Attachment 1.

Period: **1.1.2011** **to** **31.12.2011**

Yearly financial report GFI-POD

Registration number (MB): **03715957**

Registration number (MBS): **040004561**

Personal identification number (OIB): **20950636972**

Company: **JGL d.d.**

Postal code and city: **51000** **Rijeka**

Adress: **Pulac bb**

e-mail: jgl@jgl.hr

Internet adress: www.jgl.hr

Code and name of city: **373** **Rijeka**

Code and name of county: **8** **Primorsko-goranska**

Number of employees (at the end of the period): **487**

Consolidated report: **NO**

NKD code: **2120**

Companies in consolidation (in acc. with IFRS):	Headquarters:	MB:

Accounting:

Contact: **Crnković Verica**
(enter surname and name of the contact person)

Phone: **051 660 710**

Fax: **051 660 711**

e-mail: verica.crnkovic@jgl.hr

Surname and name: **Usmiani Ivo**
(Person authorized to represent)

Documents to be published:

1. Financial reports (balance sheet, income statement, cash flow statement, changes in equity statement and notes
2. Management report,
3. Statement of Persons Responsible for drafting reports.
4. Decision of the competent administration authority on forming the yearly financial reports
5. Decision on distribution of profit or coverage of loss

M.P.

(Person authorized to represent - signature)

BALANCE SHEET
on 31st December 2011

JGL d.d.			
Position	**ADP mark**	**Previous period**	**Current period**
1	2	3	4
A) RECEIVABLES FOR SHAREHOLDERS EQUITY, NON-PAID	001		
B) LONG TERM ASSETS (003+010+020+029+033)	002	217.762.590	262.878.873
I. INTANGIBLE ASSETS (004 - 009)	003	20.879.460	23.148.510
1. Expenditure for research and development	004	920.492	4.706.120
2. Patents, licences, concessions, trademarks, software and other rights	005	7.234.074	10.932.123
3. Goodwill	006		
4. Advances on intangible assets	007		
5. Intangible assets-construction in progress	008	12.724.894	7.510.267
6. Other intangible assets	009		
II. TANGIBLE ASSETS (011 - 019)	010	165.510.762	208.104.148
1. Land	011	3.023.018	3.569.729
2. Buildings	012	46.119.541	60.389.274
3. Equipment and machinery	013	65.105.685	92.331.158
4. Tools, power stock and transportation means	014	7.922.834	10.871.331
5. Biological assets	015		
6. Advances on tangible assets	016	927.163	827.683
7. Tangible assets-construction in progress	017	7.765.576	8.412.021
8. Other tangible assets	018	605.481	605.480
9. Investments in real estate	019	34.041.464	31.097.472
III. LONG TERM FINANCIAL ASSETS (021 - 028)	020	31.372.368	31.626.215
1. Shares in affiliated companies	021	30.053.527	30.157.987
2. Loans to affiliated companies	022		
3. Participating interest	023	1.130.147	1.140.147
4. Loans to companies with participating interest	024		
5. Securities investments	025		
6. Given loans, deposits	026		
7. Other long term financial assets	027		
8. Investments (equity method)	028	188.694	328.081
IV. RECEIVABLES (030 - 032)	029	0	0
1. Receivables from affiliated companies	030		
2. Receivables from sales on credit	031		
3. Other receivables	032		
V. DEFERRED TAX ASSETS	033		
C) SHORT TERM ASSETS (035+043+050+058)	034	353.410.662	449.025.287
I. INVENTORIES (036 - 042)	035	54.351.789	124.717.793
1. Raw and other material	036	33.445.367	60.094.204
2. Production in progress	037		
3. Finished products	038	19.393.070	63.266.635
4. Trade goods	039	1.513.352	1.356.954
5. Advances on inventories	040		
6. Long term assets for sale	041		
7. Biological assets	042		
II. RECEIVABLES (044 - 049)	043	228.204.596	281.783.302
1. Receivables from affiliated companies	044	45.294.917	30.772.774
2. Receivables from buyers	045	159.387.225	231.773.167
3. Receivables from participating companies	046	1.216	1.221
4. Receivables from employees and subsidiaries	047	19.070	8.680
5. Receivables from government and other institutions	048	14.763.467	17.548.562
6. Other receivables	049	8.738.701	1.678.898
III. SHORT TERM FINANCIAL ASSETS (051 - 057)	050	52.766.873	40.868.849
1. Shares in affiliated companies	051		
2. Loans to affiliated companies	052	189.213	13.600.000
3. Participating interest	053		
4. Loans given to companies with participating interest	054	200.000	116.521
5. Securities investment	055	19.878.207	3.300.000
6. Given loans, deposits	056	26.495.557	23.852.328
7. Other short term financial assets	057	6.003.896	
IV. CASH AT BANKS AND IN HAND	058	18.087.404	1.655.343
D) PREPAYMENTS AND ACCRUED INCOME	059	6.707.323	4.503.520
E) TOTAL ASSETS (001+002+034+059)	060	577.880.575	716.407.680
F) OFF BALANCE SHEET ITEMS	061		

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**	202.106.280	262.436.684
I. CALLED UP CAPITAL	**063**	5.625.000	5.625.000
II. CAPITAL RESERVES	**064**	-730.578	102.964
III. INCOME RESERVES (066+067-068+069+070)	**065**	3.395.484	2.914.390
1. Compulsory reserves	**066**	420.819	420.819
2. Reserves for treasury shares	**067**	881.286	362.892
3. Treasury shares (deductible)	**068**	47.400	10.100
4. Statutory reserves	**069**		
5. Other reserves	**070**	2.140.779	2.140.779
IV. REVALUATION RESERVES	**071**		
V. RETAINED PROFIT OR TRANSFERRED LOSS (073-074)	**072**	157.754.270	189.555.047
1. Retained profit	**073**	157.754.270	189.555.047
2. Loss for current year	**074**		
VI. PROFIT/LOSS FOR CURRENT YEAR (076-077)	**075**	36.062.104	64.239.283
1. Profit for current year	**076**	36.062.104	64.239.283
2. Loss for current year	**077**		
VII. MINORITY INTEREST	**078**		
B) PROVISIONS (080 - 082)	**079**	0	0
1. Provisions for retirement and similar expenditures	**080**		
2. Provisions for taxes and contributions	**081**		
3. Other provisions	**082**		
C) LONG TERM LIABILITES (084 - 092)	**083**	219.018.339	217.186.461
1. Liabilities for affiliated companies	**084**		
2. Liabilities for loans, deposits	**085**		
3. Liabilities for bank loans and other financial institutions	**086**	94.279.929	77.909.794
4. Liabilities for advances	**087**		
5. Accounts payables	**088**		
6. Securities payables	**089**	124.738.410	139.276.667
7. Liabilities for companies with participating interest	**090**		
8. Other long-term liabilities	**091**		
9. Deferred tax liability	**092**		
D) SHORT-TERM LIABILITIES (094 - 105)	**093**	152.494.596	227.355.854
1. Liabilities for affiliated companies	**094**	1.078.690	1.973.042
2. Liabilities for loans, deposits	**095**	8.054.488	7.308.909
3. Liabilities for bank loans and other financial institutions	**096**	34.078.517	22.719.205
4. Liabilities for advances	**097**	3.628.278	625.115
5. Accounts payables	**098**	88.507.622	119.898.866
6. Securities payables	**099**	1.100.000	50.062.817
7. Liabilities for companies with participating interest	**100**	8.199	24.037
8. Liabilities for employees	**101**	5.965.438	9.460.974
9. Liabilities for taxes, contributions and other	**102**	10.039.054	14.660.578
10. Liabilities for shares in result	**103**	14.370	16.920
11. Liabilities for short term assets intended for sale	**104**		
12. Other short term liabilities	**105**	19.940	605.391
E) ACCRUALS AND DEFFERED INCOME	**106**	4.261.360	9.428.681
F) TOTAL LIABILITIES (062+079+083+093+106)	**107**	577.880.575	716.407.680
G) OFF BALANCE SHEET ITEMS	**108**		
APPENDIX TO THE BALANCE SHEET (to be filled by the company drafting the annual consolidated financial statement)			
A) CAPITAL AND RESERVES			
1. Assigned to holders of the capital of the parent company	**109**		
2. Assigned to minority interest	**110**		

Note 1.: Appendix to the balance sheet is to be filled by the company drafting the annual consolidated financial statement

INCOME STATEMENT

from 1st January 2011 and 31st December 2011

JGL d.d.

Position	ADP mark	Previous period	Current period
1	2	3	4
I. BUSINESS REVENUE (112+113)	111	439.870.942	508.156.235
1. Sales revenue	112	432.272.542	498.353.944
2. Other operational revenue	113	7.598.400	9.802.291
II. BUSINESS EXPENSE (115+116+120+124+125+126+129+130)	114	389.455.116	419.148.652
1. Change in value of inventories for production and goods	115	6.719.489	-43.873.565
2. Operating expense(117 - 119)	116	240.985.206	302.903.578
a) Cost of raw material	117	119.575.164	177.311.959
b) Costs of goods sold	118	1.335.449	1.173.484
c) Other external costs	119	120.074.593	124.418.135
3. Expense for employees (121 - 123)	120	85.801.178	109.227.110
a) Net salaries and wages	121	51.312.330	65.723.230
b) Taxes, social and pension funds	122	22.210.450	27.356.594
c) Contributions for salaries	123	12.278.398	16.147.286
4. Depreciation	124	13.697.830	17.534.556
5. Other expense	125	20.624.926	23.628.071
6. Revalorisation (127+128)	126	15.612.077	1.075.710
a) of long term assets (excluding financial assets)	127		
b) of short term assets (excluding financial assets)	128	15.612.077	1.075.710
7. Provisions	129		2.454.034
8. Other operational expenses	130	6.014.410	6.199.158
III. FINANCIAL REVENUE (132 - 136)	131	11.084.359	9.402.142
1. Interests, exchange rate differentials, dividends and similar revenues from relations with affiliated companies	132	401.286	1.722.685
2. Interests, exchange rate differentials, dividends and similar revenues from relations with unaffiliated companies and other persons	133	4.856.133	7.589.831
3. Revenue from participating interest and subsidiaries	134	704	
4. Non-realized revenue	135		89.626
5. Other financial revenue	136	5.826.236	
IV. FINANCIAL EXPENSE (138 - 141)	137	22.307.959	28.623.261
1. Interests, exchange rate differentials, dividends and similar expenses from relations	138	100.124	1.608.876
2. Interests, exchange rate differentials, dividends and similar expenses from relations with unaffiliated companies and other persons	139	20.786.123	23.980.767
4. Non-realized loss from financial assets	140		3.033.618
5. Other financial expenses	141	1.421.712	
V. SHARE IN PROFIT FROM AFFILIATED COMPANIES	142		
VI. SHARE IN LOSS FROM AFFILIATED COMPANIES	143		
VII. EXTRAORDINARY REVENUE	144		
VIII. EXTRAORDINARY EXPENSE	145		
IX. TOTAL REVENUE (111+131+142 + 144)	146	450.955.301	517.558.377
X. TOTAL EXPENSES (114+137+143 + 145)	147	411.763.075	447.771.913
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	39.192.226	69.786.464
1. Profit before tax (146-147)	149	39.192.226	69.786.464
2. Loss before tax (147-146)	150	0	0
XII. INCOME TAX	151	3.130.122	5.547.181
XIII. PROFIT OR LOSS OF THE PERIOD (148-151)	152	36.062.104	64.239.283
1. Profit of the period (149-151)	153	36.062.104	64.239.283
2. Loss of the period (151-148)	154	0	0
APPENDIX TO INCOME STATEMENT Form (to be filled by the company drafting the annual consolidated financial statement)			
XIV. PROFIT OR LOSS OF THE PERIOD			
1. Assigned to holders of the capital of the parent company	155		
2. Assigned to minority interest	156		
REPORT OF OTHER COMPREHENSIVE INCOME (to be filled by the company in accordance with the IFRS)			
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	36.062.104	64.239.283
II. OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (159 do 165)	158	0	0
1. Exchange rate differentials from foreign business calculations	159		
2. Changes in revalorisation reserves for long term tangible and intangible assets	160		
3. Profit or loss from revalorisation of financial assets intended for sale	161		
4. Profit or loss from efficient cash flow protection	162		
5. Profit or loss from efficient investment protection	163		
6. Share in comprehensive profit/loss of affiliated companies	164		
7. Actuarial profit/loss according to planed income	165		
III. TAX ON OTHER COMPREHENSIVE PROFIT OF THE PERIOD	166		
IV. OTHER NET COMPREHENSIVE PROFIT/LOSS OF THE PERIOD	167	0	0
V. COMPREHENSIVE PROFIT/LOSS OF THE PERIOD (157+167)	168	36.062.104	64.239.283
APPENDIX TO REPORT OF OTHER COMPREHENSIVE INCOME Form (to be filled by the company drafting the annual			
VI. COMPREHENSIVE PROFIT OR LOSS OF THE PERIOD			
1. Assigned to holders of the capital of the parent company	169		
2. Assigned to minority interest	170		

CASH FLOW STATEMENT - Indirect method

for the period from __.__.____. to __.__.____.

____

Position	ADP mark	Previous period	Current period
1	2	3	4
CASH FLOW FROM BUSINESS ACTIVITIES			
1. Profit before tax	**001**	0	
2. Depreciation	**002**	0	
3. Increase in short term liabilities	**003**	0	
4. Decrease in short term liabilities	**004**	0	
5. Decrease in inventories	**005**	0	
6. Other increase of cash flow	**006**	0	
I. Total increase of cash flow from business activities (001 do 006)	**007**	0	0
1. Decrease in short term liabilities	**008**	0	
2. Increase in short term liabilities	**009**	0	
3. Increase in inventories	**010**	0	
4. Other decrease in cash flow	**011**	0	
II. Total decrease of cash flow from operating activities (008 - 011)	**012**	0	0
A1) NET INCREASE OF CASH FLOW FROM BUSINESS ACTIVITIES (007-012)	**013**	0	0
A2) NET DECREASE OF CASH FLOW FROM BUSINESS ACTIVITIES (012-007)	**014**	0	0
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of long terms intangible and tangible assets	**015**	0	
2. Cash proceeds from sale of equity and debt security instruments	**016**	0	
3. Cash proceeds from interest payment	**017**	0	
4. Cash proceeds of dividend payment	**018**	0	
5. Other cash proceeds from investing activities	**019**		
III. Total cash inflow from investing activities (015 - 019)	**020**	0	0
1. Cash outflow for acquisition of long term tangible and intangible assets	**021**	0	
2. Cash outflow for acquisition of equity and debt security instruments	**022**		
3. Other cash outflows from investing activities	**023**		
IV. Total cash outflow from investing activities (021 - 023)	**024**	0	0
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (020-024)	**025**	0	0
B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES (024-020)	**026**	0	0
CASH FLOW FROM FINANCE ACTIVITIES			
1. Cash inflow from issuing equity and debt financial instruments	**027**		
2. Cash inflow from loan principals, debentures, credits and other borrowings	**028**	0	
3. Other cash inflows from finance activities	**029**		
V. Total cash inflow from finance activities (027 - 029)	**030**	0	0
1. Cash outflow for repayment of loan principal and bonds	**031**	0	
2. Cash outflow for dividend payment	**032**	0	
3. Cash outflow for finance lease	**033**	0	
4. Cash outflow for buyback of own shares	**034**	0	
5. Other cash outflow from finance activities	**035**	0	
VI. Total cash outflow for finance activities (031 - 035)	**036**	0	0
C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES (030-036)	**037**	0	0
C2) NET CASH FLOW DECREASE FROM FINANCE ACTIVITIES (036-030)	**038**	0	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	**039**	0	0
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	**040**	0	0
Cash and cash equivalents at the beginning of the period	**041**	0	
Increase of cash and cash equivalents	**042**	0	
Decrease of cash and cash equivalents	**043**	0	
Cash and cash equivalents at the end of the period	**044**	0	0

CASH FLOW STATEMENT - Direct method

For the period from 1st January 2011 till 31st December 2011

JGL d.d.			
Position	**ADP mark**	**Previous period**	**Current period**
1	**2**	**3**	**4**
CASH FLOW FROM BUSINESS ACTIVITIES			
1. Cash proceeds from buyers	**001**	440.859.204	465.504.931
2. Cash proceeds from royalties, fees, commissions, etc	**002**		
3. Cash proceeds from insurance claims	**003**	1.469.023	307.282
4. Cash proceeds from tax return	**004**	30.169.499	52.265.114
5. Other cash proceeds	**005**	1.496.836	4.527.646
I. Total increase of cash flow from operating activities (001 - 005)	**006**	473.994.562	522.604.973
1. Novčani izdaci dobavljačima	**007**	224.278.188	350.313.896
2. Novčani izdaci za zaposlene	**008**	48.994.587	65.116.483
3. Novčani izdaci za osiguranje za naknade šteta	**009**		
4. Novčani izdaci za kamate	**010**	16.976.480	13.316.705
5. Novčani izdaci za poreze	**011**	45.025.640	52.776.268
6. Ostali novčani izdaci	**012**	72.914.881	6.365.476
II. Ukupno novčani izdaci od poslovnih aktivnosti (007 do 012)	**013**	408.189.776	487.888.828
A1) NETO POVEĆANJE NOVČANOG TIJEKA OD POSLOVNIH	**014**	65.804.786	34.716.145
A2) NETO SMANJENJE NOVČANOG TIJEKA OD POSLOVNIH	**015**	0	0
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Cash proceeds from sale of long terms intangible and tangible assets	**016**	1.086.524	902.563
2. Cash proceeds from sale of equity and debt security instruments	**017**	1.217.700	
3. Cash proceeds from interest payment	**018**	37.549	1.046.166
4. Cash proceeds of dividend payment	**019**	704	
5. Other cash proceeds from investing activities	**020**	452.677	39.967.954
III. Total cash inflow from investing activities (015 - 019)	**021**	2.795.154	41.916.683
1. Cash outflow for acquisition of long term tangible and intangible assets	**022**	25.417.149	66.136.557
2. Cash outflow for acquisition of equity and debt security instruments	**023**		104.460
3. Other cash outflows from investing activities	**024**	1.314.921	47.200.000
IV. Total cash outflow from investing activities (021 - 023)	**025**	26.732.070	113.441.017
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (020-024)	**026**	0	0
B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES (024-020)	**027**	23.936.916	71.524.334
CASH FLOW FROM FINANCE ACTIVITIES			
1. Cash inflow from issuing equity and debt financial instruments	**028**		140.000.000
2. Cash inflow from loan principals, debentures, credits and other borrowings	**029**	90.648.010	
3. Other cash inflows from finance activities	**030**	12.591.733	17.046.290
V. Total cash inflow from finance activities (027 - 029)	**031**	103.239.743	157.046.290
1. Cash outflow for repayment of loan principal and bonds	**032**	81.779.986	32.971.775
2. Cash outflow for dividend payment	**033**	4.185.150	4.777.170
3. Cash outflow for finance lease	**034**	9.408.823	11.432.273
4. Cash outflow for buyback of own shares	**035**	681.996	377.848
5. Other cash outflow from finance activities	**036**	36.399.008	87.111.096
VI. Total cash outflow for finance activities (031 - 035)	**037**	132.454.963	136.670.162
C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES (030-036)	**038**	0	20.376.128
C2) NET CASH FLOW DECREASE FROM FINANCE ACTIVITIES (036-030)	**039**	29.215.220	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	**040**	12.652.650	0
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	**041**	0	16.432.061
Cash and cash equivalents at the beginning of the period	**042**	5.434.754	18.087.404
Increase of cash and cash equivalents	**043**	12.652.650	
Decrease of cash and cash equivalents	**044**		16.432.061
Cash and cash equivalents at the end of the period	**045**	18.087.404	1.655.343

CHANGES IN EQUITY

for the period from 1.1.2011 to 31.12.2011

Position	ADP mark	Previous period	Current period
1	2	3	4
1. Called up capital	001	5.625.000	5.625.000
2. Capital reserves	002	-730.578	102.964
3. Reserves from equity	003	3.395.484	2.914.390
4. Retained profit or transferred loss	004	157.754.270	189.555.047
5. Profit or loss of the period	005	36.062.104	64.239.283
6. Revalorisation of long term tangible assets	006		
7. Revalorisation of long term intangible assets	007		
8. Revalorisation of financial assets for sale	008		
9. Other revalorisation	009		
10. Total capital and reserves (ADP 001 - 009)	010	202.106.280	262.436.684
11. Exchange rate differentials from foreign net investments	011	-65.702	
12. Current and deffered tax	012		
13. Cash flow protection	013		
14. Changes in accounting policies	014		
15. Correction of errors from past periods	015		
16. Other changes in equity	016	34.202.994	60.330.404
17. Total increase or decrease of equity (ADP 011 - 016)	017	34.137.292	60.330.404
17.a Assigned to holders of the capital of the parent company	018		
17. b Assigned to minority interest	019		

Positions that reduce capital are entered with a negative sign
Information from ADP 001 - 009 are situations on the date of the balance sheet

Notes

(1) Notes contain additional and supplemental information that is not presented in the balance sheet, income statement, cash flow statement and statement of changes in equity in accordance with the provisions of the relevant financial reporting standards.

JGL, joint-stock company, Rijeka

AUDIT REPORT
OF ANNUAL FINANCIAL REPORTS
FOR 2011

RIJEKA, MARCH 2012.

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Report on Management Board responsibility

In accordance with the legal requests of the financial reporting framework, applicable in the Republic of Croatia, the Management Board is responsible for financial reports and their accordance with International Financial Reporting Standards (IFRS) as determined by the Financial Reporting Standards Committee. Financial reports provide a true and fair view of the Company and it's financial results for the given period.

Following the audit's completion, the Management duly expects the Company to dispose of relevant resources, therefore, while drafting financial reports, further adopts the principle of dynamic transitional environment of business.

The Management Board's responsibility while drafting the financial reports is to:

- chose and apply consistent accounting policies
- provide justified and reasonable judgements and estimations
- act in accordance with valid accounting standards, with publishing and explaining of all materially relevant deviations in financial reports and
- draft financial reports under the presumption of dynamic transitional environment, unless the presumption that the Company will continue its business in not applicable.

The Management Board is responsible for managing relevant accounting records, which shows the financial position of the Company in each moment with relevant punctuality. Also, the Management Board is obliged to ensure that the financial reports are in accordance with the Accounting Act. Besides that, the Management is responsible for keeping the Company's assets and undertaking justified actions for preventing and revealing fraud and other faults.

Rijeka, dated 23rd March 2012

For and on behalf of the Management Board

Ivo Usmiani, MPharm. spec.

INDEPENDENT AUDITOR'S REPORT FOR THE SHAREHOLDERS OF JGL, joint stock company, Rijeka

We have performed an audit on the attached financial reports of JGL, a joint stock company, Rijeka, including the Balance Sheet as of 31 December 2011, Income statement with a report of other comprehensive income, Cash Flow Statement, Statement of Changes in Owners' Equity for 2011, as well as a summary of important accounting policies and other notes, incl. explanations (enclosed on pages 5 to 30).

Responsibility of the Management Board for financial reports

The Management Board is responsible for compiling and objective presentation of these financial reports in accordance with the International Financial Reporting Standards (IFRS). Responsibility of the Management Board includes: determining, implementing and maintaining internal controls, relevant for compiling and fair presentation of financial reports where there will be no significant misstatement caused by fraud or fault; selecting and application of suitable accounting policies and creating reasonable accounting evaluations in given circumstances.

Auditor's responsibility

Our responsibility is to provide opinion on the financial reports based on the performed audit.

The audit was performed according to the International auditing standards. Those standards require the auditors to act in accordance with the ethical requirements and to plan and perform the audit in order to acquire reasonable belief weather the financial reports are without any serious misrepresentations.

The audit includes performing procedures for acquiring auditing evidence on amounts and announcements set forth in the financial reports. The chosen procedures depend on the auditors' judgement, including assessing the risk of significant misrepresentations in financial reports due to fraud or fault. When evaluating those risks, the auditor takes into consideration internal control of the Company, relevant to the preparation and accurate (fair) representation of financial reports, in order to determine suitable auditing procedures which are appropriate to the circumstances, and not to express opinion on successfulness of the internal control of the Company. The audit includes the evaluation of how appropriate the used accounting policies were, and how reasonable the accounting evaluations of the Management Board were, as well as evaluation of the complete representation of the financial statements.

We believe that the acquired auditing evidence is sufficient and reliable basis for our auditing opinion.

Opinion

In our opinion, the financial statement provides true and fair representation in all relevant determinants of the financial state of JGL, a joint stock company, Rijeka, as of 31 December 2011, its business results, cash flow and changes in shareholders equity for 2011 to the financial reporting standards.

In Rijeka, Rijeka, 23rd of March 2012

„REV-RI“ d.o.o. Rijeka
Užarska 17/II

Authorized auditor *Management*

Jadranka Vezmar, dipl. oec.

BALANCE SHEET
as of 31 December 2011

Title	Note	Previous year (net)	Current year (net)
ASSETS			
A) RECEIVABLES FOR SHAREHOLDERS EQUITY, NON-PAID			
B) LONG TERM ASSETS	**6**	217.762.590	262.878.873
I. INTANGIBLE ASSETS	**6a**	20.879.460	23.148.510
1 Expenditure for research and development		920.492	4.706.120
2 Patents, licences, concessions, trademarks, software and other rights		7.234.074	10.932.123
3 Goodwill			
4 Advances on intangible assets			
5 Intangible assets-construction in progress		12.724.894	7.510.267
6 Other intangible assets			
II. TANGIBLE ASSETS	**6a,b,c**	165.510.762	208.104.148
1 Land		3.023.018	3.569.729
2 Buildings		46.119.541	60.389.274
3 Equipment and machinery		65.105.685	92.331.158
4 Tools, power stock and transportation means		7.922.834	10.871.331
5 Biological assets			
6 Advances on tangible assets		927.163	827.683
7 Tangible assets-construction in progress		7.765.576	8.412.021
8 Other tangible assets		605.481	605.480
9 Investments in real estate		34.041.464	31.097.472
III. LONG TERM FINANCIAL ASSETS	**6d**	31.372.368	31.626.215
1 Shares in affiliated companies		30.053.527	30.157.987
2 Loans to affiliated companies		0	
3 Participating interest		1.130.147	1.140.147
4 Loans to companies with participating interest			
5 Securities investments			
6 Given loans, deposits			
7 Other long term financial assets			
8 Investments (equity method)		188.694	328.081
IV. RECEIVABLES	**6e**	0	0
1 Receivables from affiliated companies			
2 Receivables from sales on credit			
3 Other receivables			
V. DEFERRED TAX ASSETS			
C) SHORT TERM ASSETS	**7**	353.410.662	449.025.287
I. INVENTORIES	**7a**	54.351.789	124.717.793
1 Raw and other material		33.445.367	60.094.204
2 Production in progress		0	
3 Finished products		19.393.070	63.266.635
4 Trade goods		1.513.352	1.356.954

5 Advances on inventories			
6 Long term assets for sale			
7 Biological assets			
II. RECEIVABLES	**7b**	228.204.596	281.783.302
1 Receivables from affiliated companies		45.294.917	30.772.774
2 Receivables from buyers		159.387.225	231.773.167
3 Receivables from participating companies		1.216	1.221
4 Receivables from employees and subsidiaries		19.070	8.680
5 Receivables from government and other institutions		14.763.467	17.548.562
6 Other receivables		8.738.701	1.678.898
III. SHORT TERM FINANCIAL ASSETS	**7c**	52.766.873	40.868.849
1 Shares in affiliated companies			
2 Loans to affiliated companies		189.213	13.600.000
3 Participating interest			
4 Loans given to companies with participating interest		200.000	116.521
5 Securities investment		19.878.207	3.300.000
6 Given loans, deposits		26.495.557	23.852.328
7 Other short term financial assets		6.003.896	
IV. CASH AT BANKS AND IN HAND	**7d**	18.087.404	1.655.343
D) PREPAYMENTS AND ACCRUED INCOME	**8**	6.707.323	4.503.520
E) TOTAL ASSETS		577.880.575	716.407.680
F) OFF BALANCE SHEET ITEMS			
LIABILITIES			
A) CAPITAL AND RESERVES	**9**	202.106.280	262.436.684
I. CALLED UP CAPITAL		5.625.000	5.625.000
II. CAPITAL RESERVES		-730.578	102.964
III. INCOME RESERVES		3.395.484	2.914.390
1 Compulsory reserves		420.819	420.819
2 Reserves for treasury shares		881.286	362.892
3 Treasury shares (deductible)		47.400	10.100
4 Statutory reserves			
5 Other reserves		2.140.779	2.140.779
IV. REVALUATION RESERVES			
V. RETAINED PROFIT OR TRANSFERRED LOSS		157.754.270	189.555.047
1 Retained profit		157.754.270	189.555.047
2 Transferred loss			
VI. PROFIT (LOSS) FOR CURRENT YEAR		36.062.104	64.239.283
1 Profit for current year		36.062.104	64.239.283
2 Loss for current year			
VII. MINORITY INTEREST			
B) PROVISIONS		0	0
1 Provisions for retirement and similar expenditures			
2 Provisions for taxes and contributions			
3 Other provisions			

C) LONG TERM LIABILITES	**10**	219.018.339	217.186.461
1 Liabilities for affiliated companies			
2 Liabilities for loans, deposits			
3 Liabilities for bank loans and other financial institutions	**10a**	94.279.929	77.909.794
4 Liabilities for advances			
5 Accounts payables			
6 Securities payables	**10b**	124.738.410	139.276.667
7 Liabilities for companies with participating interest			0
8 Other long-term liabilities			
9 Deferred tax liability			
D) SHORT-TERM LIABILITIES	**11**	152.494.596	227.355.854
1 Liabilities for affiliated companies	**11a**	1.078.690	1.973.042
2 Liabilities for loans, deposits		8.054.488	7.308.909
3 Liabilities for bank loans and other financial institutions	**11b**	34.078.517	22.719.205
4 Liabilities for advances	**11e**	3.628.278	625.115
5 Accounts payables	**11c**	88.507.622	119.898.866
6 Securities payables	**11d**	1.100.000	50.062.817
7 Liabilities for companies with participating interest	**11c**	8.199	24.037
8 Liabilities for employees	**11e,12**	5.965.438	9.460.974
9 Liabilities for taxes, contributions and other	**11e**	10.039.054	14.660.578
10 Liabilities for shares in result	**11e**	14.370	16.920
11 Liabilities for short term assets intended for sale			
12 Other short term liabilities	**11e**	19.940	605.391
E) ACCRUALS AND DEFFERED INCOME	**13**	4.261.360	9.428.681
F) TOTAL LIABILITIES		577.880.575	716.407.680
G) OFF BALANCE SHEET ITEMS			

INCOME STATEMENT WITH A REPORT OF OTHER COMPREHENSIVE INCOME
For the period from 1st December 2011 till 31st December 2011

Title	Note	Previous year (net)	Current year (net)
I. BUSINESS REVENUE	**14**	439.870.942	508.156.235
1 Sales revenue		432.272.542	498.353.944
2 Other operational revenue		7.598.400	9.802.291
II. BUSINESS EXPENSE	**15**	389.455.116	419.148.652
1 Change in value of inventories for production and goods		6.719.489	-43.873.565
2 Operating expense		240.985.206	302.903.578
a) Cost of raw material		119.575.164	177.311.959
b) Costs of goods sold		1.335.449	1.173.484
c) Other external costs		120.074.593	124.418.135
3 Expense for employees		85.801.178	109.227.110
a) Net salaries and wages		51.312.330	65.723.230
b) Taxes, social and pension funds		22.210.450	27.356.594
c) Contributions for salaries		12.278.398	16.147.286
4 Depreciation		13.697.830	17.534.556
5 Other expense		20.624.926	23.628.071
6 Revalorisation		15.612.077	1.075.710
a) of long term assets (excluding financial assets)			
b) of short term assets (excluding financial assets)		15.612.077	1.075.710
7 Provisions			2.454.034
8 Other operational expenses		6.014.410	6.199.158
III. FINANCIAL REVENUE	**16**	11.084.359	9.402.142
1 Interests, exchange rate differentials, dividends and similar revenues from relations with affiliated companies		401.286	1.722.685
2 Interests, exchange rate differentials, dividends and similar revenues from relations with unaffiliated companies and other persons		4.856.133	7.589.831
3 Revenue from participating interest and subsidiaries		704	
4 Non-realized revenue			89.626
5 Other financial revenue		5.826.236	
IV. FINANCIAL EXPENSE	**17**	22.307.959	28.623.261
1 Interests, exchange rate differentials, dividends and similar expenses from relations with affiliated companies		100.124	1.608.876
2 Interests, exchange rate differentials, dividends and similar expenses from relations with unaffiliated companies and other persons		20.786.123	23.980.767
3 Non-realized loss (expenses) of financial assets			3.033.618
4 Other financial expenses		1.421.712	
V. SHARE IN PROFIT FROM AFFILIATED COMPANIES			
VI. SHARE IN LOSS FROM AFFILIATED COMPANIES			
VII. EXTRAORDINARY REVENUE			
VIII. EXTRAORDINARY EXPENSE			
IX. TOTAL REVENUE		450.955.301	517.558.377

X. TOTAL EXPENSES		411.763.075	447.771.913
XI. PROFIT OR LOSS BEFORE TAX		39.192.226	69.786.464
1 Profit before tax		39.192.226	69.786.464
2 Loss before tax		0	0
XII. INCOME TAX	**19**	3.130.122	5.547.181
XII. PROFIT OR LOSS OF THE PERIOD		36.062.104	64.239.283
1 Profit of the period		36.062.104	64.239.283
2 Loss of the period		0	0
REPORT OF OTHER COMPREHENSIVE INCOME			
I. PROFIT OR LOSS OF THE PERIOD		36.062.104	64.239.283
II. OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX		0	0
1. Exchange rate differentials from foreign business calculations			
2. Changes in revalorisation reserves for long term tangible and intangible assets			
3. Profit or loss from revalorisation of financial assets intended for sale			
4. Profit or loss from efficient cash flow protection			
5. Profit or loss from efficient investment protection			
6. Share in comprehensive profit/loss of affiliated companies			
7. Actuarial profit/loss according to planed income			
III. TAX ON OTHER COMPREHENSIVE PROFIT OF THE PERIOD			
IV. OTHER NET COMPREHENSIVE PROFIT/LOSS OF THE PERIOD		0	0
V. COMPREHENSIVE PROFIT/LOSS OF THE PERIOD	**20**	36.062.104	64.239.283

CASH FLOW STATEMENT FOR 2011
For the period from 1st January 2011 till 31st December 2011

Title	Note	Previous year (net)	Current year (net)
CASH FLOW FROM BUSINESS ACTIVITIES			
1 Cash inflow from buyers		440.859.204	465.504.931
2 Cash inflow from charge, fee and royalty			
3 Cash inflow from insurance for indemnification of damage		1.469.023	307.282
4 Cash inflow from tax refund		30.169.499	52.265.114
5 Other cash inflow		1.496.836	4.527.646
I. Total cash inflow from operating activities		473.994.562	522.604.973
1 Cash outflow for liabilities		224.278.188	350.313.896
2 Cash outflow for employees		48.994.587	65.116.483
3 Cash outflow to insurance for indemnification of damage			
4 Cash outflow for interests		16.976.480	13.316.705
5 Cash outflow for taxes		45.025.640	52.776.268
6 Other cash outflow		72.914.881	6.365.476
II. Total cash outflow from business activities		408.189.776	487.888.828
A1) NET INCREASE OF CASH FLOW FROM BUSINESS ACTIVITIES	**21**	65.804.786	34.716.145
A2) NET DECREASE OF CASH FLOW FROM BUSINESS ACTIVITIES		0	0
CASH FLOW FROM INVESTING ACTIVITIES			
1 Cash inflow from sale of long terms intangible and tangible assets		1.086.524	902.563
2 Cash inflow from sale of equity and debt security instruments		1.217.700	
3 Cash inflow from interests		37.549	1.046.166
4 Cash inflow of dividends		704	
5 Other cash inflow from investing activities		452.677	39.967.954
III. Total cash inflow from investing activities		2.795.154	41.916.683
1 Cash outflow for acquisition of long term tangible and intangible assets		25.417.149	66.136.557
2 Cash outflow for acquisition of equity and debt security instruments			104.460
3 Other cash outflows from investing activities		1.314.921	47.200.000
IV. Total cash outflow from investing activities		26.732.070	113.441.017
B1) NET CASH FLOW FROM INVESTING ACTIVITIES		0	0
B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**21**	23.936.916	71.524.334
CASH FLOW FROM FINANCE ACTIVITIES			
1 Cash inflow from issuing equity and debt financial instruments			140.000.000
2 Cash inflow from loan principals, debentures, credits and other borrowings		90.648.010	
3 Other cash inflows from finance activities		12.591.733	17.046.290
V. Total cash inflow from finance activities		103.239.743	157.046.290
1 Cash outflow for repayment of loan principal and bonds		81.779.986	32.971.775

2 Cash outflow for dividend payment		4.185.150	4.777.170
3 Cash outflow for finance lease		9.408.823	11.432.273
4 Cash outflow for buyback of own shares		681.996	377.848
5 Other cash outflow from finance activities		36.399.008	87.111.096
VI. Total cash outflow for finance activities		132.454.963	136.670.162
C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES	**21**	0	20.376.128
C2) NET CASH FLOW DECREASE FROM FINANCE ACTIVITIES		29.215.220	0
Total increase of cash flow		12.652.650	0
Total decrease of cash flow		0	16.432.061
Cash and cash equivalents at the beginning of the period		5.434.754	18.087.404
Increase of cash and cash equivalents		12.652.650	
Decrease of cash and cash equivalents	**21**		16.432.061
Cash and cash equivalents at the end of the period		18.087.404	1.655.343

CHANGES IN EQUITY
as of 31st of December 2011

Position	***Note***	***31 December 2011***	***Increase***	***Decrease***	***Net change***	***31 December 2011***
Called up capital		*5.625.000*	*0*	*0*	*0*	*5.625.000*
Premium on shares		*103.309*	*0*	*0*	*0*	*103.309*
Reserves		*5.663.073*	*681.996*	*2.902.185*	*-2.220.185*	*3.442.884*
Treasury shares		*-3.101.073*	*-681.996*	*-2.902.185*	*2.220.189*	*-881.286*
Retained profit or transferred loss		*132.698.983*	*29.924.683*	*4869.397*	*25.055.286*	*157.754.269*
Profit or loss of the period		*27.022.498*	*36.062.104*	*27.022.498*	*9.039.606*	*36.062.104*
Dividends		*0*	*4.188.525*	*4.188.525*	*0*	*0*
Revalorisation reserves		*23.302*	*0*	*23.302*	*-23.302*	*0*
a) Revalorisation of real estate, equipment and machinery		*0*	*0*	*0*	*0*	*0*
b) Revalorisation of investment		*23.302*	*0*	*23.302*	*-23.302*	*0*
c) Other revalorisation		*0*	*0*	*0*	*0*	*0*
Correction of errors		*0*	*0*	*0*	*0*	*0*
Exchange rate differentials from foreign net investments		*-65.702*	*65.702*	*0*	*65.702*	*0*
Changes in accounting policies		*0*	*0*	*0*	*0*	*0*
Total capital and reserves	***22***	***167.968.988***	***70.241.014***	***36.103.722***	***34.137.292***	***202.106.280***

NOTES

1. GENERAL DATA

JADRAN – GALENSKI LABORATORIJ, a joint stock company for production and traffic of pharmaceuticals and cosmetics with headquarters in Rijeka, Pulac bb, was registered in the Commercial court of Rijeka on the 2nd of May 1991 under the registration number 040004561 and the VAT number 20950636972. On the 24th of October 2011 the company changed its short name to JGL, joint stock company. On the 10th od February the company changed its long name to JADRAN – GALENSKI LABORATORIJ, a joint stock company.

Most important activities of the company are: production of pharmaceuticals and basic raw materials used in production of pharmaceuticals, production of other chemical products, perfumes and cosmetics.

2. STATEMENTS ON COMPLIANCE

Financial reports of the Company have been compiled in accordance with the legal requests of the financial reporting framework, applicable in the Republic of Croatia, for large entrepreneurs and entrepreneurs whose shares or debtor's securities were included, or are about to be included, in the organized securities market, that is and will be, until the date of the accession of the Republic of Croatia into the European Union, based on the International Financial Reporting Standards, the amendments thereof and accompanying interpretations, as determined by the Financial Reporting Standards Committee (hereinafter referred to as: the "Committee"), which have been published in the "Official Gazette".

The Financial Reporting Standards Committee published in the "Official Gazette" No. 136/09 a "Decision of publishing IFRS" which determined that the financial reports regarding the periods from 1st January 2010 onward have to be presented in accordance with IFRS. All later changes of published standards of financial reporting and changes regarding compilation of financial reports for periods from 1st January 2010 onward are published in the "Official Gazette" No. 8/10, 18/10, 27/10, 65/10 and 120/10.

3. COMPANY MANAGEMENT SYSTEM

The Company is managed by the Company Management Board, by the General Director. The Company Management Board is responsible to the Supervisory Board for its work. The Company Management Board chooses the Supervisory Board. The Management Board is responsible for managing, strategies, administration and harmonized organization of all business processes and organizational units of management. Duties of the President of the Management Board are performed by Ivo Usmiani, MPharm. spec.

Supervisory Board Members till 26th of October 2011:

Name and surname	*Duties within the Supervisory Board*
Zdravko Saršon, MPharm.	*President*
Marina Pavasović, MPharm.	*Vice-president*
Majid Hejja, MPharm.	*Member*
Vesna Črnjarić, econ.	*Member*

Supervisory Board Members from 27th of October 2011:

Name and surname	*Duties within the Supervisory Board*
Zdravko Saršon, MPharm.	*President*
Eva Usmiani Capobianco, mr.spec.	*Vice-president*
Marina Pulišić, mag. pharm.	*Member*
Grozdana Božić , dipl.iur.	*Member*

4. COMPANIES WITHIN JADRAN - GALENSKI LABORATORIJ D.D. RIJEKA

COMPANY	***COUNTRY***	***% SHARE***
Farmis d.o.o. Sarajevo	*Bosnia i Herzegovina*	*100*
Jadran-Galenski laboratorij Ljubljana d.o.o.	*Slovenia*	*100*
Jadran-Galenski laboratorij Beograd d.o.o.	*Serbia*	*100*
Pablo d.o.o. *- Ljekarna Pablo* *- Ljekarna Farmapharm* *- Ljekarna Jukić* *- Poliklinika Pablo* *- Studio Omega d.o.o.*	*Croatia*	*100*
JGL Nort America LLC	*USA*	*100*

5. *SUMMARY OF BASIC ACCOUNTING POLICIES APPLIED WHILE DRAFTING THE FINANCIAL STATEMENTS FOR 2011.*

Basic accounting policies applied in drafting of the financial statements for 2011 are as follows:

a) *Long-term intangible and tangible assets (basic means)*

Long-term intangible assets consist of internally developed intangible asset, investments in foreign assets, investments in computer programmes and licences.

Expenses for internally developed intangible assets are represented as intangible assets if they comply with the conditions under item 57 of International accounting standard 38 -"Intangible assets".

Long-term intangible assets include land, buildings, plants and equipment, tools, power stock and office supplies, furniture and transportation means.

Items of property, plant and equipment expressed per procurement expense or estimated amount reduced by accumulated depreciation. Acquisition of long-term tangible assets during the year is registered according to the purchase value. Purchase value is the invoicing value of the acquired assets increased by the expenses arising up to their placing in use.

Additional expenses are acknowledged in the accounting amounts of property, plant and equipment only if they increase the future economic use connected to the means, and if the same will inflow into the Company. All other expenses represent the expenses in the income statement in the period of their occurrence.

Equipment is represented as long-term tangible assets if at the time of acquisition its time of use exceeded one year, while individual purchase price exceeds HRK 2.000, or 3.500 HRK.

b) *Depreciation*

Depreciation of long-term tangible and intangible assets is calculated according to the rates which are no higher than the rates prescribed by the Profit Act, determined in such a manner that purchase and revaluation value of basic assets is depreciated in equal annual amounts during the foreseen term of use of the basic asset. Depreciation rates, which are applied, are as follows:

	2010	*2011*
Buildings	*2.5-10%*	*2.5-10%*
Equipment and machinery	*10 %*	*10 %*
Tools, power stock and transportation means	*5-50%*	*5-50%*
Intangible asset	*20 %*	*20 %*

Calculation of depreciation is performed according to individual basic assets until they are fully written-off.

Land is not depreciated, since it is considered to have an unlimited lifetime. Property in preparation is not depreciated since it has not been activated.

c) Investments in Property

Property that is kept with the purpose of realizing profit from lease or due to the increase of capital assets value, or both, is expressed as property investment pursuant to International Accounting Standard 40 - "Investment in Property".

Investing in property is measured in procurement expenses, while subsequent measurement is implemented according to the method of fair value.

Profit or loss arising from changes of fair values of property investment is accounted for in the Income statement in the period it occurred.

d) Investing in long-term financial assets

The Company owns shares in dependent companies for which, pursuant to revised International Accounting Standard 27 -"Consolidated and Separate Financial Statements" it drafts consolidated financial statements, stating the shares in business records and financial reports as shares in subsidiaries according to the acquisition cost, while profit is expressed in the Income statement only in the amount of the received dividends.

Shares where company owns between 20 and 50 % is expressed in accordance with the International Accounting Standard 28 "Investing in Associates" in business records separately by the method of shares, where initial investment is registered in the amount of investment expenses and is revalorized for subsequent changes of the investor's shares in net assets of the company which have received the investment, and the profit statement represents the investor's share in the operating results of the company being invested in.

The company classifies its investments into bank shares and insurance companies shares, and investments into other non-related companies according to the International accounting standard 39 - "Financial Instruments: Recognition and Measurement" as investments "available for sales" and is shown in business records and financial reports per fair value or acquisition costs.

e) Inventories

Inventories are expressed by the price of cost/acquisition or net sales value depending on the lower value.

The price of cost of final products includes all direct costs of production, a part of general production costs and non-production general costs.

Petty inventory is written-off per rate of 100% when placed in use.

Commercial goods in wholesale are expressed in purchase value, while in retail they are expressed in sales value.

f) Receivables from sales

Receivables from sales include all receivables for sold products, goods, and services rendered in the country and abroad.

g) Income

Income is a gross increase of economic benefit during a period, arising from Company's regular activities, when this increase causes the principal to increase, as well as the increases regarding the owner's investments.

In accordance with the regulations, operational income is recognized according to the delivery of the product, i.e. services being completed according to invoicing value, reduced in the amount of given rebates and taxes.

h) Expenditures

Expenditures are reduction of economic benefit in the given period in the form of assets outflow or assets depletion or increase of liabilities with the result of decrease in principal, except for the decreases regarding the principal allocation to the participants in the principal.

Operating expenses which are within realized services, i.e. delivered goods, are constituted by all expenses occurring in relation to invoiced realization.

i) Continuing and investing maintenance

Continuing and investing maintenance expenses of tangible assets are reimbursed from the income of the current fiscal year. Reconstructions and adaptations which change the capacity or purpose of basic assets are recorded, i.e. expressed as increase in the value of tangible assets.

j) Interest income

Interests occurring on the basis of receivables from business relations are expressed in the Income statement as financial income in the period of their occurrence.

k) Interest expenditures

Interests arising from liabilities, calculated until the date of the Balance sheet, are expressed in the Income statement as financial expenditures.

l) Conversion of foreign means of payment and accounting principle of currency differences

All means and liabilities in foreign means of payment are converted according to the mean exchange rate of the Croatian National Bank valid on the date of the Balance Sheet.

Negative currency differences, i.e. positive currency differences arising from conversion of all liabilities and receivables from foreign currency into HRK equivalent are expressed in the Income statement within the financial profit and expenditures.

m) Financial instruments

Non-derivative financial instruments are investments in the principal, receivables towards buyers and other receivables, cash and cash equivalent, loans and credits, liabilities towards suppliers and other liabilities.

Non-derivative financial instruments have initial value as per fair value.

6. LONG-TERM ASSETS

a) <u>Long-term intangible and tangible assets (basic means)</u>

Long-term intangible and tangible assets is presented as follows:

	Real estate (land and building)	Equipment and machinery, tools, power stock and transportation means	Other tangible assets	Tangible assets- construction in progress	Total tangible assets	Intangible assets
	in HRK	in HRK	in HRK	in HRK	in HRK	in HRK
Purchase or revaluation value						
Situation on 1st January 2011	64.246.867	116.219.520	605.480	7.765.576	188.837.443	27.391.387
Increase				60.133.536	60.133.536	17.125.696
Transfer from assets in progress	17.026.542	41.989.729	0	-59.487.091	-470.820	-11.169.234
Transfer to property investments and other		0	0	0	0	0
Expenses and carry-over	0	-2.595.390	0	0	-2.595.390	
Situation on 31st December 2011	81.273.409	155.613.859	605.480	8.412.021	245.904.769	33.347.849
Write-off						
Situation on 1st January 2011	15.104.308	43.191.001	0	0	58.295.309	6.511.927
Depreciation for 2011	2.210.098	11.637.047	0	0	13.847.145	3.687.411
Expenses and carry-over	0	-2.416.678	0	0	-2.416.678	0
Situation on 31st December 2011	17.314.406	52.411.370	0	0	69.725.776	10.199.338
Current value of basic assets as of 31 December 2011	63.959.003	103.202.489	605.480	8.412.021	176.178.993	23.148.511
Current value of basic assets as of 31 December 2010	49.142.559	73.028.519	605.480	7.765.576	130.560.535	20.879.460

Increase in long-term tangible and intangible assets in 2011 refers to investments in objects Svilno, Pulac and Osječka, and for purchase of machines for production of drugs, laboratory equipment, office equipment, personal and transport vehicles, furniture and other, as well as investments into the computer software and development projects.

Reduction in equipment and machinery largely concerns expenses and sales of personal vehicles.

b) <u>Investments in Property</u>

Investments in property as of 31 December 2011 amount to HRK 31.097.472 (HRK 34,041,464 in 2010).

During 2011, value estimation was executed on the stated real estate by the independent evaluator. Increase of value in the amount of HRK 89.626 is shown in the Income statement on behalf of income pursuant to International Accounting Standard 40 - "Investments in Property". The decrease in the amount of HRK 3.033.618 is shown as expenses for non-realized loss in accordance with International Accounting Standard 40 - "Investments in Property".

c) Advances on long-term tangible asset

Advances on long-term tangible assets as of 31st December 2011 amount to HRK 827.683 (HRK 927.163 in 2010), and relate to the advances paid according to the Leasing Agreements for equipment and machinery in production.

d) Long-term financial assets

Long-term financial assets are shares in associates and participating interests.

Shares with associates relate to:

	2010	2011
	in HRK	in HRK
Farmis Sarajevo	170.228	170.228
Jadran-Galenski laboratorij, Ljubljana	963.101	963.101
Jadran-Galenski laboratorij, Belgrade	151.670	151.670
Pablo d.o.o. Zagreb	28.768.528	28.768.528
JGL North America LLC	0	104.460
Situation on 31 December	30.053.527	30.157.987

Based on the Decision 65 made by the Supervisory Board on the 29th of March 2010 a new company JGL North America was founded. Start-up capital of the company JGL North America LLC is 20.000 USD.

Investment in joint company Galena d.o.o. is noted using the equity method on the 31st of December 2011 in amount of HRK 328.081 (HRK 188.694 in 2010). JGL has 49% share in equity of the company Galena d.o.o.

Participating interests are investments in:

	2010	2011
	in HRK	in HRK
Kanal RI	785.000	785.000
Kvarner Vienna Insurance Group d.d.	337.575	337.575
Menadžer d.o.o.	7.572	7.572
Ri-Novine d.o.o.	0	10.000
Situation on 31st December	1.130.147	1.140.147

e) *Long term receivables*

Long term receivables amount to HRK 0.

7. SHORT-TERM ASSETS

a) *Inventories*

The inventories are:

	2010	2011
	in HRK	in HRK
Raw material and consumables	33.445.367	60.094.204
Finished products	19.393.070	63.266.635
Goods	1.513.352	1.356.954
Situation on 31st December	54.351.789	124.717.793

b) Receivables

Receivables are: receivables from associates, receivables from buyers, receivables from employees, receivables from the government and other institutions, and other receivables

Receivables from subsidiaries are expressed in the amount of HRK 30.772.774 kuna (HRK 45.294.917 in 2010).

	Source	2010	2011
		u kn	u kn
Pablo d.o.o.(group)	Cession	21.747.763	5.860.486
Pablo d.o.o.(group)	Sale	0	156.315
Farmis d.o.o. Sarajevo	Sale	16.674.555	15.669.893
Jadran Galenski laboratorij d.o.o. Belgrade	Sale	6.872.599	9.086.080
Total		45.294.917	30.772.774

Receivables from buyers relate to:

	2010	2011
	in HRK	in HRK
Buyers in the country	61.512.040	78.438.397
Buyers abroad	97.875.185	153.334.770
Situation on 31 December	159.387.225	231.773.167

Receivables from participating companies in 2011 are expressed in the amount of HRK 1,221 (HRK 1,216 in 2010).

Receivables from employees are expressed in the amount of HRK 8.680 (HRK 19.070 in 2010).

Receivables from government and other institutions are expressed in the amount of HRK 17.548.562 (HRK 14.763.467 in 2010).

Other receivables are:

	2010	2011
	in HRK	in HRK
Receivables on advances	8.495.799	1.132.081
Other receivables (cession, assignment and assuming of debt)	242.902	0
Receivables on indemnification of damage	0	546.817
Situation on 31 December	8.738.701	1.678.898

c) *Short-term financial asset*

Short-term financial assets are: loans provided to associates, loans provided to companies with participating interest, receivables for received securities, provided loans and deposits and other financial assets.

Loans provided to affiliated companies relate to:

	2010	2011
	in HRK	in HRK
Pablo d.o.o.	0	13.600.000
Studio Omega d.o.o.	189.213	
Situation on 31 December	189.213	13.600.000

Loans provided to companies with participating interest are expressed in the amount of HRK 116.521 and refer to the loan given to company Kanal Ri d.o.o. (HRK 200.000 in 2010).

Receivables for all received securities are expressed in the amount of HRK 3.300.000 (HRK 19.878.206 in 2010).

Provided loans and deposits relate to:

	2010	2011
	in HRK	*in HRK*
Erste & Steiermarkische bank	*18.565.251*	*19.701.833*
Hypo alpe adria bank	*7.739.676*	*3.957.890*
Town of Komiža	*100.000*	*100.000*
Petrović Branko	*17.064*	*17.592*
Erste& steiermarkische s-Leasing	*73.566*	*75.013*
Situation on 31 December	*26.495.557*	*23.852.328*

Other financial assets amount to HRK 0 (HRK 6.003.896 in 2010).

d) Cash at banks and in hand

	2010	2011
	in HRK	*in HRK*
Business account	*13.396.310*	*558.315*
Cash register	*22.868*	*12.065*
Foreign currency account and non-residential account	*4.617.686*	*1.062.447*
Foreign currency cash register	*50.540*	*22.516*
Situation on 31 December	*18.087.404*	*1.655.343*

8. PREPAYMENTS AND ACCRUED INCOME

Prepayments in the amount of HRK 4.503.520 (HRK 6.707.323 in 2010) relate to interest on leasing calculated beforehand, registration and advertising expenses paid beforehand, and other paid expenses for future period.

9. CAPITAL AND RESERVES

Share capital of JGL, a joint stock company from Rijeka amounts to HRK 5.625.000 and is divided into 56,250 shares of nominal value in the amount of HRK 100 per each share, thereof 7,500 of series A, 30,000 of series B and 18,000 shares of series C.

Ownership structure

NAME AND SURNAME	*NUMBER OF SHARES*	*% IN CAPITAL*
Ivo Usmiani	*16571*	*29,46*
Zdravko Saršon	*11625*	*20,67*
Marina Pulišić	*2570*	*4,57*
Grozdana Božić	*1400*	*2,49*
Vesna Črnjarić	*1180*	*2,10*
Sanja Vujić Šmaguc	*1135*	*2,02*
Đurđica Miletović Forempoher	*990*	*1,76*
Majid Hejja	*730*	*1,29*
Radmila Načeta	*600*	*1,07*
Gordana Špoljarić	*510*	*0,90*
Ostali	*18939*	*33,67*
UKUPNO	*56250*	*100,00*

Source: JGL

On the beginning of the period the Company owned 474 of own shares. During 2011 the Company acquired 106 and sold 479 of own shares. Portfolio of the Company amounts to 101 own shares.

Changes occurring in purchase and sales of owned shares were not recorded with the Central Clearing Depositary Company.

The Company, pursuant to the provisions of the Companies Act, formed reserves for owned shares which on 31 December 2011 amounted to HRK 362.892.

Legal and other reserves are formed pursuant to the Companies Act and the Statute of JGL, joint stock company, Rijeka.

Pursuant to the Decision of the General Assembly of the Company, retained profit achieved after 2005 was reduced by HRK 4.779.720 on behalf of the dividend to the holders of regular shares in series "A", "B" and "C" in the amount of HRK 85 per share with the right to a dividend.

Pursuant to the Decision of the General Assembly of the Company and Managers Contracts, the member of the Management Board, Executive Board members and the president of the Supervisory Board received, without compensation, 229 shares. (747 shares in 2010).

Profit of current year is HRK 64.239.283 and represents the profit according to the Income statement and is expressed in nominal value.

Dividends are acknowledged in the report on changes of the principal, and expressed as liability in the period in which they have been elected by voting.

10. LONG-TERM LIABILITIES

Long-term liabilities are measured by depreciated expense using the effective interest rate method.

a) <u>Long-term liabilities towards banks and other financial institutions.</u>

Long-term liabilities towards banks and other financial institutions amount to HRK 77.909.794 (HRK 94.279.929 in 2010), and relate to the liability towards Erste & Steiermarkische Bank S-Leasing d.o.o., Zagreb, in the amount of HRK 12.360.234, based on several financial leasing agreement with the subject of leasing being personal and transport vehicles, system of clean rooms, machines for production and packaging of medicines, analytic equipment, laser code reader, system for developing eye drops, sterilizer. Liability toward banks in amount of HRK 65.549.560 refer to long-term credit agreements called Credit program for exporters and Government credit program funded by Croatian bank for Reconstruction and Development. The credit debt that is due in 2012 in total amount of HRK 29.222.351 is expressed in the short-term liabilities (Note 11.b).

Overview of company's debt regarding Credit program for exporters and Government credit program funded by Croatian bank for Reconstruction and Development

	2011
	in HRK
Erste & Steiermarkische Bank	*38.711.374*
SocieteGenerale-Splitska banka	*14.498.807*
Privredna banka Zagreb	*12.339.379*
Situation 31st of December	*65.549.560*

There is a mortgage on Company's real estate as insurance for credit return.

b) <u>Liabilities for securities</u>

Liabilities for securities on 31st of December 2011 amount to HRK 139.276.667 relating to liabilities for issued long-term securities . (HRK 124.738.410 in 2010).

Croatian Financial Services Supervisory Agency (hereinafter referred to as CFSSA) brought on 17th of May 2007 a Decree (Class: UP/1-451-04/07-11/5, Reg. No.: 326-111/(07-3) by means of which it approves a brochure on issuing the corporate bonds by public procurement and publishing data while bonds are enlisted for the first listing, after CFSSA, within seven days from the expiration date for payment of bonds, delivers the notification on number and percentage of listed and paid bonds and persons who have registered and paid for the bonds. Notification on results of issuing of bonds of JGL was delivered by CFSSA on 11th of June 2007.

JGL joint stock company issued registered bonds on 11th of June 2007, in non-materialized form, in the total amount of HRK 125.000.000 in denomination of HRK 1, with maturity in 2012.

Bonds have been listed into Zagreb Stock Exchange pursuant to Agreement on listing of securities as of 12th of June 2007.

JGL joint stock company on 20th of April 2011 issued bonds in total amount of HRK 140.000.000 on the base of informational memorandum. Informational memorandum was not *approved by CFSSA because according to the Capital Market Act (article 351.) there is no such obligation if the bonds are offered and bought by investors for at least EUR 50.000.*

On the 3rd of November 2011 CFSSA brought a Decree (Class: UP/1-451-04/11-12/5, Reg. No.: 326-111/(11-8) by means of which it approves a brochure on issuing bonds JDGL-O-166A of total amount HRK 140.000.000. The bonds are issued on the active market by the name and dematerialised, denominated on HRK 1 with variable interest rate and with due date on 10th of June 2016.

Part of the bonds issued on the 11th of June 2007 (HRK 74.850.000) were exchanged with new bonds issued on the 20th of April 2011.

Determined interest rate for the period from 11th June 2009 till 11th June 2011 amounts to 9,80% annually and 6,1125% for the period 11th June 2010 – 11th June 2011. Determined interest rate for the period from 11th June 2011 till 11th June 2012 for the exchanged bonds (HRK 74.850.000) is 5,25%. Determined interest rate for the new bonds for the period from 11th June 2011 till 11th June 2012 is 5,35%. In 2011, the Company paid HRK 8.116.054 for accrued interest.

c) Deferred tax liability

The Company has no deferred tax liability on 31st of December 2011 nor on 31st of December 2010.

11. SHORT-TERM LIABILITIES

a) Liabilities towards associates

Liabilities towards associates are expressed in the amount of HRK 1.973.042 (HRK 1.078.690 in 2010).

	2010	2011
	in HRK	in HRK
Pablo d.o.o. (grupa)	200	39.236
Jadran Galenski laboratorij d.o.o. Belgrade	902.143	1.591.916
Jadran Galenski laboratorij d.o.o. Ljubljana	176.347	171.075
JGL North America	0	170.815
Situation on 31st of December	1.078.690	1.973.042

b) Liabilities for loans and banks and other financial institutions

	2010	2011
	in HRK	in HRK
SocieteGenerale-Splitska banka (HBOR)	27.000.000	0
Current immediate long-term liabilities (Note 10.a.)	13.961.606	29.222.351
Liabilities for interests and fees	1.171.399	805.763
Situation on 31st of December	42.133.005	30.028.114

Stated liabilities relate to acquisition of tangible and working assets, for crediting of preparing and charging for exporting activities. There is a mortgage on Company's real estate as insurance for credit return.

c) Liabilities towards suppliers

Liabilities towards suppliers relate to:

	2010	2011
	in HRK	in HRK
Suppliers in the country	45.879.192	53.144.749
Suppliers/participating interest	8.199	24.037
Suppliers abroad	42.620.231	66.730.080
Situation on 31st of December	88.507.622	119.898.866

Liabilities toward companies with participating interest in amount of HRK 24.037 (HRK 8.199 in 2010) refers to the liability toward the company Kanal Ri d.o.o.

d) Liabilities for securities

Liabilities for securities amount to HRK 50.062.817 (HRK 1.100.000 in 2010).

e) Other short-term liabilities

Other short-term liabilities relate to the following:

	2010	2011
	in HRK	in HRK
Received advances	3.628.278	625.115
Liabilities for employees	5.965.438	9.460.974
Liabilities for taxes, contributions and other duties	10.039.054	14.660.578
Liabilities for shares in result	14.370	16.920
Liabilities for Supervisory Board	19.940	605.391
Situation on 31 December	19.667.080	25.368.978

12. SALARIES

During regular business operations, when paying salaries, the Company makes regular payments of contributions in the name of its employees in accordance with the law. Mandatory pension contributions to funds are expressed as a part of expenses on salaries when the same are charged. The obligations for non-taxable fees, allowances and rewards are acknowledged in the period they have been achieved in.

13. ACCRUALS AND DEFERRED INCOME

Accruals and deferred income amounts to HRK 9.428.681 (HRK 4.261.360 in 2010) out of which HRK 5.940.822 relates to outstanding interests on bonds and bank loans, while HRK 1.033.825 refers to deferred income from the government and HRK 2.454.034 relates to unused vacation expenses.

14. OPERATIONAL REVENUE

Operational revenue is:

	2010	2011
	in HRK	in HRK
Revenue from sales in domestic market	154.421.136	145.027.686
Revenue from sales in foreign market	277.851.406	353.326.258
Revenue from donations and subsidies	168.967	600.940
Other revenue	7.429.433	9.201.351
Total	439.870.942	508.156.235

Revenue from donations and subsidies relate to the revenue from the Ministry of Economy, Labour and Entrepreneurship, pursuant to the Agreement on strengthening international competitiveness for 2011 and amounts to HRK 600.940 (HRK 168.967 in 2010).

Changes regarding content and structure of financial reports published in the "Official Gazette" No. 130/2010 cancel revenues from use of own products so they are shown like Other revenue in amount of HRK 4.186.728 (HRK 5.306.836 in 2010).

HRK 18.966.388 (HRK 19.169.839 in 2010) relate to revenue from associates.

15. OPERATIONAL EXPENDITURES

Operational expenditures are:

	2010	2011
	in HRK	in HRK
Cost of material, energy and small inventory	119.575.164	177.311.959
Costs of goods sold	1.335.449	1.173.484
Costs of services	120.074.593	124.418.135
Expenses for employees	85.801.178	109.227.110
Depreciation	13.697.830	17.534.556
Value adjustment of short-term assets	15.612.077	1.075.710
Other expenses	26.639.336	29.827.229
Increase/decrease of value of goods inventory	0	2.454.034
Total	6.719.489	-43.873.565

Cost of material made by associated companies amount to HRK 17.092 (HRK 7.116 in 2010). Costs of services made with associated companies amount to HRK 4.427.227(HRK 4.088.446 in 2010). Other expenses related with associated companies amounts to HRK 12.749 (HRK 10.483 in 2010).

16. FINANCIAL REVENUES

Financial revenues are:

	2010	*2011*
	in HRK	*in HRK*
Interest revenues	*378.047*	*2.156.684*
Revenues from exchange rate differences	*4.879.372*	*6.925.080*
Revenues from participating interests	*704*	*0*
Revenues from increase of value of property investments	*242.624*	*89.626*
Revenues from negative goodwill (merger of company Ardentis d.o.o.)	*5.291.716*	*0*
Revenues from shares in Investment Funds	*3.896*	*91.365*
Other financial revenues	*288.000*	*139.387*
Total	*11.084.359*	*9.402.142*

HRK 1.583.297 (in 2010 HRK 401.286) relate to financial revenues from associates.

17. FINANCIAL EXPENDITURES

Financial expenditures are:

	2010	*2011*
	in HRK	*in HRK*
Interest expenditures	*16.233.385*	*15.709.297*
Expenditures from exchange rate differences	*4.552.738*	*8.271.470*
Expenditures from selling shares	*92.524*	*0*
Expenditures from decrease in value of investment in real estate	*100.124*	*1.608.876*
Total	*1.329.188*	*3.033.618*

HRK 1.608.876 (in 2010 HRK 100.124) relate to financial expenditures from associates.

18. AUDIT AND TAX CONSULTATION EXPENSES

The Company in 2011 had tax consultation expenses in total amount of HRK 90.113(in 2010 HRK 48.452) and HRK 115.000 of audit expenses (in 2010 HRK 115.000).

19. PROFIT TAX

Profit tax is charged on the principal in accordance with the regulations of the Republic of Croatia. The principal is the profit, calculated as the difference between the income and expenditures, increased i.e. decreased pursuant to the provisions of the Profit Tax Act.

In 2009 the Company received the status of a holder of incentive measures pursuant to the Investment Incentives Act, and it uses the tax benefits pursuant to that Act. The tax benefit is reduced profit tax rate of 7%.

The current tax represents the expected tax liability charged on the taxable amount of profit for the year, using the tax rate valid on the balance sheet date, tax benefits and all adjustments of tax liability from previous periods.

In 2011, JGL, a joint-stock company from Rijeka, achieved tax base for profit tax in the amount of HRK 69.786.283. The determined tax liability amounts to HRK 5.547.181.

20. REPORT ON OTHER COMPREHENSIVE INCOME

Profit of the period and other comprehensive profit are the same and amount to HRK 69.786.283 (in 2010 profit of the period amounts to HRK 36.062.104).

21. REPORT ON CASH FLOW

Report on cash flow is compiled according to the indirect method and it shows the cash flow from business, investing and financing activities.

The cash flow from business activities shows an increase in the amount of HRK 34.716.145

The cash flow from investing activities shows a decrease in the amount of HRK 71.524.334.

The cash flow from financing activities shows a decrease in the amount of HRK 20.376.128.

The total cash flow for 2011 shows a decrease in the amount of HRK 16.432.061.

22. REPORT ON CHANGES OF EQUITY

Report on changes of equity for 2011 displays the total increase of equity in the amount of HRK 60.330.404.

23. POTENTIAL LIABILITIES

No procedures have been initiated against the Company, nor are there any indications that the procedure of a significant value might be initiated.

24. RISK MANAGEMENT

The Company is exposed to various financial risks connected to currency, interest, credit and liquidity risk. The Company monitors the said risks and is trying to reduce their potential influence on the financial exposition of the Company.

The Company is exposed to the risk of changes to foreign currency exchange rate during procurement and sales that are denominated in foreign currency. Currency risk is present due to possible changes to the foreign currency exchange rates.

Financial assets that may expose the Company to a credit risk are cash and receivables from buyers. The Credit risk concerning receivables from buyers is restricted due to the distribution of the receivables on various geographic areas and buyers. The Company is trying to protect itself by obtaining payment insurance instruments and selection of buyers based on the creditworthiness assessment. For large buyers on the Russian territory, the Company has insurance policies issued by the Croatian Bank for Reconstruction and Development. Receivables from larger buyers from Ukraine and Kazahstan are insured by Croatian Credit Insurance.

Liquidity risk management implies maintaining the amount of money and providing availability of financial assets in the form of credit lines. Exposing the Company to credit, interest and currency exchange risks occurs during regular business activities of the Company, and the Company protects itself by concluding agreements concluded with business banks where the annual credit limits have been contracted in advance.

25. RETROACTIVE CHANGE IN REPORTS FOR THE YEAR 2010

In 2010 annual financial reports some positions were reclassified in order to be comparable to 2011 annual financial reports. The changes made are:

Additional discounts – in 2010 additional discounts were noted as expenses and in 2011 they decrease the revenue. For the purpose of comparison the Income Statement positions Sales revenue and Other expenses were altered.

Internally developed intangible assets – in 2010 they generated revenue while in 2011 they decrease the expenses. For the purpose of comparison the Income Statement positions Other business revenue, Cost of raw material, Other external expenses, Employee expenses and Other expenses were altered.

Financial liability measurement – in 2010 additional financial liability was measured by cash flow, in 2011 it is measured by depreciated expense using the effective interest rate method. For the purpose of comparison the Balance sheet positions Prepayments, Long-term liabilities toward banks and other financial institutions, Long-term liabilities for securities and Short-term liabilities for securities were altered.

26. EVENTS AFTER THE DATE OF THE BALANCE SHEET

On the 20th of February 2012 on a public bidding the Municipal court in Rijeka brought a decision regarding the land and business building in favour of JGL joint stock company iin total amount of EUR 8.558.158,60. JGL joint stock company will invest on a new production at this location.

Rijeka, 23rd of March 2012

Management

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YEARLY REPORT FOR
JGL, joint stock company
2011.

Company JADRAN-GALENSKI LABORATORIJ d.d. ("Jadran" - Galenski Laboratorij" or "JGL" or "Issuer" or "Company") accepts responsibility for the content of this Financial Report. Given the belief and all discoveries and data available to JGL, data in this annual report present a complete and truthful display of assets and liabilities, of loss and gain and the financial position of JGL, and to the best knowledge of JGL, no fact has been left out that can affect the completeness and truthfulness of this annual report.

Numbers in the annual report are rounded, therefore, numbers shown for the same type of data can differ and the sums may not be arithmetic aggregates. In this document "EUR" indicates euro, "USD" American Dollar, while "HRK" or "kuna" indicates Croatian kuna.

1. INTRODUCTION BY THE BOARD OF DIRECTORS

After 2009, a year marked by the recession that forced us to face the decrease of our revenues for the first time, and after 2010 which was marked by the increase of our business once again, the year 2011 was another successful business year for JGL. In the year that marks its 20th anniversary of doing business, the company continued with its strong increase rates on the foreign markets and completed a significant investment cycle in production facilities and equipment. Further growth of business results is achieved on the CIS market which is the most responsible for the fact that export markets went up in 2011 with a 27% rate of increase, compared to the year 2010.

Total revenue of the company went up with the increase rate of 16% and amounted to HRK 508 million, of which HRK 353 million was generated on the foreign markets. These results confirm JGL as a growing company of the international nature. Apart from already established markets, we have intensified the contacts and initial cooperation with markets we want to win over in the next cycle of internationalization. Those are primarily the Brazilian market and the markets of USA and Great Britain. At the beginning of the year, we have registered our own company in the USA and by doing so we have made a step towards opening that exceptionally competitive and large market.

Year 2011 was also a year of significant projects that were the result of a redefined strategy and of strategic map of the company. By positioning product extensions of the brand, CIS market has successfully implemented marketing campaign of Aqua Maris rebranding. We have rounded the implementation and the integration of demanding IT projects in the form of new software for business intelligence (COGNOS) and software for production planning (MEPIS). We have completed a significant investment cycle in production facilities which amounts to almost 10 million EUR. Significant improvements were made in further implementation of new competences in the field of registrations and so JGL continued to independently manage the DCP procedure of medications registration (procedure of concurrent registration of products on several markets), which marks the opening of the new segment of highly demanding international business operating in the EU's regulatory arena. Exceptional efforts were made to reinforce the quality assurance system in accordance with EU GMP and ISO standards, as well as to develop an environment managing system. It was a jubilee year in which we rounded the completed project of our company the full experience of which was memorialised at the 20th anniversary of the company's foundation celebration. All activated projects, as well as those yet to be launched, represent a very important step towards establishing a modern and developed business system; they increase the company's competitiveness and lead to achieving new ambitious objectives we have set out to achieve by 2016.

In total, I consider the year 2011 as a very successful year. I cordially thank our employees without whose dedication and enthusiasm these results would not be possible. I also thank all our stockholders, financial institutions and business partners for their support and trust and present this report on the state and results of the Company's business with pleasure.

2. CORPORATIVE MANAGING

ORGANIZATION

Basic elements of JGL's organization or business system are: strategy management system (BSC), process map, organization structure, information system and internal and external system delivery. Development and management of JGL's business system includes the development and management of all mentioned elements. In between mentioned elements of the business system there exists a co-dependence, as well as a causal conditioning of their evaluation.
Strategy management system is a foundation of the business system. In accordance with the long term business goals, strategy defines values and the way a business system should deliver them in the long run. That is why development objectives of the JGL's business system are defined within the strategic plan, alongside the long-term planning of business objectives. This kind of demand of the business system is formed through JGL's BSC system, which consists of strategic maps and BSC scorecards of related strategic objectives.
All values planned by the JGL's strategy, are delivered by the processes. Due to that fact, process map of the company occupies a central position within the JGL's business system. Processes present a dynamic perspective on the business system, while other elements of the business system present a static perspective. Processes are supported by the adequate organization structure, that is, by the optimal organization of human resources. A rule is applied that organization structure must be oriented towards company's processes as much as possible, in order to ensure their utmost efficiency.
Just as organizations' structure, architecture of JGL's information system directly stems from the request for company's processes support. That is why a display of information flow is obligatory in the process description, alongside organization roles for making demands placed on the IT system (infrastructure and applications) easier to define.

STRUCTURE

The change of corporative strategy from business diversification, organizationally expressed through the existence of more strategic business units, to concentration and expansion (market and product) with a focus on key segments, caused the need to implement certain changes in the organization structure of the company for the year 2011.

Although it is of a typical functional form at the executive level, at lower levels, within strategic business functions, and given the special character of the processes they support, other forms of organizational structure are present as well: business function "Research and Development" implements project organization structure to some extent, supply chain processes are supported by the process oriented functional organizational structure of the business function "Pharmaceutical technical operations", while the organization structure of the business function "Operative marketing" and "Sales" is territorial.

ORGANIZATION DEVELOPMENT

Speed, service, solutions fully adapted to customer needs and flexibility are the key terms which JGL considers in relation to further development of the company, which must succeed in new market conditions. The dynamics of change within the business environment leads to the need for new and more flexible organizational models.
In that context in the future JGL will turn even more to so called *cross-functional* organization formed around so called *end to end* process. Such approach, called horizontal or process organization, is to be applied to organization of resources which support company's Central

(Core) processes, while functional or vertical management is to be retained for the organization of resources in support processes, requiring functional specialisation.

MANAGEMENT SYSTEM

JGL develops integrated management system which connects strategic planning and operative realisation through six stages:

- strategy development
- strategy planning
- organization alignment
- operation planning
- strategy realisation monitoring
- strategy revision

In the first stage, strategy team reviews the existing or develops the new strategy using the standard strategy tools. What follows is the second stage or strategy planning by developing strategic maps and scorecards of strategic objectives.

After strategic maps and related scorecards have been created at the higher organization level, strategic team performs the strategic alignment in the third stage, by cascading strategic maps and scorecards according to other strategically relevant organization segments. What follows is the alignment of employees through formal communication process and through connecting their personal business goals with the strategic objectives of the company. After aligning organizational units and employees with the strategy, in the fourth stage JGL's management, in accordance with strategic inputs, creates operative plan through its basic components: planning of the improvements of strategically relevant processes, detailed prognosis of sales, resources capacity plan, creation of the budget for the operative expenses and capital expenditures.

During the execution of strategic and operative plan, or the fifth stage which stretches throughout the entire business year, management is engaged in the monitoring and learning about the problems, barriers, and other challenges that have arisen within the business system. This process integrates information on operations and strategy through realization of separate operative and strategic meetings for reporting.

Finally, strategic team uses internal operative data and the new data on external environment and competition to evaluate and adapt the existing strategy, thereby instigating a new loop of strategic planning and operative realization within an integrated management system.

DIRECTING, MANAGING, SUPERVISORY BODIES AND HIGHER MANAGEMENT

The Board of Directors manages the company, through its chief executive officer, appointed by the Supervisory Board. The Board of Directors is accountable to the Supervisory Board. At annual shareholders' meetings, the Supervisory Board presents the operation of the company from the previous period and informs stockholders about all matters crucial for the company's business, in accordance with the pre-determined agenda.
At the shareholders' meeting, company's CEO presents the company's annual report to stockholders, while all decisions and amendments, delivered to stockholders prior to the meeting, are discussed and determined. If necessary, stockholders are also provided information in writing or at a special meeting, should a specific situation require it.

The company consists of the Executive Board, Portfolio Management Board and Strategic Board whose members are appointed by the company's Board of Directors by a special decision.

Executive Board of the company is a multifunctional authority, encompassing directors of key business functions with adequate authority and executive power. It convenes on a determined basis and reviews pre-defined topics. The Board discusses vital strategic and operational corporate issues.
The Executive Board's primary role is to analyse business operations and to participate in decision making related to current company operation, as well as to define high-priority projects and activities. Key responsibilities include responsibility for business results, supervision of strategic plans, coordination and organizational units conflict handling, as well as making key decisions. Members of the Executive Board answer to the company's Board of Directors with regards the operation of organizational units under their direct management, as well as organizational units assigned to them based on a special decision of the Board of Directors.

The Strategic Board (SB) is responsible for defining the company's strategy, analysing the accomplishments and coordinating them with the annual strategic calendar, defining key objectives and performance indicators (KPI) in accordance with the defined method and tools, as well as for communicating the strategy to the entire company. It includes members of the Executive Board, the Corporate Branding Director, directors - business function managers, head of Strategic Management, and if necessary, managers of separate business units.

The Portfolio Management Board (PMB) has developed from an advisory, multifunctional and multidisciplinary expert authority, into a decision-making authority in charge of the company's portfolio. Based on the assessment of internal documents used to formally propose new topics, PMB reaches its decision through consensus on the launching of new development projects, portfolio expansion or termination of non-profitable products, by taking into account all relevant market and expert factors. The Board convenes on a determined basis, reviews pre-defined topics and informs the Executive Board and the Board of Directors about them.

INFORMATION ON THE MANAGEMENT AND THE SUPERVISORY BOARD

JGL's Board of Directors consists of one member. Ivo Usmiani performs the duty of the president of the Board of Directors. Supervisory Board consists of Zdravko Saršon - president and the members Grozdana Božić, Marina Pulišić and Eva Usmiani.

3. OVERVIEW OF THE BUSINESS RESULTS AND THE GENERAL STATE OF AFFAIRS OF THE COMPANY

Profit and loss account

Business revenues in the year 2011 increased by 16% in comparison to the year 2010. Revenues from sales made abroad went up by 27% so we can conclude CIS market is the most responsible for the growth company achieved in 2011.

Export share in total revenues of the company went up from 66% in 2010 to 70% in 2011, which is a result of further straightening of partnerships on the key markets and even stronger establishment of key brands and the launch of new products. Although revenues form the exchange rate differences and the revenues from interest marked an increase during 2011 in comparison to the previous year, financial revenues are realised at 85% of revenues from the year 2010 as a result of accomplished merger of dependant company Ardentis d.o.o. (negative goodwill) during 2010.

Business revenues in the year 2011 amount to HRK 419,148,651 and are bigger by 8% in comparison to the year 2010. That growth is not in accordance with the growth of revenues primarily due to the effect of inventory value decrease in the amount of HRK 43,873,565. Financial expenditures are bigger by 28% in comparison to the year 2010, primarily due to the effect of expenditures growth from the exchange rate differences, growth of financing from associated companies and expenditures from the decrease of real estate investment value. Accordingly, the growth of total expenditures was higher by 9% than in 2010, but significantly smaller in comparison to the growth of revenues in the same period.

Such positive difference in favour of revenues, in comparison to the growth of expenditures, resulted in the increase of net income from HRK 36,062,103 to 64,239,282, which represents an increase of 78%. In accordance with that, such growth of revenues and income resulted in the increase of EBITDA from HRK 84,7 million to HRK 101,1 million, which makes an increase of 19.4%.

The revenue per employee is HRK 987,706, which is higher by 4.5% compared to 2010, while the income per employee went up by 62.2% and amounts to HRK 122,594.

Return on equity (ROE) went up from 17.84% to 24.48%, while return on assets (ROA) went up from 6.23% to 8.97%.

Balance of accounts

Increase in total assets in comparison to the previous period was 24%, but changes in the structure of the assets are much more evident. The biggest increase of the long term assets is visible in the items of intangible assets in terms of costs of development projects which satisfy the recognition criteria of internally developed intangible assets (increase of HRK 5.8 million) and
the items of tangible assets as a result of investments in new production facilities (increase of HRK 18 million).

Inventory position increased significantly in comparison to the previous year which is mostly the result of capacity increase and partially the result of bigger sales volume.

More significant changes are also visible in relation to financial assets, which decreased to almost HRK 12 million, and in relation to money in the bank and on hand, which decreased to HRK 1.6 million and is only at 9% in comparison to the previous year.

By continuing the long-standing policy of retaining and reinvesting the major share of income, capital item went up by 30% in comparison to the previous period and finances almost 37% of total assets, which is more by 2% that in 2010.

The position of short term liabilities shows an increase of 49% in comparison to the year 2010, as a result of maturity of initial public offering (HRK 50,150,000), while long term liabilities remained at the same level as in 2010, as a result of liquidity maintenance.

Overview of financial results per production programme

Prescription drug programme

The prescription programme, that has generic drugs in its portfolio, made net sales in the amount of approximately HRK 125,2 million in 2011. That is somewhat less than in the previous year. When compared to the plan, it is a setback of 6.72%, while in comparison with the previous year, it is a setback of 8.74%.

In this programme, sale on domestic market is dominant, and it makes 78.33% of realized sales. In comparison to the previous year, realized sales were lower by 13.95%. On the RBU SEE market outside Croatia, HRK 8,6 million was realized , which is a smaller decrease in comparison to the realization in the previous year.

Prescription drug programme is also present on RBU CIS market with realization surpassing the previous year by as much as 38%. High growth rates are recorded especially in Russia and the Ukraine.

Given the structure of the programme, these three groups are most common ones in the prescription programme:

B - *Preparations which affect the blood and the blood forming organs - share 27.78%*
C - Preparations which affect the cardiovascular system- share 19.77%
A - Preparations which affect the digestive system and the metabolism- share 15.97%
D - Preparations which affect the skin- share 12.26%

S - Preparations which affect the senses- share 7.32%

Given the growth trends, these groups achieved the biggest success:

D- Medications which affect the skin - growth of 50%
H- Systematic hormonal preparations, sex hormones excluded - growth of 8%.
R- Preparations which affect the respiratory system - growth of 36%

JGL ranks 17th among all producers (of both generic and original drugs) on the Croatian market, assuming 6th place among the generic drug producers. JGL's share in the in the overall Croatian pharmaceutical market amounted to 2.54% in 2011.

JGL's portfolio consisting of around 300 products on the Croatian market is largely focused on drugs. In 2011 JGL participated with a share of 2.33% in the overall market of HRK 4.94

billion (covering prescription drugs given at pharmacies and drugs used in health institutions), which is an increase of 4% compared to 2010.

If one takes into account an even narrower segment - only prescription drugs issued in pharmacies (consumption in hospitals excluded), JGL's share among its competitors in this segment is even bigger and amounted to 2.90% in 2011. In that segment JGL holds 12th position among producers.

Non-prescription programme

Non-prescription programme covers products of different purposes and registration categories. The non-proscription programme system includes OTC drugs, medical products, food for special purposes, dietetics, biocides, special purpose cosmetics, and cosmetics.

Non-proscription programme products are distributed via wholesale drug stores and merchant network.

Non-proscription programme was implemented in 2011 with HRK 123,545,568, that is 97.49% of the plan for the year 2011. In comparison to the previous year, that is a decrease of 19.86%, but the mentioned implementation of the plan for the year 2011 was satisfactory, given the macroeconomic conditions of SEE and CIS regions, as dominant markets for the non-proscription programme portfolio, and the fact sales realization is done solely at the expense of users.

According to the regional market analysis, the greatest number of non-proscription programme sale is being realized in CIS and SEE region with 54% and 45% respectively, while CEE region realises only 1% of sale.

In 2011, setback in the plan realization happened in the JIE region, where the realisation was 86,47%. The plan setback was mostly affected by the realisation on the Croatian market, the largest non-proscription programme market in the SEE region, which was worse than expected. Decrease was also recorded in Slovenia, while other SEE markets had a realisation above 95% or over the plan. Also, apart from Croatia and Slovenia, all other markets significantly grew in sales in comparison to the previous year.

CIS market grew and the plan was achieved with excellent variance of 111.92%, while the realisation variance - plan for CEE, was 283.56%.

Regarding the programme structure, the greatest success, in terms of growth and the realisation over the plan for the 2011, in comparison to the realisation of the previous year, was achieved by the following products and brands:

- OTC drug Dramina with the realisation of 112.06% in relation to the plan and growth of 106.68% in comparison to the previous year.
- OTC drug Carbomed with the realisation of 100,38% in relation to the plan and growth of 104.07% in comparison to the previous year.
- JGL probiotics which include Lactogyn, Normia and Prolife, had a realisation over the plan of 105.73% and the growth of 124.17% in comparison to the previous year.
- Vitalia Feminal had a realisation of plan of 127.27% and the growth of 180,93% in comparison to the year 2010, while Vitalia Oculo Plus, product under the same umbrella brands, realised 178.89% of the plan and the growth in comparison to the year 2010 of 204.20%.
- Adrience cosmetics achieved a realisation of 194.38% of the plan as a result of the export to the Russian market.

Aqua Maris programme

Aqua Maris programme, which is set apart as a separate unit because of its strategic importance, records gross sale of HRK 277 million in 2011, with the plan realisation of 100%. The previous year recorded a significant growth of this programme in the amount of 37%.

On the domestic market PAM realised HRK 7.2 million and the growth of 68% in 2011, while in the SEE region it realised the growth of 39% and the gross sale of HRK 11,8 million.

Success in the CIS region is exceptionally significant where PAM realised HRK 263,7 million with the growth of 37%.

Other markets that recorded growth are Hungary, Romania and Latvia.

Globally, with its Aqua Maris brand, JGL retained its third place on the global list of producers in the category of "nasal saline", sea water nasal saline or nasal saline and it still holds 5% of the global market in this segment.

Contractual production

The new contractual production programme generated approximately HRK 16.2 million, which is a significant increase of over 400% in comparison to the previous year.

4. INVESTMENTS AND INCENTIVES

Increase of long term tangible and intangible assets in 2011 relates to the investments in Svilno, Pulac and Osječka facilities and to the procurement of machines for the production of drugs, laboratory equipment, office supplies, personal and goods vehicles, furniture etc., and the investments in computer software and development projects.

Investments in real estate on 31 December 2011 amounted to HRK 31,097,472 (HRK 34,0411,464 in the year 2010). During 2011, evaluation of real estate value was performed by an independent assessor. Increase in value in the amount of HRK 89,626 is recognized in the profit and loss account in favour of revenues, and the decrease in value in the amount of HRK 3,033,618 was recognized in the expenditures of unrealised loss in accordance with the International Accounting Standard 40 - "Investment in Real Estate".

Revenues from grants and subventions relate to the revenue from the Ministry of Economy, Labour and Entrepreneurship, under the Treaty on Strengthening the International Competitiveness for the year 2011 and it amounts to HRK 600,940 (HRK 168,967 in the year 2010). Ordinance on amendments to the Ordinance on the layout and the contents of the annual accounts (OG 130/2010) abolished the position Revenues based on the use of own products, goods and services, so they are therefore, displayed in the position Other business revenues in the amount of HRK 4,186,782 (HRK 5,306,836 in the year 2010). Revenues from sales realized together with dependant companies amount to HRK 18,966,388 (HRK 19,169,839 in the year 2010).

5. PURCHASE OF OWN SHARES

At the beginning of the period, the company owned 474 of its own shares. During 2011, the company acquired 106 of its own shares and sold 479 of them, after which there remained 101 of them in the portfolio. All changes incurred by buying and selling of own shares have not been recorded at Central Clearing Depository Company.

In accordance with the regulations of the Corporations Act, the company created reserves for its own shares which amounted to HRK 362,892 on 31 December 2011. Legal and other reserves are created in accordance with the Corporations Act and the Statute of JGL d.d., Rijeka.

6. EMPLOYEES

In JGL we try to build a modern business system unburdened by prejudices and limitations and a corporative culture that can respond to the challenges of today's especially competitive environment. Our HR department constantly works on developing human resources and pays great attention in the hiring process to the thorough selection of candidates. When it comes to hiring, the positive employment trend of the year 2010, when JGL hired 30 new employees, was also achieved in the year 2011 when 49 new employees were hired in Croatia. On 31 January 2011, employee count was 523.

Of that number, 316 employees works in Croatia and more than 85% of them in the area of Rijeka, while other employees work in the areas of Zagreb, Slavonia, Dalmatia and Istria. In a company in which 73% of employees are females, it is a real challenge to reconcile personal and business commitments, to understand the social importance of a family, as well as the human dimension, both at work and in everyday life.

7. AWARDS AND RECOGNITIONS

DOP Index award for the greatest progress in comparison to the previous year - Croatian Chamber of Economy and Croatian Business Council for Sustainable Development ,
"Zlatni ključ" award for the best exporter to Russia in 2010 - Croatian Exporters' Association,
Employer Partner Certificate for excellent human resource management awarded by – Selectio d.o.o.,
Acknowledgement to JGL as a third nasal saline producer in the world (nasal saline, including the preparations based on seawater), and to **Aqua Maris as the world's largest brand based on seawater** covering 5.2% of the global market - according to an independent source of the Nicholas Hall agency,
Best Buy Award to Aqua Maris in the "nasal spray" category – DEEPMA survey conducted by the Zagreb Gfk Market Research Centre,
X award in the category Best on market for the print advertisement of the Meralys advertising campaign – Ideja X, festival of advertising,
First place at Fiumanka to maxi cruiser “JGL E1” with the crew from JGL.

8. ENVIRONMENT PROTECTION

In 2011 JGL invested significant funds and efforts in environmental protection. As in previous years, we fulfilled all our obligations required by the regulations in force. By increasing engagement, consumption of funds and by making new investments, the company continued to reinforce the state of environment protection.

In 2009, JGL created an elaborate on the state of environment protection as a part of the procedure for determining integrated requirements and based on that an evaluation was acquired that the Company is not required to obtain the environmental licence under the Regulation on the procedure for determining integrated environmental protection requirements (OG 114/08).

The most important investments in 2011 relate to the expansion and reconstruction of the drainage system as a part of the new production facility construction, reconstruction and tightness testing of sewerage on both production locations, environment planning at Svilno facility, additional preparation of the instruments for the control of the waste water processing processes, construction of two solar water heating systems required for the production, project and the construction of noise barriers, that is the protection of neighbourhood from the noise emission. Mentioned investments were successfully implemented and carried out or are close to completion. Total amount of investments in the environment protection in 2011 exceeds half a million kuna.
Significant efforts and funds were invested in the waste disposal and in the year 2011 So far the largest amount of waste was disposed and that took most of the funds. Disposal of waste was managed completely in accordance with regulations, in cooperation with authorised waste collectors and supported by the necessary documentation. All hazardous waste was disposed of paying great attention to it by engaging authorised waste collectors and was mostly exported abroad in order to be burned.

It is important to stress out that in 2011, in comparison to previous years, JGL did not increase the negative impact on the environment in a single segment.

Current expenditures of JGL for environment protection in 2011 exceeded one million kuna. All above mentioned was duly recorded, as were all other environmental indicators, all relevant reports were made and delivered to the competent bodies of the public administration and were thus made public and available to all interested parties.

9. WORK SAFETY

Our Work Safety Department (*Zaštita na radu* - ZNR) and our Fire Protection Department (*Zaštita od požara* - ZOP) operate in accordance with JGL's mission "to improve the quality of life through taking care of health." As safe work is the prerequisite to achieving that goal, just as safe environment is in 2011 numerous measures were taken and the pre-existing state of work safety was implemented. Construction of the new production facility, as well as the procurement of new machines and devices, is one of the important steps towards improvement of employee safety and care in JGL during 2011.

Employee safety and health care are managed in accordance with a number of heteronomic legislative regulations and autoimmune acts that JGL stipulated for the improvement and progress in terms of work safety and fire protection, and in terms of environment protection.

Through regular annual reports to the competent bodies (Croatian Work Safety Inspectorate, Environmental Protection Agency), JGL presented its real state of affairs which shows progress in comparison to the year 2010.

Employee safety and health care in JGL

In order to prevent work related injuries, professional diseases or any other diseases related to work, as well as to eliminate potential dangers in work areas, the following was established:

- <u>Danger assessment revision for all jobs</u>
  One of JGL's umbrella autoimmune acts in terms of work safety is Danger assessment revision for every job. Based on the analysis for all jobs, a plan of

measures was made to decrease the danger level which includes implementation of basic and special work safety rules, as well as other measures JGL will implement, which will be in accordance with GMP principles.

- <u>Work safety training</u>

  Work safety related knowledge of all employees is constantly being evaluated. In 2011, in JGL 95 employees were educated in the theory and practice of how to work safely and 55 of them was educated on the fire protection. With the assistance of professional services of ZNR and ZOP, employer's authorised personnel (department managers) for the implementation of work safety measures, educated other employees on all possible dangers and hazards, as well as on preventive measures used to eliminate them, that is reduce them to the least possible level. Before starting a new job, new employees must sit through an initial work safety education through GMP programme. Second step of the education on the potential dangers and safe work was elaborated within GMP1. Final part of the work safety training, which is also stipulated by law, is an education under the programme approved by the Ministry of the Economy, Labour and Entrepreneurship, which consists of theoretical and practical part and is implemented by the professional service for the work safety.

  Additional education is established for managers in order to convey how important health protection and work safety are to employees and to contribute to the business success of the company.
  In 2011, activities of the Work Safety services were, among other things, directed towards expansion of autonomous acts related to work safety, participation in work groups during the construction of new and the reconstruction of old facilities, and the procurement of new machines and devices.

- <u>Constant health surveillance</u>

  JGL has a contractual relation with an expert team of occupational medicine specialists - they are engaged to monitor the health of employees on a regular basis through previous, periodic and extraordinary medical examinations and by participating in the danger assessment evaluation. Apart from engaging occupational medical specialists to monitor employees' health, JGL provided its employees with an annual physical examination covered by the Basler Insurance.

- <u>Taking care of work tools</u>

  In 2011, all necessary tastings of dangerous machinery and devices were performed, electric installations were tested, work environment was tested (noise, vibrations, lighting, microclimatic conditions), and all tastings related to fire protection were performed.

- <u>Internal and external surveillance</u>

  Regular internal surveillance was used to monitor the work safety conditions and to eliminate all irregularities in order to prevent unwanted events. In 2011, a number of targeted and complete surveillances were performed and where failures were noticed, instructions were given and deadlines established for their elimination.
  In terms of external surveillances performed by the Government Inspectorate for the Work Safety, two surveillances were performed in 2011 regarding the implementation of basic and special work safety measures. Surveillances were detailed and without objections.

- <u>Fire and explosions protection</u>

In addition to regular (quarter) and periodic (annual) surveillances of fire protection equipment, in 2011 JGL organized a fire drill in accordance with to the existing SOP, and the education of newly employed on the fire protection.

Work safety conditions in JGL

Work safety conditions are best presented by the statistic data on the work related injuries, professional diseases and the diseases related to work. Situations in 2011, in comparison to the previous five years, are displayed in a table and a diagram:

In the period of last five years (from 2007 to 2011) a total of 24 work-related injuries were registered. In the last five years not a single case of professional disease was registered.

Statistical data on the number of injuries per 1000 workers by sectors in the Republic of Croatia from 2007 to 2011 were used, according to the monthly reports of the Croatian Institute for Health Insurance for the Production of Basic Pharmaceutical Products sector (code number 21) according to the new nomenclature.

code number 21: Pharmaceutical Products and Preparations	**2007**	**2008**	**2009**	**2010**	**2011**
Number of injuries per 1000 employees	17.82	17.11	14.39	10.13	14.86

Table 1

Type of data	Period				
	2007	**2008**	**2009**	**2010**	**2011**
Number of lethal injuries	**0**	**0**	**0**	**0**	**0**
Number of all injuries	**0**	**0**	**0**	**0**	**0**
Number of grave injuries	**0**	**0**	**0**	**0**	**0**
Number of injuries (minor and grave)	**3**	**6**	**6**	**6**	**3**
Number of injuries per 1000 employees	**13.04**	**23.72**	**21.90**	**21.35**	**8.47**
Professional diseases number of cases	**0**	**0**	**0**	**0**	**0**
Professional diseases number of cases per 1000 employees	**0**	**0**	**0**	**0**	**0**
Number of work process disruptions that could have caused adverse consequences to the health of employees	**0**	**0**	**0**	**0**	**0**
Number of injuries per 1000 employees in relation to the conditions in the sector	**0.73**	**1.39**	**1.52**	**2.11**	**0.57**
Number of professional diseases per 10000 employees in relation to the conditions in the sector	**0**	**0**	**0**	**0**	**0**
Total average number of employees	**230**	**253**	**274**	**281**	**354**

Data on the current state are based on the following data:

-from the work domain records (employees' work contracts, employees' registration files, decision on the business registration),
- on employees allocated to positions which include special work conditions,

- on employees who were injured at work and on the sources and causes of those injuries, according to the annual reports on injuries and professional diseases of employees at work,
- from the records on electric installations testing, the testing of machinery, devices and lightning conductor testing,
- from the records on dangerous machinery and devices testing,
- from the records on the work environment testing,
- from the surveillance records of the work safety inspector
- from the user manuals for machines and devices, technical data of the machines,
- from data on work substances,
- data from test lists published during the visit to the work place and the work environment in order to inspect the dangers the work place is exposed to.

For the past five years there are data for every year:

- on the number of work related injuries,
- on the number of cases of professional diseases,
- on the number of work process disruptions that could have caused adverse consequences to the safety and health of employees,
- on the number of employees,
- on the number of lost work days/hours due to work related injuries,
- on the number of injuries per 1000 employees from the company's sector.

Analysis of all work related injuries

Frequency of all registered injuries by the year when the injury occurred was given in a diagram. It shows injuries which occurred at the work place and outside the work place, such as injuries on the way to the work place and vice versa.

A total of 24 injuries were recorded. Of the total number, in the past five years 7 injuries were registered to have taken occurred on the regular way to the work place from one's residence and vice versa or 29% of the total number of injuries.

Comparison of the number of injuries per 1000 employees with regards to the sector

If the comparison was made of all registered injuries in the company to the statistical number of injuries in the sector - Pharmaceutical Products and Preparations (code number 21) - the relation is negative for the first three years, that is, above the index "1", but the last year marks a decreasing trend in the number of injuries, that is, it is under the sector average.

For a more objective perspective on the work safety conditions, injuries that occurred on a regular way to the work place from one's home and vice versa were excluded from the total number of injuries - article 21. Registration Ordinance (OG 52/84) - resulting with a review of injuries incurred as a result of failure to implement basic and special work safety rules.

Based on the performed analysis, a conclusion can be reached that work safety conditions are considerably better in 2011, in comparison to the earlier period, and given the significant increase in the number of employees.

10. DEVELOPMENT

Research and Development activities

In 2011, business function of the Research and Development was organizationally divided as follows:
1 BU (business unit) Research and Pre-formulation - 2 employees, full time
2 BU Technological Development - 7 employees, full time
3 BU Developmental Analytic - 16 employees, of which: 12 employed at full time, 1 employed via student employment office, 1 via agency, 1 on maternity leave, 1 newly employed in 4Q2011
4 BU R&D Office - 5 employees, of which: 3 employed at full time, 1 via agency, 1 internal transfer starting from 01/11/2011.

Given their qualifications, the structure of mentioned employees was as follows:

B. Sc., PhD	1
- MA, Pharm, spec	1 (2 from 4.Q2011)
- University degree	12 + 1 ML
- Secondary education diploma	11 (12 from 4.Q2011)
- Post secondary school diploma	1
- Basic qualification	1

Across development and research activities, employees were allocated within the following work units:

- Research and Pre-formulation	1
- Technical Development	3
- Developmental Analytic	4.

Apart from taking place within the R&D BF, a part of research and/or developmental activities was taking place, either partially or in full, in other BU (*for example: for raw materials - Procurement, Quality Control; for primary packaging - Quality Control, Marketing; for technological processes - Production etc.).*

For all key developmental processes to be optimized (related both to the development of new products and to the existing production programme maintenance activities), the same were described and allocated to people responsible (process managers) and complementary transformed in the developmental projects reference models so that all new activities can be managed and monitored within projects. This is how all developmental projects are approached, regardless of the model (own development, co-dev, transfer).

Activities and jobs taking place within business units of R&D BF, were divided into groups under which they were planed and send off in the controlling.

Main group activities in R&D in 2011:
1 **project jobs** (pre-project jobs, project administration, strategic projects)
2 **research jobs** (procurement research - raw materials, suppliers, reference products; pre-formulation research - evaluation of raw materials, compatibility; research of analytical methods and technological processes)
3 **developmental analysis** (development of analytical methods, validation of analytical methods, regular analysis of stability)

4 **technological process development** (creation of laboratory batches, scale-up, validation of
production procedure)
5 **professional administrative jobs** (documenting the development of analytical methods, stability
formulation development, creation of production documentation, professional instructions etc.
6 **registration jobs** (preparation of dossier parts for the product registration and the preparation of accompanying
documents)
7 **technical maintenance jobs** (calibration and qualification of equipment, systems and instruments)
8 **general jobs** (work area maintenance, general administration etc.)
9 **employee education and development** (internal and external mentoring of pupils, students
colleagues; education)
10. losses (vacations, sick leaves, maternity leaves etc.).

In 2011 research and development jobs included a large number of various activities, mostly:

- development and optimization of new analytical methods in JGL (for example, in vitro release; in vitro pharmacokinetics; chiral analysis etc.) for the purposes of R&D, quality control and product monitoring,
- analytical methods development for: content of active ingredients, content of contamination, content of conservant, viscosity, release of an active ingredient from a finished sanative form and other, all related to the development of JGL's new product
- development of new product formulations form the drugs category, dietetic and medical products
- improvement of existing formulations based on new guidelines or legislative regulation CRO/EU
- raw materials research, development of analytical methods for their testing etc.

In 2011, some of the developmental projects from the previous period were finished, and **2 projects of in-house development initiated in 2009 were more intensely worked on, as well as 4 projects of in-house development initiated in 2010**. What all these projects had in common is the fact they all included research and developmental activities both in the narrow sense (for example, development of analytical methods and the formulation development) and in the broader sense (new technology development, new process development).

During 2011, apart from being used for the developmental projects, part of the resources was used for the modernization of JGL's product portfolio:
- new methods development for the existing portfolio
- improvement of production procedures
- process validation and optimization
- raising the level of registration dossiers

and a total percentage of work hours invested in these activities by the R&D employees was 60%.

Of that, development unit was mostly engaged in the Prescription programme (60%), than in the Non-prescription programme (26%), and the remaining time was spent in work for the Aqua Maris and other programmes.
Within the Proscription programme 36 brands were worked on, and within Non-proscription programme, 22 different brands were worked on.

Strategic goal of R&D BF in the following period is to focus on new products in a much higher percentage than it did in 2011.

New/old portfolio ratio, which was 40:60 in 2011, was changed in the activities plan for the 2012 to 55:45 as a driving step for even more intensive change and, in addition to the growth of portfolio as a result of licence themes, the growth was made stronger through in-house developed projects.

Report on Management Board responsibility

In accordance with the legal requests of the financial reporting framework, applicable in the Republic of Croatia, the Management Board is responsible for financial reports and their accordance with International Financial Reporting Standards (IFRS) as determined by the Financial Reporting Standards Committee. Financial reports provide a true and fair view of the Company and it's financial results for the given period.

Following the audit's completion, the Management duly expects the Company to dispose of relevant resources, therefore, while drafting financial reports, further adopts the principle of dynamic transitional environment of business.

The Management Board's responsibility while drafting the financial reports is to:

- chose and apply consistent accounting policies
- provide justified and reasonable judgements and estimations
- act in accordance with valid accounting standards, with publishing and explaining of all materially relevant deviations in financial reports and
- draft financial reports under the presumption of dynamic transitional environment, unless the presumption that the Company will continue its business in not applicable.

The Management Board is responsible for managing relevant accounting records, which shows the financial position of the Company in each moment with relevant punctuality. Also, the Management Board is obliged to ensure that the financial reports are in accordance with the Accounting Act. Besides that, the Management is responsible for keeping the Company's assets and undertaking justified actions for preventing and revealing fraud and other faults.

Rijeka, dated 23rd March 2012

For and on behalf of the Management Board

Ivo Usmiani, MPharm. spec.

„JADRAN“ – GALENSKI LABORATORIJ, joint stock company
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Annual general assembly meeting of the „JADRAN“ – GALENSKI LABORATORIJ, joint stock company from Rijeka on the 17th of May 2012 regarding the point 6 of the agenda which states as follows:
6) Decision making about use of profit gained in year 2011

issued a

DECISION

a)
It's determined that the Company, in the year that ended with 31st of December 2011, gained profit after tax in total amount of HRK 64.239.282,90.

b)
Profit of the Company in total amount of HRK 64.239.282,90 will be allocated as retained profit of the Company

c)
This Decision enters into force on the date that it is made.

CHAIRMAN OF THE ASSEMBLY

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ZDRAVKO SARŠON, Mr. Pharm.