



Annual report on the state of the company

Jadranka d.d. Mali Lošinj

Consolidated for 2010.

*Mali Lošinj, 29th April
2011*

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1.1. Company introduction

JADRANKA d.d. Mali Lošinj, Dražica 1, was reorganized 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:

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

Darin Lekić, 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 31st 2010. report of the Central Depository Agency, the ownership structure on the balance date was the following:

Sector	Security ticker	Amount of securities	% share into the share capital
Croatian natural person	JDRA-R-A	69.274	20,83
Financial institution	JDRA-R-A	45.336	13,64
Issuer-treasury account	JDRA-R-A	27.738	8,34
Public sector	JDRA-R-A	8.478	2,55
Foreign person	JDRA-R-A	1.352	0,41
Company	JDRA-R-A	180.306	54,23
Total		332.484	100,00

On 31 December 2010 the Company had 59 employees (on 31 December 2009 the Company had 62 employees).

1.2. Letter of the Chairman of the Management Board

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 recognizable 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 our 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 rationalization 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:

- Realization of asset management plans, as well as investments into upgrading the quality of services in commerce and camping
- Realization 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, personalize 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 recognized 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 recognized 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 emphasized 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 specialize 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 may 2010 start the production in a new bakery and pastry shop. 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 2010 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 2011.

Afterwards, major works will follow in other zones which we are planning to specialize 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 2010. 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

1.3. Company Development and Anticipated Future Company Development

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 individualized 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 organization in the Istria and Kvarner areas in all its business activities, renowned around the world and recognized in Croatia for its usage of the best practice available and for recognizing 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,
- recognize 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 fulfillment 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, in autumn 2011. started a reconstruction of hotel Punta 4*. Reconstruction of Bellevue 4* and Alhambra 5* is planned in the next 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.

Jadranka trgovina d.o.o. in may 2010 opening a new bakery and pastry shop, and in the next period planned a construction of the 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.

1. 4. Explanation of operating results

Consolidated operation of the Jadranka Group

Jadranka Group generated **consolidated operating revenue** in the amount of HRK 331,11 mil, which is 1% (HRK 2,8 mil) more than in 2009.

The **operating expenditures** amount to HRK 322,75 mil., which is 1,5% more than in 2009. The increase of operating expenditures was mostly due to the reservation for a judgment dispute in the amount of HRK 3,2 mil , grow of the amortization in the amount of HRK 4,3 mil and the accrued costs of unused annual leave in the amount of HRK 1,8 mil.

The **cost of amortization** amounting to HRK 32,87 mil. is 15% (HRK 4,3 mil) higher than in 2009. The reason is the increased amortization of the reconstructed hotel Vespera 4* and the new Bakery .

The **other operating costs** amount to HRK 64,4 mil , is for 13% higher than in 2009. The reason of the increase are : the accrued costs of unused annual leave in the amount of HRK 1,8 mil, the increase of cost of small inventory write off HRK 1,4 mil (hotel Vespera) , costs of maintenance HRK 0,9 mil .

The **profit from operations** amounting to HRK 8,3 mil , is 24% (HRK 2,6 mil) lower than in 2009. The increase of operating profit was mostly due to the reservation for a judgment dispute in the amount of HRK 3,2 mil , grow of the amortization in the amount of HRK 4,3 mil and the accrued costs of unused annual leave in the amount of HRK 1,8 mil.

Financial revenues amount to HRK 5,6 mil. this is HRK 0,65 mil more than in 2009.

Financial expenditures of HRK 18,63 mil. are 25% higher than in 2009. The increased costs pertain to the interests concerning the Aurora and Vespera investments, and investment in a new bakery.

Loss from the financial operations of HRK 13,03 mil is 31% (HRK 3,09 mil) higher than 2009.

The **consolidated loss** amount to HRK 4,69 mil, in the 2009. is realized profit in the amount of HRK 1,67 mil .

HRK 000	2009	2010	10/09
Operating revenue	328,390	331,117	101,0
Operating expenditures	317,436	322,754	101,5
Op.expend - amortization	288,891	289,880	100,3
Amortization	28,545	32,874	115,0
EBITDA	39,499	41,237	104,5
EBIT	10.954	8,363	76,3
rate EBITDA	12,03	12,45	103,4
rate EBIT	3,33	2,52	76,5

EBITDA amounted to HRK 41,23 mil and increased by 4,5% compared to the 2009., but also increased the rate of EBITDA to 12.45%.

EBIT amounted to HRK 8,36 million , and decreased by 23,7% compared to the 2009.

Assets amounting HRK 904,37 mil, largest share in the assets structure has fixed assets 90%, while current assets have a share of 10% in the structure of assets.

Material assets amounting HRK 670,59 mil , and decreased by 2% compared to the 2009.

Long-term financial assets amounting HRK 30,51 mil , and decreased by 7% compared to the 2009.

Current assets amounted to HRK 87,24 mil , and increased by 11% compared to the 2009. Most of the current asset relates to the current financial assets amounted to HRK 60,32 mil, and increased by 50% compared to the 2009. Inventories amounted to HRK 9,3 mil and decreased by 53% compared to the 2009., the decrease applies to raw materials (inventory in the new hotel Vespera), and stocks of merchandise .

Receivables amounted to HRK 14,12 mil, and decreased by 12% compared to the 2009.

The structure of liabilities, with 65% participating equity, 27% long-term liabilities and 8% of current liabilities.

Capital and reserves in 2010. year amounted to HRK 592,37 mil, 2,5% less than last year.

Long-term liabilities amounted to HRK 249,97 mil, increased by 1% compared to the 2009. In 2010. Jadranka Group regular repays the loan rate and made the purchase of Jadranka d.d. bonds in the amount of HRK 2,5 mil , but the state has increased with a new long – terms loans for the purchase of part of the company Kamp Slatina d.o.o. Liabilities for long-term loans were in 2008. amounted to HRK 98,59 mil , in 2009. amounted to HRK 167,58 mil and in 2010.amounted to HRK 169,38 mil . A part of long-term liabilities are relating to the issued bonds worth HRK 72,50 mil.

Current liabilities amounted to HRK 62,02 mil less by 2% compared to the 2009. The supplier payables increase by 4% (was HRK 36,55 mil.), and the short-term bank loans amounted to HRK 24,74 mil, decreased by 9% compared to the 2009.

Conclusion:

Jadranka Group Companies are in the recession year been able to improve operations compared to the 2009th, however the planed results are not realized.

The negative trend in business are realized only in Jadranka trade, while Jadranka hotels (although the annual loss) realized revenue growth, but it has not been sufficient to cover the increased cost of depreciation and financing costs. Crisis years did not make the planned revenue growth that was supposed to absorb increased expenses for investment in property.

At the level of Jadranka group greatest impact on loss impacted the reservation for a judgment dispute in the amount of HRK 3,2 mil, grow of the amortization in the amount of HRK 4,3 mil and the accrued costs of unused annual leave in the amount of HRK 1,8 mil.

Jadranka d.d.

Revenues – generated revenues in the amount of HRK 28,69 mil. are 14% higher than planned and 32% higher than in 2009.

The difference when compared to 2009 relates to the revenues from sales of property.

Labor costs – incurred costs in the amount of HRK 10,4 mil. are 1% higher than planned and 2% higher than in 2009.

Departmental costs – generated in the amount of HRK 7,9 mil. They are 81% higher than planned and 92% higher than in 2009. The difference, when compared to 2009 and plan, relates to the reserved cost from judgment dispute in amount of HRK 3,2 mil.

Energy and water – the cost in the amount of HRK 275.307 is 4% lower than planned and 11% lower than in 2009.

GOP – all aforementioned items have generated the GOP in the amount of HRK 9,95 mil., which is 3% lower than planned, and 45% higher than in 2009.

Fixed costs – in the amount of HRK 0,53 mil are 11% lower than planned and 7% higher than in 2009.

Amortization – in the amount of HRK 3,4 mil. is 2% lower than planned and 2009.

Financial revenues – the revenues in the amount of HRK 7,78 mil. is 47% lower than planned and 9% lower than 2009. The main impact on the failure of financial revenue compared to the plan is unrealized income from the sale of shares in connecting company in the amount of HRK 6,9 mil. The revenue earned from the participation in the profits are lower than planned for 5% or HRK 0,34 mil in order to achieve a smaller revenue share in the profit of its members.

Financial expenditures – in the amount of HRK 8,3 mil. are 3% higher than planned and 6% higher than in 2009.

Profit - in the amount of HRK 5,56 mil. is 57 % lower than planned HRK 12,88 mil. and 50% higher than in 2009.

Conclusion:

To the profit of Jadranka d.d. have a negative issue a lower income from financial revenues and unplanned growth of departmental expenses . The main impact on the failure of financial revenue compared to the plan is unrealized income from the sale of shares in connecting company in the amount of HRK 6,9 mil. The revenue earned from the participation in the profits are lower than planned for 5% or HRK 0,34 mil in order to achieve a smaller revenue share in the profit of its members. The difference in the departmental expense , when compared to 2009 and plan, relates to the reserved cost from judgment dispute in amount of HRK 3,2 mil .

1.5.Risks

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).

1.5.1. 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 fulfill 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 neighbors, 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.

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

1.5.3. 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 and Jadranka kampovi business operation could be influenced by the mentioned currencies value change.

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.

1.5.4. 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).

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 and Jadranka kampovi 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.

1.5.5. 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.

1.5.6. 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.

1.6. Product and services quality

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.

In 04/2010. company SGS conducted the audit inspection and confirmed the certification.

In 05/2011 will obtained a new certification of ISO 9001:2000 and ISO 14001:2004 for all companies Jadranka Group.

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.

1.7. Environment protection

ENVIRONMENTAL MANAGEMENT REPORT

The implemented quality and environmental management system showed a satisfactory behaviour of employees, management, as well as third persons in terms of producing adverse effects on the environment.

It should be pointed out that during 2010 not a single incident having an adverse effect on the environment was reported.

The internal audit of the system was conducted at the beginning of 2010, and the findings indicated a certain number of nonconformities. Actions to eliminate the such internal audit nonconformities have been initiated.

During the supervisory audit of the authorised company, nonconformities were not observed but comments and suggestions for improvements of the system were given. Actions to eliminate all shortcomings observed during the certification audit have been initiated.

During 2010, the construction of a part of the system for precipitation and faecal drainage of waste water and the construction of a new bakery and patisserie in the storage service zone were completed. The completion of the construction of precipitation faecal sewage system was also an obligation according to the approval order and decision of the water management inspection. The required documentation for the waste water purification device (confirmation of the main project) whose first phase of construction is expected by the beginning of the 2011 season has been obtained for the Baldarin camp. For the Slatina camp, the design documentation for the vacuum sewage system (part of the installations outside the border of the camp) was prepared during 2010 and submitted to the State administrative office for the purpose of obtaining the location permit. The documentation required for the camp sewage is expected to be prepared during 2011. Repair work on the part of the faecal drainage pipeline for was carried out in the Čikat camp. The overall repair of the drainage system in the Čikat camp is expected during 2011.

Supervision and measurement of the key environmental aspects have been defined, as well as actions for improvements by which the adverse effects of such aspects will be reduced to a minimum.

Due to omissions in control organisation, controls were not conducted in the store area and partially in the hotels. In order to resolve this problem, the Management Boards of the companies appointed persons in charge of conducting controls which have already started.

Waste management (sorting of waste and quantity of the same) is satisfactory. We began with separate collection of plastic (plastic films and bags) metal and electrical/electronic waste.

During 2010 we conducted an exercise in the event of an emergency (fire in the camp) where a satisfactory readiness was confirmed.

ENVIRONMENTAL ASPECTS CONTROL REPORT

The environmental aspects control is conducted according to the control plan PL-UKOS.55 Environmental Aspects Control Plan. This control plan establishes the manner of conducting supervision over environmental aspects of all Jadranka Group locations.

During 2010 we carried out the following measurements:

- Measurement of the sea water quality at beaches (100 % adequate analyses)
- Waste water quality measurement (80 % adequate analyses)
- Measurement of the quality of flue gases from stationary sources (100 % appropriate analyses)

Even if the results of the measurements concerned showed tendencies of stagnation compared to the previous year, which is assessed as satisfactory, we aim at better waste waters analyses so we have already undertaken additional measures to this effect.

For the total adequate number of waste water analysis will be achieved through the completion of the construction of the waste water purification system in the Baldarin camp and construction of a vacuum sewage system in the Slatina camp.

Despite efforts to resolve the problem of return of “blue leaves”, the authorised collectors of municipal waste have not still submitted the required documentation.

Furthermore, we are facing the need for revision of waste handling work instructions due to the appearance of certain types of waste (metal waste, electrical and electronic waste, plastic waste – plastic films and bags), which can be more easily separated and which collectors collect free of charge.

Other control activities proved insufficient (stores, partially hotels) due to certain control omissions. This problem has been solved by appointing persons in charge of control implementation which will be conducted during 2011.

The aforementioned shortcomings were also observed during an internal audit and the findings were categorised as noncompliant. Therefore, in the coming period of 30 days, a series of training sessions for all employees about the importance of implementing all management measures defined in the system work instructions will be conducted, and full supervision in accordance with the Environmental Aspects Control Plan, established. It is assessed that these system omissions are the result of shortcomings of human resources but also omissions of the provider of waste transport and disposal services. In relation to the latter, additional attention will be paid to communication with all interested parties about the matter of waste disposal. Urgent solution of all observed nonconformities and elimination of causes to the re-certification audit is expected.

The aforesaid revised documents will be distributed at all locations and the employees trained in relation to the implementation of documents.

REPORT ON FINDINGS OF INSPECTION AUTHORITIES IN RELATION TO THE ENVIRONMENT

This report is submitted to the Management Board as the basis for the Management Board's assessment, with the aim of explaining the external communication with interested parties (inspection authorities) in relation to the environment.

An inspection by the water management inspection was conducted in 2010 through a visit to camp locations (Čikat camp, Slatina camp, Bijar camp, Baldarin camp) and stores (warehouse service zone).

At the camp locations the water management inspector established that the requirements of the previous decision had been met. Furthermore, he established the appropriate dynamics of conducting repair work on the sewage system in the Čikat camp and of procuring documentation and permits for the construction of waste water purification device in the Baldarin camp, as well as for the construction of vacuum sewage system in the Slatina camp.

As far as the store is concerned, the water management inspector established that the obligations referred to in the approval order/decision had been partially performed and consequently he requested the designer's and supervision statements regarding the reconstruction activity, the construction of the drainage system of the new bakery and patisserie and the construction of the drainage system on the supermarket parking lot, be submitted within a specific time period.

Water management inspection at the hotel was not conducted in 2010, nor was the sanitary inspection.

The environmental protection inspection did not conduct the supervision of the Jadranka Group in 2010.

REPORT ON THE CONDUCTED SIMULATION OF AN EMERGENCY SITUATION

As part of the control of implementation of the environmental management system integrated in the quality and environment management system, a simulation of an emergency situation was conducted.

The simulation of the emergency situation was conducted in the Čikat camp, where the actions to be undertaken in the event of a fire were checked. The exercise was conducted on 25 June 2010 at 11:00 a.m. Employees' fast reactions were ensured. All employees attending the exercise acted in accordance with the Action plan in the fire emergency situations and with the Evacuation and rescue plan in the event of fire and explosion. The environmental manager (Occupational Safety expert), camp director and other staff present at the camp on the day of simulation participated in the simulation of the emergency situation.

Camp guests were evacuated according to the evacuation plan. After the simulation, we ensured that the resulting waste was disposed in the manner stipulated by the waste disposal work instructions.

Since the simulation plan foresaw the fire spreading outside the camp confines (“jumped” onto the surrounding forest), the Mali Lošinj Fire Station, the police and public media (local radio station) were notified. The conducted simulation showed that the employees of the Čikat camp are ready to react fast in the event of the occurrence of a fire in the camp.

1.8. Investments 2010.



JADRANKA HOTELI d.o.o. – total HRK 4.478.480,00

- Reconstruction of Hotel Aurora parking area HRK 125.000,00
- Reconstruction of Hotel Punta HRK 954.000,00 ,
- Reconstruction of the kitchen of Hotel Punta HRK 1.100.000,00
- Reconstruction of the kitchen of Hotel Helios HRK 93.900,00
- Reconstruction of the kitchen of Hotel Bellevue HRK 260.460,00
- Reconstruction of the kitchen of Hotel Aurora HRK 526.500,00
- Hotel Punta – connection of the Beach bar to the pollution system – value of project documentation HRK 18.000,00
- Horticultural settlement of Sunčana uvala HRK 1.400.620,00

JADRANKA KAMPOVI d.o.o. – total HRK 3.472.815, 00

- Camp Baldarin – reconstruction of sanitary facilities HRK 1.945.470,00,
- Camp Čikat – making cable sewage , project documents HRK 362.348,00 ,
- Camp Čikat – creation of new parcels HRK 1.040.920,00 ,
- Supply and installation of equipment for waste water treatment – the value of project documents and the municipal contribution HRK 124.077,00

KAMP SLATINA d.o.o. – total HRK 1.448.360,00

- Camp Slatina – creation of new parcels from mobile home HRK 380.000,00
- Camp Slatina – Timun , creation of 30 new parcels HRK 1.068.360,00

JADRANKA TRGOVINA d.o.o. – total HRK 7.796.000,00

- Construction of a new bakery and patisserie HRK 6.400.000,00
- Reconstruction of the sewage in rainfall and connected to public sewerage system HRK 760.000,00

JADRANKA d.d – total HRK 455.210,00

- Residential/commercial building in Punta Križa HRK 108.000,00
- Reconstruction of Entertainment Center Punta , project documents HRK 171.160,00
- Beach bar Rovenska , connection with a public sewerage system HRK 179.210,00

Jadranka Group in 2010. invested a total of HRK 17.654.025,00 or €2.418.359,00 .

1.9. Employment

Jadranka Group

Professional qualification	Number of employees	share %
NKV(unqualified workers)	15	2,73
PKV NSS(semi-qualified workers)	103	18,76
KV (qualified workers)	146	26,59
SSS(secondary school education)	174	31,69
VKV(highly qualified worker)	35	6,38
VSS(staff with university degree-2 years)	30	5,46
VSS(staff with university degree-4 years)	41	7,46
Magistar(staff with university degree-MBA)	5	0,91
Total	549	100,00

1.10.Shareholders' structure

Ownership structure of Jadranka d.d. Mali Lošinj as of 31st December 2010.

Sector	Security ticker	Amount of securities	% share in the share capital
Croatian natural person	JDRA-R-A	69.274	20,83
Financial institution	JDRA-R-A	45.336	13,64
Issuer-treasury account	JDRA-R-A	27.738	8,34
Public sector	JDRA-R-A	8.478	2,55
Foreign person	JDRA-R-A	1.352	0,41
Company	JDRA-R-A	180.306	54,23
Total		332.484	100,00

1.11. The most significant business events

a) Current 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 %;
- In June 2010 Jadranka commerce opened a new bakery and patisserie , the investment value of HRK 6,4 mil;
- In autumn 2010 Jadranka hotels decided that the reconstruction of hotel Punta 4* started in autumn 2011 , and the opening of the reconstructed hotel in 06/ 2012;
- Is reorganized the sales and marketing department of Jadranka hotels and established a sales office in Zagreb;
- In the collaboration with Medical group has prepared feasibility studies for investments in hotel Čikat. The study proves the validity of converting Hotel Čikat in health center.
- Is actualized a issue about tourist land by the State authority , they made provisions relating to the height of the tourist land concession;
- In 2010 is conduced surveillance in the company Jadranka Camps and Kamp Slatina from slot inspections . Controls included 5 years ago business , with positive findings;

b) After the Expiry of the Business Year

- Is present a request for a concession for tourist land for the camps owned by Jadranka Camps and Kamp Slatina;
- In 01/2011 Camp Saltina got a yellow sign from German auto club ADAC – recognized international prize, very important for the marketing.

1.12. Acquisition of the Company's own shares

In the 2010 . Are acquiring 399 Company's own shares that represent a 0, 12001% . Total post-acquisition Jadranka d.d. treasury account has 27.738 shares , or 8,34266 % .

2. Statement of the Management Board

2.1. Statement of the Management on the presentation of true operating data

To the best of our knowledge we confirm that:

- 1) the set of interim financial statements for the 2010. , 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.

2. 2.Statement on financial statements' review

Consolidated financial statements of Jadranka d.d. for the period 2010. have been reviewed. Annual financial statements are subject to review.

Chairman of the Jadranka d.d. Management Board

Sanjin Šolić m.p.

3. Supervisory Board's Report to the Shareholders' Meeting - Draft decision for the Assembly

“JADRANKA” joint stock company
Hotels and commerce
Mali Lošinj
SUPERVISORY BOARD
Zagreb, 28 April 2011

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 26th meeting held on 28 April 2011, adopted the following

REPORT

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

I In 2010 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 2010 the Supervisory Board examined and monitored the Company's business activities, analyzed the state of the Company, business activities' plans and result estimates submitted by the Management Board in 2010., adopted the Jadranka d.d. Business Plan and information on the 2010 Jadranka Group Members' Business Plans and examined, adopted, and thereby also determined the Company's 2009 Annual Financial Statements and the Company Auditor's Report.

The Supervisory Board adopted : Appointment of Board members.

The Supervisory Board also examined and adopted: 2011 Business Operation Objectives of Jadranka Group Companies, Problems with regard to the Jadranka d.d. bonds' maturity in 2012, Implementation of control system in Jadranka Commerce , Measures to improve business in Jadranka commerce.

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 201009 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 2010, 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 2010 and **adopts** the Company Auditor's Report.

The "JADRANKA" d.d. annual financial statements for the year that ended on 31 December 2010 adopted in this manner include the following: "JADRANKA" d.d. profit and loss account, balance sheet, and report on all capital changes, cash flow statement and report on the audit carried out by the auditing company Grant Thornton revizija d.o.o. from Zagreb.

IV The Supervisory Board received the proposed decision of the Company's Management Board on the utilization of the Company's profit generated in 2010, which reads as follows:

- I The Company's 2010 net profit amounting to HRK 5.562.548,73 have been determined.
- II A part of the 2010 profit (5 %) amounting to HRK 278.127,44 will be allocated to statutory reserves.
- III Realized profit amounting to HRK 5.284.421,29 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 2010 and the Company Auditor's Report, as determined by the Management Board and the Supervisory Board
4. Decision on utilization of profit generated in 2010
5. Decision on giving a clearance to the Company's Management Board, approving its performance in 2010
6. Decision on giving a clearance to the Supervisory Board members, approving their performance in 2010
7. Decision on the appointment of Grant Thornton revizija d.o.o. Zagreb, Koranska 16 as the Company's Auditor for 2011

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

Chairman of the Jadranka d.d. Management Board

Sanjin Šolić m.p.
