

**Attachment 1.**

Period:

1.1.2012

to

31.12.2012

**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**Address: **Pulac bb**e-mail: [jgl@jgl.hr](mailto:jgl@jgl.hr)Internet address: [www.jgl.hr](http://www.jgl.hr)Code and name of city: **373** **Rijeka**Code and name of county: **8** **Primorsko-goranska**Number of employees **781**  
(at the end of the period)Consolidated report: **YES**NKD code: **2120**

Companies in consolidation (in acc. with IFRS):

Headquarters:

MB:

**Farmis d.o.o.****Sarajevo, BIH****Jadran-galenski laboratorij Beograd d.o.o.****Beograd, srbija****Jadran -galenski laboratorij Ljubljana d.o.o.****Ljubljana, Slovenija****Pablo d.o.o.****Zagreb****1162772****JGL North America LLC****New York, USA**

Accounting:

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(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)

**CONSOLIDATED BALANCE SHEET**  
on 31 December 2012

JGL d.d.			
Position	ADP mark	Previous period	Current period
1	2	3	4
<b>A) RECEIVABLES FOR SHAREHOLDERS EQUITY, NON-PAID</b>	<b>001</b>		
<b>B) LONG TERM ASSETS (003+010+020+029+033)</b>	<b>002</b>	300.220.749	355.250.218
I. INTANGIBLE ASSETS (004 - 009)	<b>003</b>	74.083.882	80.761.572
1. Expenditure for research and development	<b>004</b>	4.706.120	6.893.445
2. Patents, licences, concessions, trademarks, software and other rights	<b>005</b>	22.020.173	39.434.059
3. Goodwill	<b>006</b>	36.268.650	21.561.122
4. Advances on intangible assets	<b>007</b>		
5. Intangible assets-construction in progress	<b>008</b>	7.510.267	8.947.765
6. Other intangible assets	<b>009</b>	3.578.672	3.925.181
II. TANGIBLE ASSETS (011 - 019)	<b>010</b>	224.297.211	272.840.525
1. Land	<b>011</b>	4.206.842	6.102.522
2. Buildings	<b>012</b>	70.000.076	73.536.551
3. Equipment and machinery	<b>013</b>	92.331.158	95.902.825
4. Tools, power stock and transportation means	<b>014</b>	16.816.479	15.953.332
5. Biological assets	<b>015</b>		
6. Advances on tangible assets	<b>016</b>	827.682	892.498
7. Tangible assets-construction in progress	<b>017</b>	8.412.021	77.347.261
8. Other tangible assets	<b>018</b>	605.481	615.480
9. Investments in real estate	<b>019</b>	31.097.472	2.490.056
III. LONG TERM FINANCIAL ASSETS (021 - 028)	<b>020</b>	1.818.228	1.640.651
1. Shares in affiliated companies	<b>021</b>		
2. Loans to affiliated companies	<b>022</b>		
3. Participating interest	<b>023</b>	1.490.147	1.140.147
4. Loans to companies with participating interest	<b>024</b>		
5. Securities investments	<b>025</b>		
6. Given loans, deposits	<b>026</b>		
7. Other long term financial assets	<b>027</b>		
8. Investments (equity method)	<b>028</b>	328.081	500.504
IV. RECEIVABLES (030 - 032)	<b>029</b>	21.428	7.470
1. Receivables from affiliated companies	<b>030</b>		
2. Receivables from sales on credit	<b>031</b>		
3. Other receivables	<b>032</b>	21.428	7.470
V. DEFERRED TAX ASSETS	<b>033</b>		
<b>C) SHORT TERM ASSETS (035+043+050+058)</b>	<b>034</b>	493.502.100	572.134.678
I. INVENTORIES (036 - 042)	<b>035</b>	144.653.540	164.082.258
1. Raw and other material	<b>036</b>	60.097.132	55.222.009
2. Production in progress	<b>037</b>		
3. Finished products	<b>038</b>	63.266.635	60.506.685
4. Trade goods	<b>039</b>	21.289.773	22.326.267
5. Advances on inventories	<b>040</b>		
6. Long term assets for sale	<b>041</b>		26.027.297
7. Biological assets	<b>042</b>		
II. RECEIVABLES (044 - 049)	<b>043</b>	309.142.529	386.187.915
1. Receivables from affiliated companies	<b>044</b>		4.906
2. Receivables from buyers	<b>045</b>	288.459.512	364.168.763
3. Receivables from participating companies	<b>046</b>	1.221	0
4. Receivables from employees and subsidiaries	<b>047</b>	41.768	62.376
5. Receivables from government and other institutions	<b>048</b>	18.786.696	19.715.572
6. Other receivables	<b>049</b>	1.853.332	2.236.298
III. SHORT TERM FINANCIAL ASSETS (051 - 057)	<b>050</b>	30.647.571	3.370.344
1. Shares in affiliated companies	<b>051</b>		278.000
2. Loans to affiliated companies	<b>052</b>		
3. Participating interest	<b>053</b>		
4. Loans given to companies with participating interest	<b>054</b>	116.521	0
5. Securities investment	<b>055</b>	4.181.390	1.535.045
6. Given loans, deposits	<b>056</b>	26.349.660	1.557.299
7. Other short term financial assets	<b>057</b>		
IV. CASH AT BANKS AND IN HAND	<b>058</b>	9.058.460	18.494.161
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>059</b>	4.942.692	6.151.578
<b>E) TOTAL ASSETS (001+002+034+059)</b>	<b>060</b>	798.665.541	933.536.474
<b>F) OFF BALANCE SHEET ITEMS</b>	<b>061</b>	84.168.259	110.313.814

<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)</b>	<b>062</b>	260.538.684	314.783.513
I. CALLED UP CAPITAL	<b>063</b>	5.625.000	5.625.000
II. CAPITAL RESERVES	<b>064</b>	102.964	1.926.364
III. INCOME RESERVES (066+067-068+069+070)	<b>065</b>	2.914.390	3.470.416
1. Compulsory reserves	<b>066</b>	420.819	420.819
2. Reserves for treasury shares	<b>067</b>	362.892	928.818
3. Treasury shares (deductible)	<b>068</b>	10.100	20.000
4. Statutory reserves	<b>069</b>		
5. Other reserves	<b>070</b>	2.140.779	2.140.779
IV. REVALUATION RESERVES	<b>071</b>		
V. RETAINED PROFIT OR TRANSFERRED LOSS (073-074)	<b>072</b>	188.556.484	236.333.938
1. Retained profit	<b>073</b>	188.556.484	236.333.938
2. Loss for current year	<b>074</b>		
VI. PROFIT/LOSS FOR CURRENT YEAR (076-077)	<b>075</b>	63.339.846	67.427.795
1. Profit for current year	<b>076</b>	63.339.846	67.427.795
2. Loss for current year	<b>077</b>		
VII. MINORITY INTEREST	<b>078</b>		
<b>B) PROVISIONS (080 - 082)</b>	<b>079</b>	0	917.341
1. Provisions for retirement and similar expenditures	<b>080</b>		917.341
2. Provisions for taxes and contributions	<b>081</b>		
3. Other provisions	<b>082</b>		
<b>C) LONG TERM LIABILITES (084 - 092)</b>	<b>083</b>	231.926.739	295.565.735
1. Liabilities for affiliated companies	<b>084</b>		
2. Liabilities for loans, deposits	<b>085</b>		
3. Liabilities for bank loans and other financial institutions	<b>086</b>	92.650.072	156.121.068
4. Liabilities for advances	<b>087</b>		
5. Accounts payables	<b>088</b>		
6. Securities payables	<b>089</b>	139.276.667	139.444.667
7. Liabilities for companies with participating interest	<b>090</b>		
8. Other long-term liabilities	<b>091</b>		
9. Deferred tax liability	<b>092</b>		
<b>D) SHORT-TERM LIABILITIES (094 - 105)</b>	<b>093</b>	296.470.751	312.973.010
1. Liabilities for affiliated companies	<b>094</b>		
2. Liabilities for loans, deposits	<b>095</b>	7.347.397	5.373.651
3. Liabilities for bank loans and other financial institutions	<b>096</b>	27.119.204	123.753.834
4. Liabilities for advances	<b>097</b>	625.115	500.616
5. Accounts payables	<b>098</b>	176.272.506	149.867.440
6. Securities payables	<b>099</b>	50.062.817	1.200.000
7. Liabilities for companies with participating interest	<b>100</b>	24.037	11.333
8. Liabilities for employees	<b>101</b>	10.949.435	11.589.387
9. Liabilities for taxes, contributions and other	<b>102</b>	16.433.357	16.480.801
10. Liabilities for shares in result	<b>103</b>	16.920	18.000
11. Liabilities for short term assets intended for sale	<b>104</b>		
12. Other short term liabilities	<b>105</b>	7.619.963	4.177.948
<b>E) ACCRUALS AND DEFERRED INCOME</b>	<b>106</b>	9.729.367	9.296.875
<b>F) TOTAL LIABILITIES (062+079+083+093+106)</b>	<b>107</b>	798.665.541	933.536.474
<b>G) OFF BALANCE SHEET ITEMS</b>	<b>108</b>	84.168.259	110.313.814
<b>APPENDIX TO THE BALANCE SHEET (to be filled by the company drafting the annual consolidated financial statement)</b>			
<b>A) CAPITAL AND RESERVES</b>			
1. Assigned to holders of the capital of the parent company	<b>109</b>	260.538.684	314.783.513
2. Assigned to minority interest	<b>110</b>	0	0

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

**CONSOLIDATED INCOME STATEMENT**  
from 1st January 2012 and 31st December 2012

JGL d.d.

Position	ADP mark	Previous period	Current period
1	2	3	4
<b>I. BUSINESS REVENUE (112+113)</b>	<b>111</b>	685.379.511	778.212.279
1. Sales revenue	112	658.289.753	750.990.748
2. Other operational revenue	113	27.089.758	27.221.531
<b>II. BUSINESS EXPENSE (115+116+120+124+125+126+129+130)</b>	<b>114</b>	596.225.711	687.737.702
1. Change in value of inventories for production and goods	115	-43.873.565	2.759.950
2. Operating expense(117 - 119)	116	445.726.632	460.237.491
a) Cost of raw material	117	179.565.432	167.635.888
b) Costs of goods sold	118	136.819.089	140.006.931
c) Other external costs	119	129.342.111	152.594.672
3. Expense for employees (121 - 123)	120	133.893.759	148.578.047
a) Net salaries and wages	121	79.960.153	89.211.185
b) Taxes, social and pension funds	122	34.284.263	38.136.662
c) Contributions for salaries	123	19.649.343	21.230.200
4. Depreciation	124	19.779.415	24.295.916
5. Other expense	125	28.550.123	39.522.092
6. Revalorisation (127+128)	126	1.306.245	893.952
a) of long term assets (excluding financial assets)	127	15.268	0
b) of short term assets (excluding financial assets)	128	1.290.977	893.952
7. Provisions	129	2.454.034	1.212.201
8. Other operational expenses	130	8.389.068	10.238.053
<b>III. FINANCIAL REVENUE (132 - 136)</b>	<b>131</b>	8.809.960	21.245.148
1. Interests, exchange rate differentials, dividends and similar	132		
2. Interests, exchange rate differentials, dividends and similar	133	8.437.722	21.217.913
3. Revenue from participating interest and subsidiaries	134	282.612	19.562
4. Non-realized revenue	135	89.626	7.673
5. Other financial revenue	136		
<b>IV. FINANCIAL EXPENSE (138 - 141)</b>	<b>137</b>	28.359.974	42.343.000
1. Interests, exchange rate differentials, dividends and similar	138		
2. Interests, exchange rate differentials, dividends and similar	139	25.326.356	41.918.546
4. Non-realized loss from financial assets	140	3.033.618	424.454
5. Other financial expenses	141		
<b>V. SHARE IN PROFIT FROM AFFILIATED COMPANIES</b>	<b>142</b>		97.177
<b>VI. SHARE IN LOSS FROM AFFILIATED COMPANIES</b>	<b>143</b>		
<b>VII. EXTRAORDINARY REVENUE</b>	<b>144</b>		
<b>VIII. EXTRAORDINARY EXPENSE</b>	<b>145</b>		
<b>IX. TOTAL REVENUE (111+131+142 + 144)</b>	<b>146</b>	694.189.471	799.554.604
<b>X. TOTAL EXPENSES (114+137+143 + 145)</b>	<b>147</b>	624.585.685	730.080.702
<b>XI. PROFIT OR LOSS BEFORE TAX (146-147)</b>	<b>148</b>	69.603.786	69.473.902
1. Profit before tax (146-147)	149	69.603.786	69.473.902
2. Loss before tax (147-146)	150	0	0
<b>XII. INCOME TAX</b>	<b>151</b>	6.263.940	2.046.107
<b>XIII. PROFIT OR LOSS OF THE PERIOD (148-151)</b>	<b>152</b>	63.339.846	67.427.795
1. Profit of the period (149-151)	153	63.339.846	67.427.795
2. Loss of the period (151-148)	154	0	0
<b>APPENDIX TO INCOME STATEMENT Form (to be filled by the company drafting the annual consolidated</b>			
<b>XIV. PROFIT OR LOSS OF THE PERIOD</b>			
1. Assigned to holders of the capital of the parent company	155	63.339.846	67.427.795
2. Assigned to minority interest	156	0	0
<b>REPORT OF OTHER COMPREHENSIVE INCOME (to be filled by the company in accordance with the IFRS)</b>			
<b>I. PROFIT OR LOSS OF THE PERIOD (= 152)</b>	<b>157</b>	63.339.846	67.427.795
<b>II. OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (159 do</b>	<b>158</b>	0	0
1. Exchange rate differentials from foreign business calculations	159		
2. Changes in revalorisation reserves for long term tangible and	160		
3. Profit or loss from revalorisation of financial assets intended	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		
<b>III. TAX ON OTHER COMPREHENSIVE PROFIT OF THE PERIOD</b>	<b>166</b>		
<b>IV. OTHER NET COMPREHENSIVE PROFIT/LOSS OF THE PERIOD</b>	<b>167</b>	0	0
<b>V. COMPREHENSIVE PROFIT/LOSS OF THE PERIOD (157+167)</b>	<b>168</b>	63.339.846	67.427.795
<b>APPENDIX TO REPORT OF OTHER COMPREHENSIVE INCOME Form (to be filled by the company</b>			
<b>VI. COMPREHENSIVE PROFIT OR LOSS OF THE PERIOD</b>			
1. Assigned to holders of the capital of the parent company	169	63.339.846	67.427.795
2. Assigned to minority interest	170	0	0

**CASH FLOW STATEMENT - Indirect method**  
for the period from . . . . . to . . . . .

Position	ADP mark	Previous period	Current period
1	2	3	4
<b>CASH FLOW FROM BUSINESS ACTIVITIES</b>			
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	
<b>I. Total increase of cash flow from business activities (001 do 006)</b>	<b>007</b>	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	
<b>II. Total decrease of cash flow from operating activities (008 - 011)</b>	<b>012</b>	0	0
<b>A1) NET INCREASE OF CASH FLOW FROM BUSINESS ACTIVITIES (007-012)</b>	<b>013</b>	0	0
<b>A2) NET DECREASE OF CASH FLOW FROM BUSINESS ACTIVITIES (012-007)</b>	<b>014</b>	0	0
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
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		
<b>III. Total cash inflow from investing activities (015 - 019)</b>	<b>020</b>	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		
<b>IV. Total cash outflow from investing activities (021 - 023)</b>	<b>024</b>	0	0
<b>B1) NET CASH FLOW FROM INVESTING ACTIVITIES (020-024)</b>	<b>025</b>	0	0
<b>B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES (024-020)</b>	<b>026</b>	0	0
<b>CASH FLOW FROM FINANCE ACTIVITIES</b>			
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		
<b>V. Total cash inflow from finance activities (027 - 029)</b>	<b>030</b>	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	
<b>VI. Total cash outflow for finance activities (031 - 035)</b>	<b>036</b>	0	0
<b>C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES (030-036)</b>	<b>037</b>	0	0
<b>C2) NET CASH FLOW DECREASE FROM FINANCE ACTIVITIES (036-030)</b>	<b>038</b>	0	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	<b>039</b>	0	0
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	<b>040</b>	0	0
Cash and cash equivalents at the beginning of the period	<b>041</b>	0	
Increase of cash and cash equivalents	<b>042</b>	0	
Decrease of cash and cash equivalents	<b>043</b>	0	
Cash and cash equivalents at the end of the period	<b>044</b>	0	0

**CASH FLOW STATEMENT - Direct method**  
For the period from 1st January 2011 till 31st December 2011

<b>JADRAN-GALENSKI LABORATORIJ - GROUP</b>			
Position	ADP mark	Previous period	Current period
1	2	3	4
<b>CASH FLOW FROM BUSINESS ACTIVITIES</b>			
1. Cash proceeds from buyers	<b>001</b>	640.189.253	677.998.808
2. Cash proceeds from royalties, fees, commissions, etc	<b>002</b>		274.754
3. Cash proceeds from insurance claims	<b>003</b>	307.282	849.941
4. Cash proceeds from tax return	<b>004</b>	52.265.114	52.955.256
5. Other cash proceeds	<b>005</b>	11.072.691	6.702.368
<b>I. Total increase of cash flow from operating activities (001 - 005)</b>	<b>006</b>	703.834.340	738.781.127
1. Cash outflow for liabilities	<b>007</b>	507.266.544	548.871.702
2. Cash outflow for employees	<b>008</b>	87.238.147	90.138.044
3. Cash outflow to insurance for indemnification of damage	<b>009</b>		
4. Cash outflow for interests	<b>010</b>	14.217.720	20.191.064
5. Cash outflow for taxes	<b>011</b>	59.951.754	81.096.464
6. Other cash outflow	<b>012</b>	12.576.068	6.817.933
<b>II. Total cash outflow from business activities (007 do 012)</b>	<b>013</b>	681.250.233	747.115.207
<b>A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (006-013)</b>	<b>014</b>	22.584.107	0
<b>A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (013-006)</b>	<b>015</b>	0	8.334.080
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
1. Cash proceeds from sale of long terms intangible and tangible assets	<b>016</b>	902.563	703.426
2. Cash proceeds from sale of equity and debt security instruments	<b>017</b>		
3. Cash proceeds from interest payment	<b>018</b>	28.792	111.497
4. Cash proceeds of dividend payment	<b>019</b>		
5. Other cash proceeds from investing activities	<b>020</b>	33.378.741	116.521
<b>III. Total cash inflow from investing activities (015 - 019)</b>	<b>021</b>	34.310.096	931.444
1. Cash outflow for acquisition of long term tangible and intangible assets	<b>022</b>	67.707.744	85.577.768
2. Cash outflow for acquisition of equity and debt security instruments	<b>023</b>		5.488.717
3. Other cash outflows from investing activities	<b>024</b>	27.200.000	278.000
<b>IV. Total cash outflow from investing activities (021 - 023)</b>	<b>025</b>	94.907.744	91.344.485
<b>B1) NET CASH FLOW FROM INVESTING ACTIVITIES (020-024)</b>	<b>026</b>	0	0
<b>B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES (024-020)</b>	<b>027</b>	60.597.648	90.413.041
<b>CASH FLOW FROM FINANCE ACTIVITIES</b>			
1. Cash inflow from issuing equity and debt financial instruments	<b>028</b>	140.000.000	0
2. Cash inflow from loan principals, debentures, credits and other borrowings	<b>029</b>	22.000.000	253.403.136
3. Other cash inflows from finance activities	<b>030</b>	17.046.290	36.545.566
<b>V. Total cash inflow from finance activities (027 - 029)</b>	<b>031</b>	179.046.290	289.948.702
1. Cash outflow for repayment of loan principal and bonds	<b>032</b>	53.213.720	93.703.707
2. Cash outflow for dividend payment	<b>033</b>	4.777.170	16.835.700
3. Cash outflow for finance lease	<b>034</b>	11.432.273	10.382.534
4. Cash outflow for buyback of own shares	<b>035</b>	377.848	914.446
5. Other cash outflow from finance activities	<b>036</b>	88.266.096	59.929.493
<b>VI. Total cash outflow for finance activities (031 - 035)</b>	<b>037</b>	158.067.107	181.765.880
<b>C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES (030-036)</b>	<b>038</b>	20.979.183	108.182.822
<b>C2) NET CASH FLOW DECREASE FROM FINANCE ACTIVITIES (036-030)</b>	<b>039</b>	0	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	<b>040</b>	0	9.435.701
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	<b>041</b>	17.034.358	0
Cash and cash equivalents at the beginning of the period	<b>042</b>	26.092.818	9.058.460
Increase of cash and cash equivalents	<b>043</b>		9.435.701
Decrease of cash and cash equivalents	<b>044</b>	17.034.358	0
Cash and cash equivalents at the end of the period	<b>045</b>	9.058.460	18.494.161

**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	<b>001</b>	5.625.000	5.625.000
2. Capital reserves	<b>002</b>	102.964	1.926.364
3. Reserves from equity	<b>003</b>	2.914.390	3.470.416
4. Retained profit or transferred loss	<b>004</b>	188.556.484	236.333.938
5. Profit or loss of the period	<b>005</b>	63.339.846	67.427.795
6. Revalorisation of long term tangible assets	<b>006</b>		
7. Revalorisation of long term intangible assets	<b>007</b>		
8. Revalorisation of financial assets for sale	<b>008</b>		
9. Other revalorisation	<b>009</b>		
<b>10. Total capital and reserves (ADP 001 - 009)</b>	<b>010</b>	260.538.684	314.783.513
11. Exchange rate differentials from foreign net investments	<b>011</b>		
12. Current and deferred tax	<b>012</b>		
13. Cash flow protection	<b>013</b>		
14. Changes in accounting policies	<b>014</b>		
15. Correction of errors from past periods	<b>015</b>		
16. Other changes in equity	<b>016</b>	61.497.367	54.244.829
<b>17. Total increase or decrease of equity (ADP 011 - 016)</b>	<b>017</b>	61.497.367	54.244.829
17.a Assigned to holders of the capital of the parent company	<b>018</b>	61.497.367	54.244.829
17. b Assigned to minority interest	<b>019</b>		

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 GROUP, joint-stock company, Rijeka**

**AUDIT REPORT  
OF CONSOLIDATED ANNUAL FINANCIAL REPORTS  
FOR 2012**

**RIJEKA, APRIL 2013.**

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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 its financial results for the given period.

Following the audit's completion, the Management duly expects the Group 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 Group will continue its business in not applicable.

The Management Board is responsible for managing relevant accounting records, which shows the financial position of the Group 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 Group's assets and undertaking justified actions for preventing and revealing fraud and other faults.

Rijeka, dated 23<sup>rd</sup> April 2013

For and on behalf of the Management Board

Ivo Usmiani, MPharm. spec.



JGL d.d.  
Pulac bb Rijeka  
Hrvatska

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

We have performed an audit on the attached financial reports of Group JGL, a joint stock company, Rijeka, including the Consolidated Balance Sheet as of 31 December 2012, Consolidated Income statement with a report of other comprehensive income, Consolidated Cash Flow Statement, Consolidated 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 28).

### **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 whether 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 Group JGL, a joint stock company, Rijeka, as of 31 December 2012, its business results, cash flow and changes in equity for 2012 to the financial reporting standards.

### Issues stated

/i/ Without influence on stated opinion we draw attention to Note 5. b., in which is stated that according to regular life assessment of intangible assets in Parent in 2012, a part of this intangible assets (licences and a part of internally developed intangible assets) is depreciated with a new revalorisation rate of 6.67% while in 2011 this was 20%. Revalorisation rate for this intangible assets is lower because of the contract lifetime of licences and planned production of products which are internally developed.

Effect of this change and lower revalorisation rate for licences and internally developed intangible assets in 2012 is visible in HRK 1,335,378 decreased depreciation amount in comparison to the 2011.

/ii/ We draw attention to Note 6. in which is stated that in year 2012 started investments in a new project called Svilno 2 – construction of a new production facility in Svilno, Rijeka.

/iii/ As stated in Notes 6. b i 7. at the end of 2012 by the Decision of the Management Board on active sale of a part of companies property the property in question is in the balance sheet shown as Short-term assets – Long-term assets for sale.

/iv/ We draw attention to Note 20. in which is stated that the Parent will reinvest a part of the profit from 2012 for increase of share capital in 2013.

/v/ Furthermore, in Note 28. – Events after date of balance sheet, the Company stated:

- 7.1.2013 the Company submitted an application to the Ministry of economy for use of state incentives for investment in project Svilno 2.

- 29.1.2013 on Commercial Court in Rijeka Company recorded an increase in share capital in total amount of HRK 51,000 and from that date share capital is HRK 5,676,000.

- 26.3.2013 on Commercial Court in Rijeka Company recorded an increase in share capital in total amount of HRK 155,000 and from that date share capital is HRK 5,831,000

- in March 2013 JGL signed a contract with Croatian bank for Reconstruction and Development (HBOR) for financing the investment in project Svilno 2 and for current assets in total amount of HRK 248,332,463.

## **Other issues**

Audit of the annual financial reports of affiliated companies from JGL Group for 2012 provided other audit companies, who gave a positive opinion about the mentioned financial reports.

In Rijeka, Rijeka, 23<sup>rd</sup> of April 2013

„REV-RI“ d.o.o. Rijeka  
Užarska 17/II

Authorized auditor

Management

Jadranka Vezmar, dipl. oec.

**CONSOLIDATED BALANCE SHEET**  
**as of 31 December 2012**

Title	Note	Previous year (net)	Current year (net)
<b>ASSETS</b>			
<b>A) RECEIVABLES FOR SHAREHOLDERS EQUITY, NON-PAID</b>			
<b>B) LONG TERM ASSETS</b>	<b>6</b>	300,220,749	355,250,218
<b>I. INTANGIBLE ASSETS</b>	<b>6a</b>	74,083,882	80,761,572
1 Expenditure for research and development		4,706,120	6,893,445
2 Patents, licences, concessions, trademarks, software and other rights		22,020,173	39,434,059
3 Goodwill		36,268,650	21,561,122
4 Advances on intangible assets			
5 Intangible assets-construction in progress		7,510,267	8,947,765
6 Other intangible assets		3,578,672	3,925,181
<b>II. TANGIBLE ASSETS</b>	<b>6a,b,c</b>	224,297,211	272,840,525
1 Land		4,206,842	6,102,522
2 Buildings		70,000,076	73,536,551
3 Equipment and machinery		92,331,158	95,902,825
4 Tools, power stock and transportation means		16,816,479	15,953,332
5 Biological assets			
6 Advances on tangible assets		827,682	892,498
7 Tangible assets-construction in progress		8,412,021	77,347,261
8 Other tangible assets		605,481	615,480
9 Investments in real estate		31,097,472	2,490,056
<b>III. LONG TERM FINANCIAL ASSETS</b>	<b>6d</b>	1,818,228	1,640,651
1 Shares in affiliated companies			
2 Loans to affiliated companies			
3 Participating interest		1,490,147	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)		328,081	500,504
<b>IV. RECEIVABLES</b>	<b>6e</b>	21,428	7,470
1 Receivables from affiliated companies			
2 Receivables from sales on credit			
3 Other receivables		21,428	7,470
<b>V. DEFERRED TAX ASSETS</b>			
<b>C) SHORT TERM ASSETS</b>	<b>7</b>	493,502,100	572,134,678
<b>I. INVENTORIES</b>	<b>7a</b>	144,653,540	164,082,258
1 Raw and other material		60,097,132	55,222,009
2 Production in progress			
3 Finished products		63,266,635	60,506,685
4 Trade goods		21,289,773	22,326,267

5 Advances on inventories			
6 Long term assets for sale			26,027,297
7 Biological assets			
<b>II. RECEIVABLES</b>	<b>7b</b>	309,142,529	386,187,915
1 Receivables from affiliated companies			4,906
2 Receivables from buyers		288,459,512	364,168,763
3 Receivables from participating companies		1,221	0
4 Receivables from employees and subsidiaries		41,768	62,376
5 Receivables from government and other institutions		18,786,696	19,715,572
6 Other receivables		1,853,332	2,236,298
<b>III. SHORT TERM FINANCIAL ASSETS</b>	<b>7c</b>	30,647,571	3,370,344
1 Shares in affiliated companies			278,000
2 Loans to affiliated companies			
3 Participating interest			
4 Loans given to companies with participating interest		116,521	0
5 Securities investment		4,181,390	1,535,045
6 Given loans, deposits		26,349,660	1,557,299
7 Other short term financial assets			
<b>IV. CASH AT BANKS AND IN HAND</b>	<b>7d</b>	9,058,460	18,494,161
<b>D) PREPAYMENTS AND ACCRUED INCOME</b>	<b>8</b>	4,942,692	6,151,578
<b>E) TOTAL ASSETS</b>		798,665,541	933,536,474
<b>F) OFF BALANCE SHEET ITEMS</b>		84,168,259	110,313,814
<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES</b>	<b>9</b>	260,538,684	314,783,513
<b>I. CALLED UP CAPITAL</b>		5,625,000	5,625,000
<b>II. CAPITAL RESERVES</b>		102,964	1,926,364
<b>III. INCOME RESERVES</b>		2,914,390	3,470,416
1 Compulsory reserves		420,819	420,819
2 Reserves for treasury shares		362,892	928,818
3 Treasury shares (deductible)		10,100	20,000
4 Statutory reserves			
5 Other reserves		2,140,779	2,140,779
<b>IV. REVALUATION RESERVES</b>			
<b>V. RETAINED PROFIT OR TRANSFERRED LOSS</b>		188,556,484	236,333,938
1 Retained profit		188,556,484	236,333,938
2 Transferred loss			
<b>VI. PROFIT (LOSS) FOR CURRENT YEAR</b>		63,339,846	67,427,795
1 Profit for current year		63,339,846	67,427,795
2 Loss for current year			
<b>VII. MINORITY INTEREST</b>			
<b>B) PROVISIONS</b>		0	917,341
1 Provisions for retirement and similar expenditures			917,341
2 Provisions for taxes and contributions			
3 Other provisions			



<b>C) LONG TERM LIABILITES</b>	<b>10</b>	231,926,739	295,565,735
1 Liabilities for affiliated companies			
2 Liabilities for loans, deposits			
3 Liabilities for bank loans and other financial institutions	<b>10a</b>	92,650,072	156,121,068
4 Liabilities for advances			
5 Accounts payables			
6 Securities payables	<b>10b</b>	139,276,667	139,444,667
7 Liabilities for companies with participating interest			
8 Other long-term liabilities			
9 Deferred tax liability			
<b>D) SHORT-TERM LIABILITIES</b>	<b>11</b>	296,470,751	312,973,010
1 Liabilities for affiliated companies	<b>11a</b>		
2 Liabilities for loans, deposits		7,347,397	5,373,651
3 Liabilities for bank loans and other financial institutions	<b>11b</b>	27,119,204	123,753,834
4 Liabilities for advances	<b>11e</b>	625,115	500,616
5 Accounts payables	<b>11c</b>	176,272,506	149,867,440
6 Securities payables	<b>11d</b>	50,062,817	1,200,000
7 Liabilities for companies with participating interest	<b>11c</b>	24,037	11,333
8 Liabilities for employees	<b>11e,12</b>	10,949,435	11,589,387
9 Liabilities for taxes, contributions and other	<b>11e</b>	16,433,357	16,480,801
10 Liabilities for shares in result	<b>11e</b>	16,920	18,000
11 Liabilities for short term assets intended for sale			
12 Other short term liabilities	<b>11e</b>	7,619,963	4,177,948
<b>E) ACCRUALS AND DEFERRED INCOME</b>	<b>13</b>	9,729,367	9,296,875
<b>F) TOTAL LIABILITIES</b>		798,665,541	933,536,474
<b>G) OFF BALANCE SHEET ITEMS</b>		84,168,259	110,313,814

**INCOME STATEMENT WITH A REPORT OF OTHER COMPREHENSIVE  
INCOME**

**For the period from 1st December 2012 till 31st December 2012**

Title	Note	Previous year (net)	Current year (net)
<b>I. BUSINESS REVENUE</b>	<b>14</b>	685,379,511	778,212,279
<b>1 Sales revenue</b>		658,289,753	750,990,748
<b>2 Other operational revenue</b>		27,089,758	27,221,531
<b>II. BUSINESS EXPENSE</b>	<b>15</b>	596,225,711	687,737,702
<b>1 Change in value of inventories for production and goods</b>		-43,873,565	2,759,950
<b>2 Operating expense</b>		445,726,632	460,237,491
a) Cost of raw material		179,565,432	167,635,888
b) Costs of goods sold		136,819,089	140,006,931
c) Other external costs		129,342,111	152,594,672
<b>3 Expense for employees</b>		133,893,759	148,578,047
a) Net salaries and wages		79,960,153	89,211,185
b) Taxes, social and pension funds		34,284,263	38,136,662
c) Contributions for salaries		19,649,343	21,230,200
<b>4 Depreciation</b>		19,779,415	24,295,916
<b>5 Other expense</b>		28,550,123	39,522,092
<b>6 Revalorisation</b>		1,306,245	893,952
a) of long term assets (excluding financial assets)		15,268	0
b) of short term assets (excluding financial assets)		1,290,977	893,952
<b>7 Provisions</b>		2,454,034	1,212,201
<b>8 Other operational expenses</b>		8,389,068	10,238,053
<b>III. FINANCIAL REVENUE</b>	<b>16</b>	8,809,960	21,245,148
<b>1 Interests, exchange rate differentials, dividends and similar revenues from relations with affiliated companies</b>			
<b>2 Interests, exchange rate differentials, dividends and similar revenues from relations with unaffiliated companies and other persons</b>		8,437,722	21,217,913
<b>3 Revenue from participating interest and subsidiaries</b>		282,612	19,562
<b>4 Non-realized revenue</b>		89,626	7,673
<b>5 Other financial revenue</b>			
<b>IV. FINANCIAL EXPENSE</b>	<b>17</b>	28,359,974	42,343,000
<b>1 Interests, exchange rate differentials, dividends and similar expenses from relations with affiliated companies</b>			
<b>2 Interests, exchange rate differentials, dividends and similar expenses from relations with unaffiliated companies and other persons</b>		25,326,356	41,918,546
<b>3 Non-realized loss (expenses) of financial assets</b>		3,033,618	424,454
<b>4 Other financial expenses</b>			
<b>V. SHARE IN PROFIT FROM AFFILIATED COMPANIES</b>			97,177
<b>VI. SHARE IN LOSS FROM AFFILIATED COMPANIES</b>			
<b>VII. EXTRAORDINARY REVENUE</b>			
<b>VIII. EXTRAORDINARY EXPENSE</b>			

IX. TOTAL REVENUE		694,189,471	799,554,604
X. TOTAL EXPENSES		624,585,685	730,080,702
XI. PROFIT OR LOSS BEFORE TAX		69,603,786	69,473,902
<b>1 Profit before tax</b>		69,603,786	69,473,902
<b>2 Loss before tax</b>		0	0
XII. INCOME TAX	<b>19</b>	6,263,940	2,046,107
XII. PROFIT OR LOSS OF THE PERIOD		63,339,846	67,427,795
<b>1 Profit of the period</b>		63,339,846	67,427,795
<b>2 Loss of the period</b>		0	0
<b>REPORT OF OTHER COMPREHENSIVE INCOME</b>			
I. PROFIT OR LOSS OF THE PERIOD		63,339,846	67,427,795
II. OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX		0	0
<b>1. Exchange rate differentials from foreign business calculations</b>			
<b>2. Changes in revalorisation reserves for long term tangible and intangible assets</b>			
<b>3. Profit or loss from revalorisation of financial assets intended for sale</b>			
<b>4. Profit or loss from efficient cash flow protection</b>			
<b>5. Profit or loss from efficient investment protection</b>			
<b>6. Share in comprehensive profit/loss of affiliated companies</b>			
<b>7. Actuarial profit/loss according to planed income</b>			
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	<b>20</b>	63,339,846	67,427,795

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

Title	Note	Previous year (net)	Current year (net)
<b>CASH FLOW FROM BUSINESS ACTIVITIES</b>			
1 Cash inflow from buyers		640,189,253	677,998,808
2 Cash inflow from charge, fee and royalty			274,754
3 Cash inflow from insurance for indemnification of damage		307,282	849,941
4 Cash inflow from tax refund		52,265,114	52,955,256
5 Other cash inflow		11,072,691	6,702,368
<b>I. Total cash inflow from operating activities</b>		<b>703,834,340</b>	<b>738,781,127</b>
1 Cash outflow for liabilities		507,266,544	548,871,702
2 Cash outflow for employees		87,238,147	90,138,044
3 Cash outflow to insurance for indemnification of damage			
4 Cash outflow for interests		14,217,720	20,191,064
5 Cash outflow for taxes		59,951,754	81,096,464
6 Other cash outflow		12,576,068	6,817,933
<b>II. Total cash outflow from business activities</b>		<b>681,250,233</b>	<b>747,115,207</b>
<b>A1) NET INCREASE OF CASH FLOW FROM BUSINESS ACTIVITIES</b>	<b>21</b>	<b>22,584,107</b>	<b>0</b>
<b>A2) NET DECREASE OF CASH FLOW FROM BUSINESS ACTIVITIES</b>		<b>0</b>	<b>8,334,080</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
1 Cash inflow from sale of long terms intangible and tangible assets		902,563	703,426
2 Cash inflow from sale of equity and debt security instruments			
3 Cash inflow from interests		28,792	111,497
4 Cash inflow of dividends			
5 Other cash inflow from investing activities		33,378,741	116,521
<b>III. Total cash inflow from investing activities</b>		<b>34,310,096</b>	<b>931,444</b>
1 Cash outflow for acquisition of long term tangible and intangible assets		67,707,744	85,577,768
2 Cash outflow for acquisition of equity and debt security instruments			5,488,717
3 Other cash outflows from investing activities		27,200,000	278,000
<b>IV. Total cash outflow from investing activities</b>		<b>94,907,744</b>	<b>91,344,485</b>
<b>B1) NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>0</b>	<b>0</b>
<b>B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	<b>21</b>	<b>60,597,648</b>	<b>90,413,041</b>
<b>CASH FLOW FROM FINANCE ACTIVITIES</b>			
1 Cash inflow from issuing equity and debt financial instruments		140,000,000	0
2 Cash inflow from loan principals, debentures, credits and other borrowings		22,000,000	253,403,136
3 Other cash inflows from finance activities		17,046,290	36,545,566
<b>V. Total cash inflow from finance activities</b>		<b>179,046,290</b>	<b>289,948,702</b>
1 Cash outflow for repayment of loan principal and bonds		53,213,720	93,703,707

2 Cash outflow for dividend payment		4,777,170	16,835,700
3 Cash outflow for finance lease		11,432,273	10,382,534
4 Cash outflow for buyback of own shares		377,848	914,446
5 Other cash outflow from finance activities		88,266,096	59,929,493
<b>VI. Total cash outflow for finance activities</b>		158,067,107	181,765,880
<b>C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES</b>	<b>21</b>	20,979,183	108,182,822
<b>C2) NET CASH FLOW DECREASE FROM FINANCE ACTIVITIES</b>		0	0
Total increase of cash flow		0	9,435,701
Total decrease of cash flow		17,034,358	0
Cash and cash equivalents at the beginning of the period		26,092,818	9,058,460
Increase of cash and cash equivalents			9,435,701
Decrease of cash and cash equivalents	<b>21</b>	17,034,358	0
Cash and cash equivalents at the end of the period		9,058,460	18,494,161

**CHANGES IN EQUITY**  
**as of 31st of December 2011**

<b>Position</b>	<b>Called up capital</b>	<b>Capital reserves</b>	<b>Reserves from profit</b>	<b>Retained profit or transferred loss</b>	<b>Profit or loss of the period</b>	<b>Total capital and reserves</b>
Note						<b>25</b>
31.12. previous year	5,625,000	102,964	2,914,390	188,556,484	63,339,846	<b>260,538,684</b>
Profit from business year	0	0	0	63,339,846	0	<b>63,339,846</b>
Result from business year	0	0	0	0	67,427,795	<b>67,427,795</b>
Payment of unregistered capital	0	2,379,425	0	0	0	<b>2,379,425</b>
Sale of own shares	0	338,821	924,146	348,521	0	<b>1,611,488</b>
Consolidation effect	0	0	0	1,848,233	0	<b>1,848,233</b>
Total increase	0	2,718,246	924,146	65,536,600	67,427,795	<b>136,606,787</b>
Transfer to retained profit	0	0	0	0	63,339,846	<b>63,339,846</b>
Transfer to dividend liability	0	0	0	16,844,700	0	<b>16,844,700</b>
Purchase of own shares	0	894,846	368,120	914,446	0	<b>2,177,412</b>
Total decrease	0	894,846	368,120	17,759,146	64,239,283	<b>83,261,395</b>
Current period	5,625,000	1,926,364	3,470,416	236,333,938	67,427,795	<b>314,783,513</b>

## **JGL, a joint stock company, Rijeka**

### **NOTES**

#### **1. ACTIVITY**

Group JGL, a joint stock company, Rijeka, Pulac bb, deals with production of pharmaceuticals and basic raw materials used in production of pharmaceuticals, production of other chemical products, perfumes and cosmetics.

The Group consists of:

Parent- JGL, a joint stock company, Rijeka

Daughter companies:

- "Farmis" d.o.o. Sarajevo
- "Jadran" Galenski laboratorij Ljubljana d.o.o.
- "Jadran" Galenski laboratorij Belgrade d.o.o.
- "Pablo" d.o.o. Zagreb
- JGL North America LLC ,New York, USA

Granddaughter companies:

- Ljekarna Pablo, Rijeka
- Studio Omega d.o.o. Rijeka
- Poliklinika Pablo, Solin

#### **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, 120/10, 58/11, 140/11, 15/12 and 118/12.

### 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.

By the Decision of the General Assembly made 2<sup>nd</sup> June 2011, under business number OU 89/2011 Supervisory Board members were chosen for a period from 27<sup>th</sup> October 2011 till 26<sup>th</sup> October 2015.

#### **Supervisory Board Members from 27<sup>th</sup> of October 2011:**

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

### 4. SUMMARY OF BASIC ACCOUNTING POLICIES APPLIED WHILE DRAFTING THE FINANCIAL STATEMENTS FOR 2011.

While drafting the consolidated financial statements for 2011 the Group changed its accounting policies based on International Financial Reporting Standards (IFRS) and the Accounting Act.

Consolidated financial statements are in Croatian kuna (HRK), in local functional currency.

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

#### a) Basics of consolidation

Consolidated financial statements include financial statements of the Parent company and its subsidiaries. Control is necessary if the Parent company has the power of financial and business management of subject policies in a way that can be of benefit to the Parent.



Consolidated financial statements include financial statements of these companies:

<i>COMPANY</i>	<i>COUNTRY</i>	<i>% SHARE in 2010</i>	<i>% SHARE in 2011</i>
<i>Farmis d.o.o. Sarajevo</i>	<i>Bosnia and Herzegovina</i>	<i>100</i>	<i>100</i>
<i>Jadran-Galenski laboratorij Ljubljana d.o.o.</i>	<i>Slovenia</i>	<i>100</i>	<i>100</i>
<i>Jadran-Galenski laboratorij Belgrade d.o.o.</i>	<i>Serbia</i>	<i>100</i>	<i>100</i>
<i>Pablo d.o.o. Zagreb</i>	<i>Croatia</i>	<i>100</i>	<i>100</i>
<i>ZU Pablo Rijeka</i>	<i>Croatia</i>	<i>100</i>	<i>100</i>
<i>Ljekarne Farmapharm, Zagreb</i>	<i>Croatia</i>	<i>0</i>	<i>100</i>
<i>Ljekarna Jukić, Žrnovnica</i>	<i>Croatia</i>	<i>0</i>	<i>100</i>
<i>Studio Omega d.o.o. Rijeka</i>	<i>Croatia</i>	<i>100</i>	<i>100</i>
<i>Poliklinika Pablo Solin</i>	<i>Croatia</i>	<i>100</i>	<i>100</i>
<i>JGLNorth America LLC, New York</i>	<i>USA</i>	<i>0</i>	<i>100</i>

All transactions within the Group, all situations and all revenues and expenses were eliminated in consolidation. Non-realized profit and losses were eliminated as well.

b) 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.

c) Depreciation

Depreciation of long-term tangible and intangible assets is calculated according to the rates in the country of the Daughter company.

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

According to regular life assessment of intangible assets in 2012, a part of this intangible assets (licences and a part of internally developed intangible assets) is depreciated with a new revalorisation rate of 6.67% (20% in 2011). Revalorisation rate for this intangible assets is lower because of the contract lifetime of licences and planned production of products which are internally developed.

Effect of this change and lower revalorisation rate for licences and internally developed intangible assets in 2012 is visible in HRK 1,335,378 decreased depreciation amount in comparison to the 2011.

d) 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.

e) 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.

f) Inventories

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

Cost of inventories is calculated based on the method of weighted average cost.

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.

Long-term assets for sale is stated per fair value minus costs of sale according to ISFR 5 Long-term assets for sale and Discontinued operations.

g) Receivables from sales

Receivables are formed on the basis of regular business relations with customers in Croatia and abroad for the sale of the goods, services performed, the state of the paid taxes, contributions and other duties, the employees on the basis of services used or items of property of the Company which are payable within one year and other receivables that are payable within one year.

Receivables from sales are stated according to credible bookkeeping document that contains information about the type and date of accrual, the value of the resulting receivable and time in which the claim is mature.

h) Decrease in value of receivables

Assessment of irrecoverable amount of product sales, goods and services is made on the date of the balance sheet based on the estimated probability to collect receivables. Each client is evaluated separately.

i) Short-term financial assets

Short-term financial assets are investments and money or other valuables placed with the purpose of generating earnings or profit whose maturity (realization) of up to one year.

j) Policy of showing cash at banks and in hand

Assets in the form of cash is stated at nominal value expressed in monetary unit of Croatia (Kuna). Accounts in banks, denominated in foreign currencies, as well as those in office (foreign money) in addition to showing in foreign currencies are recognized in the Croatian currency, it is calculated at a middle rate of the Croatian National Bank on the balance sheet date.

k) Prepayments and accrued income

Costs that are paid or invoiced, and relate to future periods are recorded in the values reported in the transaction bookkeeping document. This is done when invoiced or paid cost does not coincide with the onset of the cost and this cost will be calculated in the following period as compared to the balance sheet.

l) Capital stating policy

In the business books and financial statements, equity is expressed as:

1. Basic (subscribed) capital
2. Capital reserves
3. Reserves from profit
  - Statutory reserves
  - Reserve for own shares
  - Treasury shares and shares (-)
  - Statutory reserves
  - Other reserves
4. Revaluation reserves
5. Retained earnings or accumulated losses
6. Profit or loss for the financial year

m) Reservations

Reservations are recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources to settle the obligation will occur, and a reliable estimate of the obligation can be made.

n) Long-term liabilities

Long-term liabilities are stated in the business books at nominal value, based on the proven authentic documents and agreements for obligations. As long-term liabilities are stated those whose maturity period is longer than one year from the balance sheet date.

The obligation which was initially presented as a long-term liability, but on the balance sheet date is in part or in full due within one year, is recorded as a short-term liability.

o) Short-term liabilities

Short-term liabilities are stated separately from long-term liabilities, and within are included liabilities whose maturity, in relation to their formation or the balance sheet date, is within a year. Short-term liabilities are stated at their nominal value of bookkeeping documents, which passed inspection and on the basis of which it can be concluded that the business change has been made.

p) Accruals and deferred income

Within the deferred payment of the costs incurred are included expenses that are not due for payment.

Government grants relating to the purchase of fixed assets are included in liabilities as deferred income from government subsidies and recognized in the income statement with the depreciation of assets that support compensates.

q) 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.

r) 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.

s) 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.

t) 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.

u) Interest expenditures

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

If the company has a long-term asset that meets the criteria of a qualifying asset under IAS 23 - Borrowing Costs, then the associated interest costs are not stated as expenses in the period but increase the value of a qualifying asset.

v) 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.

All positions on the Balance sheet of affiliated companies are calculated in HRK according to the middle exchange rate of Croatian National Bank on the date of the Balance sheet.

All positions on the Income statement of affiliated companies are calculated in HRK according to the middle exchange rate of Croatian National Bank.

w) Income tax

Income tax for the period comprises current and deferred tax.

Income tax for the year is calculated on the basis of the tax laws in effect at the date of the balance in the Republic of Croatia.

z) Goodwill and excess of acquirer's interest in the net fair value of assets (negative goodwill)

Goodwill arising on consolidation represents the excess of cost of acquisition over the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary, the subsidiary or jointly controlled entity at the acquisition date. Goodwill is included in intangible assets.

Negative goodwill arising on consolidation represents the excess of the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary, the subsidiary or jointly controlled entity over the cost of acquisition. Negative goodwill is included in retained earnings.

## 5. LONG-TERM ASSETS

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

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
Current value of fixed assets on 31 <sup>st</sup> December 2012	79,639,073	111,856,157	615,480	77,347,261	269,457,971	80,761,572
Current value of fixed assets on 31 <sup>st</sup> December 2011	74,206,918	109,147,637	605,481	8,412,021	192,372,057	74,083,882

In 2012 began investments in project Svilno 2 – construction of a new production facility on location Svilno. Therefore, all significant increases in long-term assets are related to this project.

The most significant amounts invested in a new production facility are related to land and buildings in preparation. Investment in land amounts to HRK 32,232,592 and the investment in buildings amounts to HRK 39,287,738.

In intangible assets is stated a goodwill in amount of HRK 21,561,122 (HRK 36,268,650 in 2011). Changes in equity are eliminated on positions of retained profit.

### b) Investments in Property

Investments in property as of 31 December 2012 amount to HRK 2,490,056 (HRK 31,097,472 in 2011). At the end of 2012 by the management decision to sell part of the real estates the real estates in question are stated in the balance sheet as Short-term assets (Note 6) – long-term assets for sale. During the 2012 the these assets are actively advertised. No real estate was sold.

During 2012, value estimation was executed on the stated real estate by the independent evaluator. Increase of value in the amount of HRK 7,673 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 424,454 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 2012 amount to HRK 892,498 (HRK 827,683 in 2011), 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 participating interests and investments which are calculated based on the equity method.

Participating interests are investments in:

	2011	2012
	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.	10,000	10,000
Situation on 31st December	1,140,147	1,140,147

Investments in affiliated companies Galena d.o.o. and Andros d.o.o. are calculated based on the equity method and on 31<sup>st</sup> December 2012 amount to HRK 500,504 (HRK 678,081 in 2011).

e) Long-term receivables

Long-term receivables amount to HRK 7,470 (in 2011 HRK 21,428), and are in reference to advance payment for vehicle rent in respect for long term leases.

## 6. **SHORT-TERM ASSETS**

a) Inventories

The inventories are:

	2011	2012
	in HRK	in HRK
Raw material and consumables	60,097,132	55,222,009
Finished products	63,266,635	60,506,685
Goods	21,289,773	22,326,267
Long-term assets for sale	0	26,027,297
Situation on 31 <sup>st</sup> December	144,653,540	164,082,258

Long-term assets for sale are stated in accordance with ISFR-5 Long-term assets for sale and discontinued operations (Note 5 b.)

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 buyers refer to:

	2011	2012
	in HRK	in HRK
Buyers in the country	134,980,296	155,878,400
Buyers abroad	153,479,216	208,290,363
Situation on 31 December	288,459,512	364,168,763

Total amount of receivables from affiliates in 2012 is HRK 4,906 and refer to receivables from interests from Galena d.o.o. Rijeka (in 2011 there are no receivables from affiliates)

Receivables from participating companies in 2012 are expressed in the amount of HRK 0 (HRK 1,221 in 2011).

Receivables from employees are expressed in the amount of HRK 62,376 (HRK 41,768 in 2011).

Receivables from government and other institutions are expressed in the amount of HRK 19,715,572 (HRK 18,786,696 in 2011).

Other receivables are:

	2011	2012
	in HRK	in HRK
Receivables on advances	1,132,081	1,973,740
Receivables on interests	89,916	0
Receivables on indemnification of damage	546,817	2,898
Other receivables (cession, assignment and assuming of debt)	84,518	259,660
Situation on 31 December	1,853,332	2,236,298

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:

2011	2012
------	------

	in HRK	in HRK
Ljekarna Pablo	13,600,000	0
Galena d.o.o.	0	278,000
Situation on 31 December	13,600,000	278,000

During the 2012 affiliated company Ljekarna Pablo paid back the loan.

Loans provided to companies with participating interest are expressed in the amount of HRK 0. In 2011 loans referred to the loan given to company Kanal Ri d.o.o. in amount of HRK 116,521.

Loans given to affiliated companies are HRK 278,000 and refer to a loan given to Galena d.o.o. Rijeka (in 2011 there were no loans given to affiliated companies)

Receivables for all received securities are expressed in the amount of HRK 1,535,045 (HRK 4,181,390 in 2011) and refer to receivables from received bills of exchange, checks and receivables from business card issuers.

d) Cash at banks and in hand

Cash at bank and in hand on 31<sup>st</sup> December 2012 was HRK 18,494,161 (HRK 4,942,692 in 2011) and refer to money on bank accounts, foreign currency accounts, non-resident accounts, in cash and foreign currency cash.

## 7. PREPAYMENTS AND ACCRUED INCOME

Prepayments in the amount of HRK 6,151,578 (HRK 4,942,692 in 2011) relate to interest on leasing calculated beforehand, registration and advertising expenses paid beforehand, and other paid expenses for future period.

## 8. 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.

27<sup>th</sup> December 2012 an amount of HRK 2,379,425 was paid and 510 new shares were issued all according to the Decision of General Assembly of the Company. Until the new shares are stated on the Commercial Court, this amount is stated as Capital Reserves.

Ownership structure

NAME AND SURNAME	NUMBER OF SHARES	% IN CAPITAL
Ivo Usmiani	16,671	29.64
Zdravko Saršon	11,625	20.67
Marina Pulišić	2,570	4.57
Grozdana Božić	1,400	2.49

Vesna Črnjarić	1,150	2.04
Sanja Vujić Šmaguc	1135	2.02
Đurđica Miletović Forempoher	990	1.76
Majid Hejja	730	1.29
Radmila Načeta	600	1.07
Jasmin Huljaj	572	1.02
Ostali	18,807	33.43
<b>UKUPNO</b>	<b>56,250</b>	<b>100.00</b>

Source: JGL

On the beginning of the period the Company owned 101 of own shares. During 2012 the Company acquired 196 and sold 97 of own shares. Portfolio of the Company amounts to 200 own shares.

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

The Company, pursuant to the provisions of the Companies Act, formed reserves for owned shares which on 31 December 2012 amounted to HRK 928,818 (HRK 362,892 in 2011).

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 16,844,700 on behalf of the dividend to the holders of regular shares in series "A", "B" and "C" in the amount of HRK 300 per share with the right to a dividend.

Pursuant to the Decision of the General Assembly of the Company a member of Executive Board received, without compensation, 97 shares. (229 shares in 2011).

Profit of current year is HRK 67,930,200 (HRK 1.212 per share) and represents the profit according to the Income statement and is expressed in nominal value.

## **9. RESERVATIONS**

Reservations for costs of awards and severance pays are HRK 917,341.

## 10. LONG-TERM LIABILITIES

### a) Long-term liabilities towards banks and other financial institutions.

	2011	2012
	in HRK	in HRK
Erste & Steiermarkische Bank	38,711,374	50,685,923
Raiffeisenbank Austria d.d. Sarajevo	0	34.536
Privredna banka Zagreb d.d., Podružnica Riadria, Rijeka	14.666.513	10.355.448
SocieteGenerale-Splitska banka	14,498,807	33,537,822
Privredna banka Zagreb	12,339,379	48,925,775
Erste & Steiermarkische S-Leasing d.o.o. Zagreb	12.433.999	12.581.564
Situation 31 <sup>st</sup> of December	92.650.072	156.121.068

Long-term liabilities towards Erste & Steiermarkische Bank S-Leasing d.o.o., Zagreb, is 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. Long-term liabilities towards Raiffeisenbank Austria d.d. Sarajevo is based on leasing agreement. Liability toward banks in amount of HRK 133,149,520 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 2013 in total amount of HRK 27,172,714 (HRK 29,222,351 in 2011) is expressed in the short-term liabilities (Note 11. a).

As insurance bank has enrolled lien on real estate of the Company.

### b) Liabilities for securities

Liabilities for securities on 31<sup>st</sup> of December 2012 amount to HRK 139,444,667 relating to liabilities for issued long-term securities . (HRK 139,276,667 in 2011).

Croatian Financial Services Supervisory Agency (hereinafter referred to as CFSSA) brought on 17<sup>th</sup> 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 11<sup>th</sup> of June 2007.

JGL joint stock company issued registered bonds on 11<sup>th</sup> of June 2007, in non-materialized form, in the total amount of HRK 125,000,000 in denomination of HRK 1, with maturity 8<sup>th</sup> June 2012.

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

JGL joint stock company on 20<sup>th</sup> 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 10<sup>th</sup> of June 2016.

Determined interest rate for the period from 11<sup>th</sup> June 2010 till 11<sup>th</sup> June 2011 amounts to 6.1125% annually. Determined interest rate for the period from 11<sup>th</sup> June 2011 till 11<sup>th</sup> June 2012 for the exchanged bonds (HRK 74,850,000) is 5.25%. Determined interest rate for the new bonds for the period from 11<sup>th</sup> June 2011 till 11<sup>th</sup> June 2012 is 5.35%. In 2011, the Company paid HRK 10,122,875 (HRK 8,116,054 in 2011) for accrued interest.

## 11. SHORT-TERM LIABILITIES

### a) Liabilities for loans and banks and other financial institutions

	2011	2012
	in HRK	in HRK
Hypo Alpe-Adria Bank d.d.	0	56,522,202
Privredna banka d.d.	0	9,977,685
Raiffeisen bank d.d.	0	9,975,226
Slatinska banka	0	10,000,000
Prvi faktor	0	10,000,000
Current immediate long-term liabilities (Note 10.a.)	33,622,013	31,310,391
Liabilities for interests and fees	844,588	1,041,981
Situation on 31 <sup>st</sup> of December	34,466,601	129,127,485

Stated liabilities relate to acquisition of tangible and working assets, for crediting of project Svilno 2, for liquidity maintenance and liabilities that are due.

As insurance bank has enrolled lien on real estate of the Company.

### c) Liabilities towards suppliers

Liabilities towards suppliers relate to:

	2011	2012
	in HRK	in HRK
Suppliers in the country	108,806,141	112,040,770
Suppliers abroad	67,466,365	37,826,670
Situation on 31 <sup>st</sup> of December	176,272,506	149,867,440

d) Liabilities for securities

Liabilities for securities amount to HRK 1,200,000 (HRK 50,062,817 in 2011). During the 2012 the Company paid HRK 50,150,000 to owners of securities that matured in June 2012.

e) Other short-term liabilities

Other short-term liabilities relate to the following:

	2011	2012
	in HRK	in HRK
Received advances	625,115	500,616
Liabilities for employees	10,949,435	11,598,387
Liabilities for affiliates	24,037	11,333
Liabilities for taxes, contributions and other duties	16,433,357	16,480,801
Liabilities for shares in result	16,920	18,000
Other liabilities	7,619,963	4,177,948
Situation on 31 December	<u>35,668,827</u>	<u>32,778,085</u>

Liabilities for employees are for salaries for December 2012 which are paid in January 2013 and for bonuses that are paid in 2013.

## 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 9,296,875 (HRK 9,729,367 in 2011) out of which HRK 5,439,246 (HRK 6,241,508 in 2011) relates to outstanding interests on bonds and bank loans, HRK 344,685 on accruals, HRK 764,050 (HRK 1,033,825 in 2011) refers to deferred income from the government and HRK 2,748,894 (HRK 2,454,034 in 2011) relates to unused vacation expenses.

## 14. NOTES THAT ARE NOT IN THE BALANCE SHEET

Notes that are not in the balance sheet in 2012 amount of HRK 110,313,814 (HRK 84,168,259 in 2011) and are related to received letters of credit from customers, given letters of credit to suppliers, bank guarantees, short-term line of credit and short-term loans that are taken from the short-term line of credit.

## 15. BUSINESS REVENUE

Business revenue is:

	2011	2012
	in HRK	in HRK
Revenue from sales	658,289,753	750,990,748
Other revenue	27,089,758	27,221,531
Total	685,379,511	778,212,279

## 16. OPERATIONAL EXPENDITURES

Operational expenditures are:

	2011	2012
	in HRK	in HRK
Cost of material, energy and small inventory	179,565,432	167,635,888
Costs of goods sold	136,819,089	140,006,931
Costs of services	129,342,111	152,594,672
Expenses for employees	133,893,759	148,578,047
Depreciation	19,779,415	24,295,916
Value adjustment of short-term assets	1,306,245	893,952
Other expenses	36,939,191	49,760,145
Increase of value of goods inventory		2,759,950
Decrease of value of goods inventory	-43,873,565	
Reservations	2,454,034	1,212,201
Total	596,225,711	687,737,702

## 17. FINANCIAL REVENUES

Financial revenues are:

	2011	2011
	in HRK	in HRK
Interest revenues	1,093,210	178,340
Revenues from exchange rate differences	7,205,125	21,039,573
Revenues from participating interests	282,612	19,562
Revenues from increase of value of property investments	89,626	7,673
Total	8,670,573	21,245,148

## 18. FINANCIAL EXPENDITURES

Financial expenditures are:

	2011	2012
	in HRK	in HRK
Interest expenditures	16,715,074	18,932,660
Expenditures from exchange rate differences	8,611,282	22,985,886
Expenditures from decrease in value of investment in real estate	3,033,618	424,454
Total	28,359,974	42,343,000

## 19. SHARE IN PROFIT FROM ASSOCIATED COMPANIES

In 2012 the Company had a share in profit of associated companies in total amount of HRK 97,177 (HRK 139,387 in 2011).

## 20. PROFIT TAX

Profit tax is calculated on in accordance with the regulations of the country where the company has its headquarters, rates are from 20% in Croatia, 25% in Slovenia to 10% in Serbia and Bosnia and Herzegovina.

In 2009 the Parent 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%. While calculating the profit tax for 2012 JGL completely used the remaining amount of tax stimulus in amount of HRK 6,634,937 (HRK 10,301,908 in 2011)

The Parent will reinvest part of the profit from 2012 with an intention to increase signed up capital in 2013. According to art. 6 it. 1 p. 6 of Profit tax Act and art. 12. a Regulation on amount of reinvested profit decreases the tax base for calculating profit tax in 2012.

The determined tax liability amounts to HRK 2,046,107 (HRK 6,263,940 in 2011).

## 21. REPORT ON OTHER COMPREHENSIVE INCOME

Profit of the period and other comprehensive profit are the same and amount to HRK 67,427,795 (in 2011 profit of the period amounts to HRK 63,339,846).



## **22. 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 decrease in the amount of HRK 8,334,080.

The cash flow from investing activities shows a decrease in the amount of HRK 90,413,041.

The cash flow from financing activities shows a increase in the amount of HRK 108,182,822.

The total cash flow for 2012 shows a increase in the amount of HRK 9,435,701.

## **23. REPORT ON CHANGES OF EQUITY**

Report on changes of equity for 2012 displays the total increase of equity in the amount of HRK 54,244,829 (HRK 61,497,367 in 2011).

## **24. 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.

## **25. 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.

Liquidity risk management implies maintaining the amount of money and providing availability of financial assets in the form of credit lines. All companies in the Group are exposed to credit, interest and currency exchange risk.

Fair value of financial assets and financial liabilities on 31<sup>st</sup> December 2012 does not differ from the book value.

## **26. SALARIES**

During regular business operations, when paying salaries, the Group makes regular payments of contributions in the name of its employees in accordance with the law in the country they do business at. 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.

Total number of employees in the Group on 31st of December 2012 is 781.

## **27. EVENTS AFTER THE DATE OF THE BALANCE SHEET**

On the 7<sup>th</sup> of January 2013 the Company submitted an application for the use of incentives to invest in the project Svilno 2 to the Ministry of Economy. With the enactment of the Regulation on the Investment Promotion follows the official application of JGL on all prescribed forms based on the expected allocation status of the incentive measures. The planned amount of investment of about HRK 300 million would provide a tax incentive to the Company in the coming period, with the rate of corporate income tax of 0%.

On the 29<sup>th</sup> of January 2013 on the Commercial Court of Rijeka JGL registered share capital increase in the amount of HRK 51,000 and the capital of this date amounts to HRK 5,676,000.

On the 29<sup>th</sup> of January 2013 on the Commercial Court in Rijeka JGL registered share capital increase in the amount of HRK 155,000, and the share capital as of that date amounted to HRK 5.831 million.

In March 2013 a contract was signed with CBRD for credit investments in the project Svilno 2 in current assets HRK 248,332,463. Disbursement of the loan is two years, with a grace period of three years beginning repayment in September 2018 was followed by paying for 9 years. The interest rate on the credit for investment in the project amounts to 3%, while the interest on the loan for working capital amounts to 4.09%.