
- 8. Environment protection*
- 9. Investments*
- 10. Employment*
- 11. Shareholders' structure*
- 12. The most significant business events*
  - a. Current business year*
  - b. Events after the business year*
- 13. Acquisition of the Company's own shares*
- 14. Statement of the Management on the presentation of true  
operating data*
- 15. Statement on financial statements' review*

## ***1. Company introduction***

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JADRANKA d.d. Mali Lošinj, Dražica 1, was reorganised and registered as a joint-stock company on 23 October 1992, in accordance with the Decision No. 01-02/92-06/444/II of the Croatian Agency for Reconstruction and Development.

According to the Charter in force, adopted in October 2002, the share capital of the Company amounts to HRK 332,484 and it is divided into 332.484 ordinary shares, each having the nominal value of HRK 1,000. The shares are quoted on the Zagreb Stock Exchange pursuant to the Regular trading regime and they are identified by the JDRA-R-A ticker.

The Company's Personal Identification Number (OIB) is 70741052040, and the Company Registration Number (MBS) is 040027578.

The joint-stock company has the General Assembly, Management Board and Supervisory Board.

Members of the Management Board: Darin Lekić, Chairman of the Management Board, represents independently and individually

Sanjin Šolić, Member of the Management Board, represents independently and individually

Supervisory Board: Neven Ivandić, Chairman of the Supervisory Board  
Tatjana Braškić, Vice Chairman  
Dražen Grubišić - Čabo, Member  
Željko Kovačić, Member  
Sanja Trajkov, Member

According to the December 31<sup>st</sup> 2009. report of the Central Depository Agency, the ownership structure on the balance date was the following:

<b>Sector</b>	<b>Security ticker</b>	<b>Amount of securities</b>	<b>% share into the share capital</b>
Croatian natural person	JDRA-R-A	68856	20,71
Financial institution	JDRA-R-A	44498	13,38
Issuer-treasury account	JDRA-R-A	27339	8,22
Public sector	JDRA-R-A	8485	2,55
Foreign person	JDRA-R-A	2205	0,66
Company	JDRA-R-A	181101	54,48
<b>total</b>		<b>332484</b>	<b>100,00</b>

On 31 December 2009 the Company had 61 employees (on 31 December 2008 the Company had 62 employees).

## *2. Letter of the Chairman of the Management Board*

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Dear shareholders, employees and business partners of Jadranka,

During its lifetime, the Jadranka company has managed to change and, very often, to be a leader in changes. A new development cycle that is ahead of us is a result of years-long deliberation involving all Jadranka employees.

We are aware of the fact that a sustainable and competitive tourism development is based on preservation of natural values, cultural identity and distinctiveness of offer tailored to meet individual needs of our guests.

Proceeding from the need to distance ourselves from undifferentiated mass tourism, i.e. the need to create a mixture of various and recognisable tourist products, and bearing in mind the extraordinary natural features of Lošinj, especially the climate, air and sea clarity as well as the abundance of different medicinal natural factors, the Jadranka management team has set itself the following mission:

- Commitment to creating products and services with the identity of healthy living, intended for customers with higher expectations.

Whilst doing so, we have also set ourselves the following tasks, which we shall carry out with equal dedication and determination:

- Preserving permanent values of the Lošinj area and its heritage
- Encouraging economic development of the local community
- Continuous education of our staff and providing a stimulating work environment.

Building from this mission and understanding the features and changes around us, as well as own strengths and weaknesses, while planning a future business strategy of Jadranka we have reached the conclusion that the only justified strategy is the one which will generate the growth of business performances, primarily by ensuring an increase in quality and profit.

Three factors that represent the key points of this strategy direction are:

- Investments, but equally important
- Investment into employees, their knowledge and skills, and
- Implementation of new innovative concepts into business activities.

The growth strategy implementation was planned in two phases.

From 2005 – 2007 we went through a business activities rationalisation phase and the phase of meeting prerequisites for carrying out the second phase – growth strategy implementation phase.

The growth strategy implementation phase is planned for 2008 – 2013. It started with the opening of a renovated Wellness hotel Aurora 4\* in June 2008 and continued with the opening of the Family hotel Vespera 4\* with outdoor pools in May 2009.

Implementation of the growth strategy is based on the following activities:

- Realisation of asset management plans, as well as investments into upgrading the quality of services in commerce and camping
- Realisation of competitive advantage concepts.

When developing the strategy, we did not wish to limit ourselves only to the quality of resources we all use.

Therefore, we have developed three basic concepts with which we can compete not only in Croatia, but in the relevant competitive environment, as well.

We wish to place the customer into the foreground in all activities and, at the same time, personalise the service. In the process, through corporate culture development we wish to put great efforts into cherishing of service culture.

Furthermore, we wish to provide our customers with the true Lošinj experience in all its aspects, from the one we in Jadranka may provide him to all those products and services in the creation of which numerous other local economic and social subjects are involved.

The healthy life specialist concept is the strategy's central concept and fundamental competitive advantage which is the basis for the Jadranka development concept.

Jadranka wishes to be recognised on the market as the best provider of healthy holiday services on the Adriatic, which means that Lošinj also has to and wishes to be recognised as the best destination for a healthy life and healthy vacation on the Adriatic.

This implies the implementation of numerous measures and activities and, when talking about things we will do, it has to be emphasised that, within the Hotels and camps activities, our aim is the following:

- Leader position in the thalassotherapy for tourists
- Defining of distinctive market zones with rich wellness facilities, activities, out-doors stays, healthy local cuisine offer and green hospitality concept.

When it comes to commerce, we will primarily specialise in certain segments of demand, stimulate diversification of local produces and upgrade our services.

Within the food offer we will insist on the following:

- Autochthonous products, authenticity of quality and synergy between production for hotels and camps, as well as for a wider market.

In 2009 documentation was prepared for the construction of a new bakery and pastry shop, which should start with the production in May 2010. This presupposes a significant improvement in the production of bakery and confectionery products for our hotels, but also in sales in our retail facilities.

When the roof concept of a healthy life and healthy vacation comes in line with the Jadranka hotel portfolio, major investments were initiated in the autumn of 2007 and a newly renovated

hotel Aurora 4\* was opened in the 2008 season, while in the 2009 season the family hotel Vespera 4\* was opened with an outdoor pool complex between the Aurora and Vespera hotels. In 2009 activities were initiated regarding the drafting of documentation for the hotel Punta reconstruction – All inclusive hotel & village Punta 4\*, which is planned for the autumn of 2010.

Afterwards, major works will follow in other zones which we are planning to specialise in the production of a healthy vacation concept, but with major differences which must ensure the desired market position and needed business performances.

In this way, Čikat with the new Helios hotel may become the Croatian leader in healthy tourism, i.e. tahalassotherapy for tourists.

Apart from the important distinguishing of products, Jadranka's asset management concept also envisages major quality upgrading of the hotel facilities, which will surely ensure a new prestigious position for both Jadranka and the whole Lošinj.

We are aware of the fact that this is a very ambitious plan and that many things will have to be learnt and many actions undertaken.

This, among other things, requires partners at various levels who will help us gain required knowledge and skills, as well as communicate with the market. Therefore, for example, even today we

- are trying to penetrate brand new markets,
- have established the ISO 9001 quality management system and ISO 14001 environmental management system,
- are opening the training and education department,
- have contracted external experts, as well as initiated a range of other activities.

Despite the global economic crisis, the Jadranka Group companies have managed to retain successful business results in 2009. This has required from both the Jadranka management and all employees additional care during business monitoring, and especially when reaching decisions on further investments planned in the 2010-2012 period according to the Capex plan.

Even though tourism is highly susceptible to crises, new products and significant marketing activities will enable us to successfully weather this crisis.

The Jadranka development project is also the project of the Town and every inhabitant of Lošinj, and of the Croatian tourism, as well.

Chairman of the Jadranka d.d. Management Board

Sanjin Šolić

### ***3. Supervisory Board's Report to the Shareholders' Meeting***

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“JADRANKA” joint stock company  
Hotels and commerce  
Mali Lošinj  
SUPERVISORY BOARD  
Mali Lošinj, 29 April 2010

Pursuant on Article 263 paragraph 3 of the Companies Act, and in accordance with Article 30 of the Articles of Association of “JADRANKA” d.d. Mali Lošinj, Dražica 1, the Supervisory Board of “JADRANKA” d.d., at its 21<sup>st</sup> meeting held on 29 April 2010, adopted the following

#### **REPORT**

##### **on the supervision of “JADRANKA” d.d. Mali Lošinj business activities**

I In 2009 the Supervisory Board continuously monitored the Company's business activities, as well as the performance of the Company's Management Board. During that period, the Supervisory Board held five meetings, and at these meetings it supervised business activities of “JADRANKA” d.d. and, accordingly, passed decisions pursuant to the Articles of Association and the law. In 2009 the Supervisory Board examined and monitored the Company's business activities, analysed the state of the Company, business activities' plans and result estimates submitted by the Management Board in 2009., adopted the Jadranka d.d. Business Plan and information on the 2009 Jadranka Group Members' Business Plans and examined, adopted, and thereby also determined the Company's 2008 Annual Financial Statements and the Company Auditor's Report.

The Supervisory Board examined and adopted: Jadranka trgovina d.o.o. 2009 – 2014 Business Plan, Jadranka kampovi d. o. o. 2009 -2013 Business Plan, Kamp Slatina d. o. o. 2009 -2013 Business Plan, Operation Analysis of Jadranka Extra Service Facilities, Internal Accounting Control and Internal Audit Analysis, and adopted an action plan for establishing a more effective system thereof.

A new Supervisory Board convocation was constituted, with unchanged composition, and the Chairman of the Supervisory Board Neven Ivandić and Vice Chairman Tatjana Braškić were elected to their respective functions.

The Supervisory Board also examined and adopted: 2010 Business Operation Objectives of Jadranka Group Companies, Problems with regard to the Jadranka d.d.

bonds' maturity in 2012, and gave a prior consent for the conclusion of a agreement on transfer of business shares of Kamp Slatina d.o.o.

II In accordance with its obligations, the Supervisory Board carried out the supervision and examined the Company's business records and documentations, ordered the auditor to review the Company's annual financial statements and established that "JADRANKA" d.d. operates in accordance to the law, the Articles of Association, other Company acts and decisions of the General meeting.

III Following the review of the Management Board's Report on the state of the Company, as well as the Company's 2009 financial statements and the company auditor's report, the Supervisory Board determined that the Management Board's Report on the state of the Company and the annual financial statements have been prepared in accordance with the balances recorded in the Company's business records and that they fairly disclose the assets and the financial condition of the Company. Consequently, the Supervisory Board establishes that it has **no comments** with regard to the submitted annual financial statements, and that it also has no comments with regard to the Company Auditor's Report on the audit which was carried out for the year 2009, and thereby **adopts** the Management Board's Report on the state of the Company, **agrees** with the "JADRANKA" d.d. annual financial statements for the year that ended on 31 December 2009 and **adopts** the Company Auditor's Report.

The "JADRANKA" d.d. annual financial statements for the year that ended on 31 December 2009 adopted in this manner include the following: "JADRANKA" d.d. profit and loss account, balance sheet, report on all capital changes, cash flow statement and report on the audit carried out by the auditing company "Inženjerski biro-revizija" d.o.o. from Rijeka.

IV The Supervisory Board received the proposed decision of the Company's Management Board on the utilisation of the Company's profit generated in 2009, which reads as follows:

I The Company's 2009 net profit amounting to HRK 4,363,741.50 have been determined.

II A part of the 2009 profit (5 %) amounting to HRK 218.187,08 will be allocated to statutory reserves.

III Realised profit amounting to HRK 4,145.554,42 will be allocated to retained earnings.

The Supervisory Board agrees with this proposal of the Management Board and, therefore, accepts that the proposal of this Decision be submitted for adoption by the "JADRANKA" d.d. General meeting.

V Pursuant to Article 276 of the Companies Act, the General meeting of "JADRANKA" d.d. makes decisions with regard to giving clearances to the members of the Management Board and Supervisory Board of "JADRANKA" d.d. By giving

a clearance, the General meeting approves the way the members of the Management Board and Supervisory Board managed the Company during the previous period and, therefore, giving a clearance actually means that they are entrusted with the future administration and management of the Company.

VI. The Supervisory Board submits this report to the General meeting of “JADRANKA” d.d. and proposes that it adopts the following:

1. Decision on the adoption of the Management Board’s report on the state of the Company
2. Decision on the adoption of the Supervisory Board’s report on the supervision of the Company’s business activities
3. Take note of the annual financial statements for the business year 2009 and the Company Auditor’s Report, as determined by the Management Board and the Supervisory Board
4. Decision on utilisation of profit generated in 2009
5. Decision on giving a clearance to the Company’s Management Board, approving its performance in 2009
6. Decision on giving a clearance to the Supervisory Board members, approving their performance in 2009
7. Decision on the appointment of NEXIA REVIZIJA d.o.o. Zagreb, Koranska 16 as the Company’s Auditor for 2010

Chairman of  
the Supervisory Board:  
Neven Ivandić, m.p.

## ***4. Company Development and Anticipated Future***

### ***Company Development***

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The basic goal of the Jadranka d.d. business activities is the development of affiliates and their provision of top quality services.

The Strategic Business Activities Plan of Jadranka d.d. adopted the mission and vision which steers the development in all companies of the Jadranka Group.

#### **Mission**

Provide its customers with a pleasant and healthy living, by quality and eco friendly:

- provision of hotel and camping services,
- provision of trade services,
- provision of food production services.

While doing so, our mission is to, dedicatedly and persistently:

- create products and services with the “healthy living” identity, intended for customers with higher expectations
- provide individualised services, placing the customers at the focus of our attention
- preserve permanent values of the local community’s area and heritage
- be a responsible agent in the local community’s economic development
- educate continuously our own staff and provide a stimulating work environment.

#### **Vision**

Our vision is to be the most innovative organisation in the Istria and Kvarner areas in all its business activities, renowned around the world and recognised in Croatia for its usage of the best practice available and for recognising the environmental protection principles.

Within this framework, the Jadranka Group:

- when it comes to tourism, provides the best healthy vacation experience on the Adriatic
- when it comes to commerce, always provides a rich choice of articles, carefully chosen according to the needs of various customers
- when it comes to food, introduces healthy diet into its own hospitality facilities, into the Croatian offer, as well as in the home
- when it comes to real estates, provides a safe investment into “stress-free ownership”.

The establishment of the ISO 9007 quality management system and ISO 14001 environmental management system provided for the:

## Quality and Environment Policy

Business success of the Jadranka Group is based on the efforts of all employees to meet the customers' demands.

We are trying to satisfy our customers, as well as our other interested parties (owners, employees, suppliers and the community within which we operate) by using the quality management system and the environment management system established according to the ISO 9001 and ISO 14001 international standards.

The quality and the environment management system is established and maintained in such a way that employees at all levels, with the management on top, have the responsibility to:

- adhere by the laws and other binding regulations,
- recognise and meet the customers' requests and needs,
- prevent environmental pollution,
- protect the health and safety of people,
- manage natural resources responsibly,
- act pursuant to the stipulated procedures and assigned responsibilities,
- continuously improve the effectiveness of its own procedures and business processes.

The Management ensures the regular setting of annual goals regarding the quality and the environment in order to enable the fulfilment of general goals and policies stipulated in this document.

Every company belonging to the Jadranka Group has adopted its 5-year business plan, as well as an asset management plan.

Jadranka hoteli d.o.o. 2008 – 2012 business plan envisages that all hotels will be upgraded from the average of 3\* to 4\* and 5\* until 2012. The year 2008 saw the opening of the renovated hotel Aurora 4\* with 391 accommodating units and wellness centre, and in 2009 the renovated hotel Vespera 4\* - family hotel with 404 accommodating units and an external pool complex – was opened. Reconstruction of the hotels Punta 4\*, Bellevue 4\* and Alhambra 5\* is planned in the 2010 – 2012 period, as well as the construction of the new thalasso hotel Helios 4\*. Apart from the renovation of the facilities itself, it is also planned to renovate the beaches, the landscape and the sports offer, as well as to reconstruct the extra service facilities.

Every hotel is adjusted to a special type of customers, but they all follow the main principle: Lošinj – the vitality island.

The 2009 – 2013 business plan of Jadranka kampovi d.o.o. and Kamp Slatina d.o.o. envisages a gradual reconstruction of all 3\* - 4\* campsites. However, campsites still cannot be renovated due to unresolved status of tourism land plots.

The 2009 – 2013 business plan of Jadranka trgovina d.o.o. envisages the construction of a new bakery and pastry shop, as well as of a new Market in Veli Lošinj.

All companies belonging to the Jadranka Group plan to upgrade continuously the quality of services and to increase the market share.

## 5. Explanation of operating results

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### Consolidated operation of the Jadranka Group

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Jadranka Group generated **consolidated operating revenue** in the amount of HRK 328,38 mil, which is 1% ( HRK 3,52 mil) more than in 2008.

The **operating expenditures** amount to HRK 316,05 mil., which is 0,5% more than in 2008. The increase of operating expenditures was mostly due to the 2% increase of the staff costs ( Jadranka hotels more employees in new hotel Vespera and outdoor swimming pool).

The **cost of amortisation** amounting to HRK 27,16 mil. is 39% (HRK 7,6 mil) higher than in 2008. The reason is the increased amortisation of the reconstructed hotel Aurora 4\* and Vespera 4\*.

**Financial revenues** amount to HRK 14,89 mil. this is 39% less than in 2008. In 2008, financial revenues equal HRK 5.2 mil. were generated by the sale of Jadranka hotels d.o.o. business shares.

**Financial expenditures** of HRK 14,89 mil. are 39% higher than in 2008. The increased costs pertain to the interests concerning the Aurora and Vespera investments.

**The profit** of HRK 3,51 mil. is 71% (HRK 7,46 mil ) less than in 2008.

	2008	2009	09/08
Operating revenue	325.376.986,00	328.389.603,00	101
Operating expenditures	314.523.030,00	316.054.881,00	100
Op.expend - amortisation	294.962.647,00	288.891.561,00	98
Amortisation	19.560.383,00	27.163.320,00	139
EBITDA	30.414.339,00	39.498.042,00	130
EBIT	10.853.956,00	12.334.722,00	114
rate EBITDA	9,35	12,03	129
rate EBIT	3,34	3,76	113

EBITDA amounted to HRK 39.49 mil and increased by 30% compared to the 2008., but also increased the rate of EBITDA to 12.03%.

EBIT amounted to HRK 12.33 million , and increased by 14% compared to the 2008.

**Assets** amounting HRK 919,49 mil, largest share in the assets structure has fixed assets 91%, while current assets have a share of 9% in the structure of assets.

**Fixed assets** amounted to HRK 805.68 mil, with a growth of 11%, growth brings increased value of building by 20%, plant and equipment by 39% and the tools and the like. 20%, upward influence on the reconstruction of the hotel Aurora and Vespera.

**Current assets** amounted to HRK 78.53 mil , and decreased by 27% compared to the 2008. Most of the current asset relates to the current financial assets amounted to HRK 41.92 mil, and decreased by 35% compared to the 2008. Current financial assets relate to assets in a separate account Jadranka hotel from EBRD equity used for investments, reduce relates to investment in hotel Vespera. Inventories amounted to HRK 19.5 mil and increased by 10% compared to the 2008., the increase applies to raw materials ( increase in inventory in the new hotel Vespera), a stocks of merchandise decreased by 13%.

**Receivables** amounted to HRK 15.42 mil, and decreased by 25% compared to the 2008. Increased receivables from the customers by 33% (the amount of 11.13 mil kn), and it decreased by 65% due from the state and other institutions (the amount of 2.89 million EUR).

**The structure of liabilities**, with 67% participating equity, 26% long-term liabilities and 7% of current liabilities.

**Capital and reserves** in 2009. year amounted to HRK 614.2 mil, 1% less than last year.

**Long-term liabilities** amounted to HRK 242.96 mil, increased by 37% compared to the 2008. Because of increase borrowing for investment in hotelVespera. Liabilities for long-term loans were in 2008. amounted to HRK 98.59 mil and in 2009. amounted to HRK 166.58 mil. A part of long-term liabilities are relating to the issued bonds worth HRK 75.00 mil.

**Current liabilities** amounted to HRK 61.37 mil less by 16% compared to the 2008. The greatest reduction brings drop in supplier payables by 48% (was HRK 20.2 mil in comparison to HRK 38.9 mil in 2008.) because of pay obligations for investments, and increasing the short-term bank loans by 29% (amount to 23.28 million EUR).

### **Conclusion:**

*Jadranka Group Companies are in the recession year been able to maintain operations at the level of the 2008th, and the rationalization of the cost in most companies improved profits. Only Jadranka hotels made a loss in business, and it is the impact of investments in hotels Aurora and Vespera (increase depreciation and interest on loans). Crisis years did not make the planned revenue growth that was supposed to absorb increased expenses for investment in property.*

*The decrease in consolidated profit are for the most impacted lower financial revenues (- HRK 5.2 mil kn from the sale of shares in Jadranka hotels), and increase the cost of depreciation (+ HRK 7.6 mil kn) and interest expenses (+HRK 4.16 million).*

## ***Jadranka d.d.***

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**Revenues** – generated revenues in the amount of HRK 21,6 mil. Are 3% higher than planned and 10% lower than in 2008.

The difference when compared to 2008 relates to the leasing revenues of Jadranka Group.

**Labour costs** – incurred costs in the amount of HRK 9,9 mil. are 8% lower than planned and 7% lower than in 2008.

**Departmental costs** – generated in the amount of HRK 4,5 mil. They are 15% higher than planned and 17% lower than in 2008. When compared to 2008, most of the savings relate to the services regarding the entry of EBRD in Jadranka hotels.

**Energy and water** – the cost in the amount of HRK 309.056,00 is 52% higher than planned and 22% higher than in 2008. The increased cost relates to the leased facilities, the cost of which will be refunded.

**GOP** – all aforementioned items have generated the GOP in the amount of HRK 6,85 mil., which is 12% better than planned, and 18% better than in 2008.

**Fixed costs** – in the amount of HRK 490.456,00 are 9% lower than planned and 3% higher than in 2008.

**Amortisation** – in the amount of HRK 3,45 mil. is 2% lower than planned and 10% lower than in 2008.

**Financial revenues** – the revenues in the amount of HRK 9,3 mil. is 44% lower than planned and 5% higher than 2008. In 2008 the revenue in the amount of HRK 5,228 mil. was generated by sale of business shares of Jadranka hotels. The main impact on the failure of financial revenue has delayed "call" options to buy 1.64% stake in Jadranka hotels from EBRD for 2010, which is why not in 2009. be the income of a favourable purchase HRK 6,98 mil. The revenue earned from the participation in the profits are lower than planned for 16% or HRK 1,44 mil in order to achieve a smaller revenue share in the profit of its members.

**Financial expenditures** – in the amount of HRK 7,8 mil. are 10% higher than planned and 20% higher than in 2008.

**Profit** - in the amount of HRK 4,36 mil. is 62% lower than planned HRK 11,59 mil. and 15% higher than in 2008.

### ***Conclusion:***

To the profit of Jadranka d.d. have a negative issue a lower income from financial revenues. The main impact on the failure of financial revenue has delayed "call" options to buy 1.64% stake in Jadranka hotels from EBRD for 2010, which is why not in 2009. be the income of a favourable purchase HRK 6,98 mil. The revenue earned from the participation in the profits are lower than planned for 16% or HRK 1,44 mil in order to achieve a smaller revenue share in the profit of its members.

## ***6.Risks***

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A risk in the business of Jadranka Group is related to risks in the business of the subsidiaries: Jadranka hoteli d.o.o., Jadranka trade d.o.o., Jadranka camps d.o.o., Camp Slatina d.o.o. Therefore, as stated in the business risks related to these companies. The risks to the business enterprises of Jadranka Group, directly in the business Jadranka, we can share the risks to which the Group has no direct influence, such as political, financial (in terms of changes in markets) and commercial risk (in terms of changes in trends), and the risks to which the Group may be affected by their operations ( business risk and the specific financial risks).

### **6.1. Political risk**

The certain country political risk includes all the risks related to possible political instability, what ultimately has an effect on its integrity. Taking into account the present home and foreign affairs, R of C is considered a stable parliamentary democratic country.

Since its independency and international recognition, the basic national tendency of Republic of Croatia was developing a democratic state, rule of law and a sustainable economic growth. Most of the reform processes aiming at those aspirations actually, derive from and are adjusted to EU standards. The fact of acquiring a full membership in European Union represents a national interest and one of the strategic aims of the R of C Government politics.

In terms of reviewing the country's political risk, the support that Republic of Croatia enjoys among the present and future EU members regarding its membership and support of entering NATO, is to be emphasized. Inevitably, the mentioned facts have a positive impact on the international perception of Republic of Croatia economic growth.

Since implementation of stabilization and association agreement of Republic of Croatia with European union (SAA), which entered into effect on 1 of February 2005, Republic of Croatia started to fulfil the political, economic and legal criteria rapidly. The official start of negotiations on joining the EU, on 3 of October 2005, additionally intensified activities regarding European norms and standards adjustment.

The significant element of the mentioned agreement is strengthening the regional cooperation, what has a direct impact on broader region stability strengthening. This stability, being one of the necessary conditions for the successful economic growth, is completely complemented with Croatian economic interests.

Open questions regarding Republic of Croatia and its neighbours, do not have an impact on state's political stability, but actually stands for country's strategic and economic interests legitimate representing in international relations, what are doing the other developed countries.

### **6.2. Croatian legal system**

Since Croatia is still under the process of transition and adjusting its legal system to EU norms, there is still no complete legal system which could be comparable to legal systems of other

members. Nevertheless, in the process of adjusting the Croatian legislation with *acquis communitaire*, the intensified legislation activity is in progress, which is to result, in a near future, with such a system.

The law solutions (laws and provisions) that are regulating issues of companies, contracting relations, ownership, market competition, insolvency, securities, taxes and other areas important for economic activity in the country, are just recently adopted, what results in insufficiently stable, known and relevant court and administrative practice, that is, those provisions insufficiently stable implementation and interpreting.

Besides, in Croatian legislation is present a large number of unsettled disputes, what significantly impacts the efficiency of providing legal security to domestic and foreign business subjects, having important economic implications, primarily regarding foreign investments. These failures removing will have a significant impact on economic development of RC.

The risk of changing legal regulations and regulatory surrounding is present in every industry. Every change in rules of market competition has a certain impact on way of doing business and financial position of participants in the market.

Main provisions which regulate the field of catering industry and tourism in Republic of Croatia are the following:

- a) *Zakon o ugostiteljskoj djelatnosti* /Law on catering and accommodation business (NN no 49/03 the consolidated text and 117/03)The consolidated text includes law on catering business/*Zakon o ugostiteljskoj djelatnosti* («Narodne novine», no 48/95) and its changes and amendments published in «Nardodne novine» no 20/97, 46/97 . consolidated test, 68/98,45/99,76/99, 92/01,117/01 and 4/02)
- b) *Zakon o turističkoj djelatnosti*/ Law on tourism (NN no8/96, 19/96 ( correction) and 76/98)
- c) *Zakon o turističkim zajednicama i promicanju hrvatskog turzima*/Law on tourists offices and Croatian tourism promotion (NN no 30/94)
- d) *Zakon o boravišnoj taksi*/Law on residence tax (NN no 35/95- consolidated text (correction)42/95 (correction) 52/95 and 64/00)
- e) *Zakon o članarinama u turističkim zajednicama* /Law on fees in tourism offices (NN no 35/95 – consolidated text and 52/95 (correction))

Apart form the mentioned laws, the legal framework for hotel industry and tourism consists of many implementational legislation (regulations, acts, orders and instructions)

### **6.3. Risk concerning exchange rate, loan and interest rate**

Activities undertaken by the Group actually generate different financial risks, including effects of market prices changes and changes in foreign exchange rate and interest rates.

Due to the nature of tourist company's business, which are significantly exposed to movements of kuna exchange rate towards EUR, being partially dependent of movements of kuna exchange rate towards USD and CHF, results of Jadranka hoteli business operation could be in influenced by the mentioned currencies value change.

Jadranka hoteli does not use the derivative instruments for active protection from the exposure of financial risk.

Risks related to kuna exchange rate primarily derive from the possibility of kuna appreciation, what could, under the conditions of insufficiently developed insurance system regarding such risks in the domestic market, have a negative impact on realizing the business results due to revenues realized in foreign currency and expenses kuna-related mostly. On the other side, although the kuna devaluation can also generate the positive effects on business results, higher devaluation could have a negative impact on generating the domestic demand due to the purchasing power of domestic population.

The risk of liquidity management implies maintaining the sufficient level of cash and working capital and ensuring availability of the financial funds in form of loans.

Financial assets which could potentially bring Jadranka hoteli in credit risk involves mainly cash and purchaser claims. Jadranka hoteli has its cash in big banks. Debts from purchasers are indicated as decreased for reserves regarding questionable and doubtful debts.

#### **6.4. Industrial/sector risks**

##### *i. Image of Croatia as a tourist destination*

Tourist market is primarily influenced by the demand, what, with the basic motives of tourist movements being rest and recreation in natural environment, influenced tourism orientation. The tourist destination positive image is a key factor of its successful breakthrough and marketing. In the last three years all the quality trends and forecasts of tourist movements indicate an increasing demand for naturally attractive and ecologically preserved destinations which certainly include Kvarner, what is a comparative advantage.

Croatia has a really good image in the foreign market and real chance for a significant tourist increase in relation to the Mediterranean countries. The chance for further development is primarily seen in increase of accommodation capacities and service quality.

Pursuant to the mentioned, and due to the closeness of the generating markets, it can be expected that, provided for the political stability in a broader region, the tourist sector of Primorsko-Goranska County enters a cycle of business operation stability and normalization.

Special emphasize is to be put on significant presence of congress tourism, contributing to tourist season lengthening, particularly regarding the Primorsko – Goranska County.

Investments in transport infrastructure should also enhance more tourist arriving in this area. In the course of last five years Republic of Croatia invested significant funds in development and construction of road infrastructure, thus connecting Primorsko-Goranska County with all the surrounding countries (Italy, Slovenia, and Hungary via Zagreb). Apart from the mentioned, better traffic connection of the County is to be expected due to the recently announced railway line reconstruction between Rijeka-Zagreb - Hungarian border.

*ii. Pollution of the sea as a natural resource*

Hotel and tourist industry related to resting tourism at sea particularly depends on quality of the sea, being one of the basic resources on which the product is founded.

“Blue flag”, a project of international organization FFE, requires meeting very rigorous criteria regarding sea and beach environment cleanliness, quality of facilities, rich offer, diversity and safety at beach. Since 2003 this high international recognition has been awarded to two beaches in Jadranka hoteli company’s concession, Veli žal in Sunčana uvala and Punta. In 2004 the European blue flag was awarded to 80 beaches and 18 marines in Croatia.

If fact, the high and proven sea quality and quality of other natural factors (for example climate, air) in Mali Lošinj, are considered important factors of Jadranka Hoteli business success. The company’s developmental plans in sphere of thalasso tourism actually add an extra value to natural resources quality.

In that respect, the event of sea pollution, possibly a consequence of pollution spreading from the Kvarner Bay, ships breakdown in Kvarner Bay, result of dirty cargo transport through Adriatic sea or a pollution resulting from insufficient quality of waste waters drainage system on the island of Lošinj, certainly represents a risk for sustaining the present position and for realizing the planned guideline of the future company and destination development.

Risks related to the natural environment are present regardless of the direct threat to natural resources of Mali Lošinj and derive from possible environment quality “jeopardizing” in Croatia in general and, consistently, from the negative country image.

## **6.5. Risks related to the market share – competitive position**

*iii. New projects in Mali Lošinj area*

When it comes to hotel industry, the currently available information do not indicate of some new projects being launched in Mali Lošinj area, the fact which could seriously disrupt the market position of Jadranka hoteli.

It is possible to expect some smaller projects in family hospitality sphere or some related tourist facilities (marina and similar). Those projects are not to jeopardize the Jadranka hotels market position. In fact, they could even contribute to strengthening its position in the market.

*iv. Market share in hotel industry in terms of a broader area*

The broader competitive area of Mali Lošinj could be defined as Istria and Kvarner. In respect of new projects and investments dynamics, Istria certainly represents a significant competitive area. However, the two-sided impact of such development should be borne in mind.

In fact, upgrading the quality in Istria definitely raises attractiveness and image of Croatia as a macro destination, contributing to Mali Lošinj attractiveness as well.

On the other side, such a development could potentially “draw away” part of the guests from Lošinj (decreasing the market share in conditions of development), while, the very qualitative

development in Istria (not the quantitative one) represents a basic danger for the Jadranka market position.

## **6.6. Specific risks**

### *v. Debts*

The current levels of Jadranka hoteli indebtedness regarding the repayment seize and dynamics does not represent a burden to the company business operation. In case of not realizing the planned business results, the indebtedness current level, could, due to refinancing expenses, emerge as an additional expense item.

### *vi. Generating cash for debts repayment*

Due to the seasonal inflow of funds caused by industry features, and the way of debts recovery (agencies, card business and similar), the potential risk can also stem from Jadranka hoteli impossibility to settle the obligations towards creditors in the short run.

### *vii. Development jeopardized by human resources quality*

Preparation and implementation of the development projects, as well as the company strategy implementation are significantly related to and dependent of the available resources, and above all to human resources quality. The risk for Jadranka Hoteli derives from possibility to ensure, quick enough, the development of knowledge and competence of the present work force, and particularly of the present middle and senior management. Besides, the special knowledge /competence in the market are to be acquired. In this respect the following limiting factors are to be accounted for- limiting offer of employees on the island and trend of our high –qualified work force leaving for bigger towns in R of C.

## ***7. Product and services quality***

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In the course of 2007 we worked on ISO system implementation in Jadranka group, that is, ISO 9001:2000; and ISO 14001:2004.

When implementing the ISO system the processes that are partly or completely carried out in Jadranka Group were identified.

In 04 /2008. obtained certification of ISO 9001:2000 and ISO 14001:2004 for all companies Jadranka Group.

In 04/2009. company SGS conducted the audit inspection and confirmed the certification.

Processes implemented through ISO system in Jadranka Group are as follows:

- 1) strategic planning
- 2) operational management
- 3) products and services development
- 4) human resources management
- 5) assets management
- 6) information technology management
- 7) finances management
- 8) Quality, safety and environment management
- 9) Outside relations management

During the preparation for ISO system implementation the mentioned processes were reviewed and accordingly improved.

The special emphasis was put on the service quality improvement through implementing the code of conduct, developing the standard of operations and work instructions. The guest's satisfaction was monitored by implementing verbal and written guests questionnaires while employees satisfaction was monitored in interviews.

## ***8. Environment protection***

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### ***Report on Environmental Management***

The established system of quality and environmental management resulted in satisfactory behaviour of employees, the management and third parties with regard to possible adverse effects on the environment.

It has to be pointed out that in 2009 not a single incident that might have had an adverse effect on the environment was recorded.

The internal audit of the system was carried out in early 2009, and the results showed a certain degree of non-compliance. With regard to the non-compliance referred to in the internal audit, certain activities were carried out in order to eliminate the faults.

Non-compliance was not detected during the supervision audit carried out by a certifying company; however, there were several comments and proposals for improving the system. With regard to the comments referred to in the certification audit, certain activities were carried out in order to eliminate the faults.

In 2009, the wastewater pre-treatment facility was constructed, and the existing wastewater pre-treatment facilities were reconstructed, all of which resulted in the improvement of the wastewater quality and thereby in saving certain financial assets for environmental pollution payments.

The construction of new facilities (new bakery – pastry shop) was initiated at the end of 2009, resulting in new environmental aspects and the need for re-evaluation of environmental aspects.

Supervision and measurement activities, as well as improvement activities were defined with regard to the significant environmental aspects, by which the adverse effect of these aspects could be reduced to a minimum.

Waste management activities (waste separation and quantities of waste) have been carried out satisfactorily. The solution of the problem regarding the collection of certain types of waste (cardboard, paper, toner and edible oil waste) has to be pointed out since the previous collector terminated the cooperation and the Company had to find other authorised waste collectors which were able to accept the appropriate volume of the aforementioned waste and dispose of it in an adequate manner.

Employees and the Management have also been continuously educated on environmental aspects and the importance of natural resources preservation (employee behaviour, energy, etc.) by way of regular controls.

In early 2010 we carried out an emergency situation drill (hotel fire) which confirmed a satisfactory readiness.

### ***Report on Environmental Aspects' Control***

Environmental aspects' control is carried out in accordance with the PL-UKOS.55 Environmental Aspects' Control Plan. This control plan defines the method for carrying out environmental aspects' control with regard to all Jadranka Group locations.

In 2009 we carried out the following measurements:

- Measurement of sea water quality at the beaches (100 % of the respective analysis)
- Measurement of wastewater quality (80 % of the respective analysis)

In 2009 there were no measurements of flue gases from stationary sources.

The results of the aforementioned measurements have shown an increase tendency of respective analyses, particularly the measurement of wastewater where a significant increase of respective analyses was recorded (46.6 % increase). A large percentage of respective wastewater analyses can be attributed to the completion of water facilities' investment cycle (construction and reconstruction of oil and grease separator), as well as to the appropriate maintenance of these facilities (cleaning of separators).

The total respective number of wastewater analyses will be achieved with the completion of the wastewater treatment facility in the campsite Baldarin and with the construction of the pressure and gravity drainage system in the campsite Slatina.

In certain locations control results have shown that the management of waste documentation was not updated (lack of appropriate supporting waste processing sheets – blue sheets). Therefore, authorised waste collecting companies were contacted and asked to submit the requested documentation.

It was also necessary to review the control plan because of the new devices (cooling device with more than 3 kg of active matter) that have service maintenance minutes that need to be controlled (control of active matter quantity), more frequent controls of water structure performance in accordance with the practices of the public utility services company (pressure faecal stations) and heating device maintenance (boilers and flues).

Other activities defined by the Control Plan have been carried out in accordance with the defined control plan.

### ***Report on Inspection Authorities' Findings with Regard to the Environment***

In 2009, the water management inspection carried out one inspection by visiting the locations of the campsites (Čikat campsite, Slatina campsite, Bijar campsite, Baldarin campsite), hotels (Bellevue, Alhambra and Augusta, as well as the laundry) and shops (warehouse service zone).

The water management inspector concluded that the campsite locations comply with the obligations set out in the previous decision. With regard to the unsuitable wastewater quality, the water management inspector issued new decisions for the harmonisation of activities.

The water management inspector established that the point-of-sale location does not comply with the obligations set out in the permit order and, therefore, issued a decision to that end.

Actions have been initiated with regard to the aforementioned findings, and objectives will be defined and programmes drafted for achieving these objectives (action plans).

The water management inspector concluded that the hotel location complies with the obligations set out in the previously issued decision. Since the quality of wastewater on the hotel location was satisfactory, no additional decisions for the harmonisation of activities were issued.

In 2009 the sanitary inspection carried out an inspection of the hotel locations (Punta, Aurora, Vespera and Bellevue). The review established the quantity of chemicals used for disinfecting the pool water. The sanitary inspection findings established the compliance with the obligations and no additional decisions were issued.

In 2009 there were no environmental inspection supervisions in Jadranka Group.

## ***9. Investments 2010.***

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### ***JADRANKA HOTELI d.o.o.***



- Reconstruction VESPERA HOTEL 4 \* with OUTDOOR SWIMMING POOL Sunčana uvala - the value of investments 119,000,000.00 kn,
- Sunčana uvala environment - the value of investments 5,500,000.00 kn,
- DIVIDER of GREASE AND OIL - the value of the works 200,000.00

### ***JADRANKA KAMPOVI d.o.o.***

- CAMP BALDARIN - reconstruction of the roofs of sanitary facilities, "Kamen" 600,000.00 kn
- CAMP ČIKAT - reconstruction of sanitary facilities "Čeh" - 800,000.00 EUR  
- making cable sewage, the value of work - 350,000.00 kn

### ***KAMP SLATINA d.o.o.***

- MAKING LAND electricity + water, the value of works 900,000.00 kn,
- Reconstruction of sanitary III - 3.000.000,00 kn

### ***JADRANKA TRGOVINA d.o.o.***

- REALLOCATION OF GAS STATION AND INSTALLATION IN THE SOLAR COLLECTORS - 550,000.00 kn,

## JADRANKA d.d

- Divider of grease and oil in the restaurants - 178.000,00 kn

*Jadranka Group in 2009. invested a total of 131,078,000.00 kuna, or €18,079,000.00 €.*

## **10. Employment**

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<b>Jadranka Group</b>		
<b>Professional qualification</b>	<b>Number of employees</b>	<b>share %</b>
NKV( unqualified workers)	19	3,06
PKV NSS(semi-qualified workers)	123	19,84
KV (qualified workers)	179	28,87
SSS(secondary school education)	193	31,13
VKV(highly qualified worker)	32	5,16
VŠŠ(staff with university degree-2 years)	32	5,16
VSS(staff with university degree-4 years)	39	6,29
Magistar(staff with university degree-MBA)	3	0,48
<b>Total</b>	<b>620</b>	<b>100,00</b>

## ***11. Shareholders' structure***

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***Ownership structure of Jadranka d.d. Mali Lošinj as of 31<sup>st</sup> December 2009.***

<b>Sector</b>	<b>Security ticker</b>	<b>Amount of securities</b>	<b>% share in the share capital</b>
Croatian natural person	JDRA-R-A	68035	20,71
Financial institution	JDRA-R-A	45120	13,38
Issuer-treasury account	JDRA-R-A	27339	8,22
Public sector	JDRA-R-A	8496	2,55
Foreign person	JDRA-R-A	2287	0,66
Company	JDRA-R-A	180897	54,48
<b>Total</b>		<b>332484</b>	<b>100,00</b>

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## ***12. The most significant business events***

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### ***a) Current Business Year***

In May 2009 the reconstructed hotel Vespera was opened as a “family 4\* hotel”, with 404 accommodating units and out-door pools between Aurora and Vespera. That was the largest investment in tourism in Croatia in 2009.

In December 2009 Jadranka trgovina commenced the construction of the new bakery and pastry shop, an investment worth EUR 1 Mil.

### ***b) After the Expiry of the Business Year***

In January 2010 Jadranka d.d. concluded the agreement on redemption of 12.5 % of the Kamp Slatina company, so that Jadranka d.d. became the co-owner with 62.50 % and the Province of the Franciscans of the Third Order (Glagolitic priests) with 36.5 %.

### ***13. Acquisition of the Company's own shares***

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In the 2009 . there were no acquisitions of the Company's own shares.

### ***14. Statement of the Management on the presentation of true operating data***

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To the best of our knowledge we confirm that:

- 1) the set of interim financial statements for the 2009. , drafted in accordance with the appropriate standards of financial reporting, gives a complete and true representation of the assets and liabilities, profit and loss, financial standing and business operation of the issuer and the companies included in the consolidation as a whole;
- 2) the interim report of the Management contains a true representation of the development and operating results, as well as the standing of the issuer and the companies included in the consolidation, along with a description of the most important risks and uncertainties that the issue and the companies are faced with as a whole.

*Chairman of the Jadranka d.d. Management Board – Sanjin Šolić m.p.*

*Member of the Jadranka d.d. Management Board – Darin Lekić m.p.*

### ***15 .Statement on financial statements' review***

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Consolidated financial statements of Jadranka d.d. for the period 2009. have been reviewed. Annual financial statements are subject to review.

*Chairman of the Jadranka d.d. Management Board*

*Sanjin Šolić m.p.*