

Attachment 1.

Period:

1.1.2013

to

31.12.2013

Yearly financial report GFI-PODRegistration number (MB): **03715957**Registration number (MBS): **040004561**Personal identification number (OIB): **20950636972**Company: **JGL d.d.**Postal code and city: **51000****Rijeka**Address: **Svilno 20**e-mail: jgl@jgl.hrInternet address: www.jgl.hrCode and name of city: **373** **Rijeka**Code and name of county: **8** **Primorsko-goranska**Number of employees
(at the end of the period)**828**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****Ljekarna Pablo****Rijeka****1487434**

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.hrSurname 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)

CONSOLIDATED BALANCE SHEET
on 31 December 2013

GROUP JGL			
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	355.250.218	399.713.835
I. INTANGIBLE ASSETS (004 - 009)	003	80.761.572	83.551.992
1. Expenditure for research and development	004	6.893.445	7.770.077
2. Patents, licences, concessions, trademarks, software and other rights	005	39.434.059	38.244.824
3. Goodwill	006	21.561.122	21.561.122
4. Advances on intangible assets	007		
5. Intangible assets-construction in progress	008	8.947.765	12.029.569
6. Other intangible assets	009	3.925.181	3.946.400
II. TANGIBLE ASSETS (011 - 019)	010	272.840.525	309.596.949
1. Land	011	6.102.522	6.120.122
2. Buildings	012	73.536.551	70.409.245
3. Equipment and machinery	013	95.902.825	90.429.657
4. Tools, power stock and transportation means	014	15.953.332	14.998.908
5. Biological assets	015		
6. Advances on tangible assets	016	892.498	12.686.711
7. Tangible assets-construction in progress	017	77.347.261	111.848.170
8. Other tangible assets	018	615.480	614.080
9. Investments in real estate	019	2.490.056	2.490.056
III. LONG TERM FINANCIAL ASSETS (021 - 028)	020	1.640.651	1.725.952
1. Shares in affiliated companies	021		
2. Loans to affiliated companies	022		
3. Participating interest	023	1.140.147	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	500.504	585.805
IV. RECEIVABLES (030 - 032)	029	7.470	75.256
1. Receivables from affiliated companies	030		
2. Receivables from sales on credit	031		
3. Other receivables	032	7.470	75.256
V. DEFERRED TAX ASSETS	033		4.763.686
C) SHORT TERM ASSETS (035+043+050+058)	034	572.134.678	618.540.626
I. INVENTORIES (036 - 042)	035	164.082.258	172.896.852
1. Raw and other material	036	55.222.009	61.720.883
2. Production in progress	037		
3. Finished products	038	60.506.685	60.778.389
4. Trade goods	039	22.326.267	24.370.283
5. Advances on inventories	040		
6. Long term assets for sale	041	26.027.297	26.027.297
7. Biological assets	042		
II. RECEIVABLES (044 - 049)	043	386.187.915	422.886.106
1. Receivables from affiliated companies	044	4.906	0
2. Receivables from buyers	045	364.168.763	406.893.001
3. Receivables from participating companies	046		
4. Receivables from employees and subsidiaries	047	62.376	62.436
5. Receivables from government and other institutions	048	19.715.572	14.182.613
6. Other receivables	049	2.236.298	1.748.056
III. SHORT TERM FINANCIAL ASSETS (051 - 057)	050	3.370.344	6.066.188
1. Shares in affiliated companies	051		
2. Loans to affiliated companies	052	278.000	278.000
3. Participating interest	053		
4. Loans given to companies with participating interest	054		
5. Securities investment	055	1.535.045	1.460.380
6. Given loans, deposits	056	1.557.299	4.327.808
7. Other short term financial assets	057		
IV. CASH AT BANKS AND IN HAND	058	18.494.161	16.691.480
D) PREPAYMENTS AND ACCRUED INCOME	059	6.151.578	7.850.740
E) TOTAL ASSETS (001+002+034+059)	060	933.536.474	1.026.105.201
F) OFF BALANCE SHEET ITEMS	061	110.313.814	83.670.947

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	314.783.513	387.916.590
I. CALLED UP CAPITAL	063	5.625.000	58.310.000
II. CAPITAL RESERVES	064	1.926.364	8.004.817
III. INCOME RESERVES (066+067-068+069+070)	065	3.470.416	6.996.731
1. Compulsory reserves	066	420.819	3.000.000
2. Reserves for treasury shares	067	928.818	2.269.752
3. Treasury shares (deductible)	068	20.000	413.800
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	236.333.938	243.491.185
1. Retained profit	073	236.333.938	243.491.185
2. Loss for current year	074		
VI. PROFIT/LOSS FOR CURRENT YEAR (076-077)	075	67.427.795	71.113.857
1. Profit for current year	076	67.427.795	71.113.857
2. Loss for current year	077		
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 - 082)	079	917.341	1.012.986
1. Provisions for retirement and similar expenditures	080	917.341	1.012.986
2. Provisions for taxes and contributions	081		
3. Other provisions	082		
C) LONG TERM LIABILITIES (084 - 092)	083	295.565.735	326.591.328
1. Liabilities for affiliated companies	084		
2. Liabilities for loans, deposits	085		
3. Liabilities for bank loans and other financial institutions	086	156.121.068	186.978.661
4. Liabilities for advances	087		
5. Accounts payables	088		
6. Securities payables	089	139.444.667	139.612.667
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	312.973.010	293.667.713
1. Liabilities for affiliated companies	094		
2. Liabilities for loans, deposits	095	5.373.651	5.745.932
3. Liabilities for bank loans and other financial institutions	096	123.753.834	112.004.924
4. Liabilities for advances	097	500.616	648.905
5. Accounts payables	098	149.867.440	138.124.339
6. Securities payables	099	1.200.000	3.320.000
7. Liabilities for companies with participating interest	100	11.333	98.871
8. Liabilities for employees	101	11.589.387	14.453.065
9. Liabilities for taxes, contributions and other	102	16.480.801	18.945.942
10. Liabilities for shares in result	103	18.000	21.000
11. Liabilities for short term assets intended for sale	104		
12. Other short term liabilities	105	4.177.948	304.735
E) ACCRUALS AND DEFERRED INCOME	106	9.296.875	16.916.584
F) TOTAL LIABILITIES (062+079+083+093+106)	107	933.536.474	1.026.105.201
G) OFF BALANCE SHEET ITEMS	108	110.313.814	83.670.947
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	314.783.513	387.916.590
2. Assigned to minority interest	110	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 2013 and 31st December 2013

GROUP JGL

Position	ADP mark	Previous period	Current period
1	2	3	4
I. BUSINESS REVENUE (112+113)	111	778.212.279	849.958.676
1. Sales revenue	112	750.990.748	823.467.585
2. Other operational revenue	113	27.221.531	26.491.091
II. BUSINESS EXPENSE (115+116+120+124+125+126+129+130)	114	687.737.702	765.061.090
1. Change in value of inventories for production and goods	115	2.759.950	-271.703
2. Operating expense(117 - 119)	116	460.237.491	492.248.580
a) Cost of raw material	117	167.635.888	191.460.605
b) Costs of goods sold	118	140.006.931	144.214.420
c) Other external costs	119	152.594.672	156.573.555
3. Expense for employees (121 - 123)	120	148.578.047	176.235.128
a) Net salaries and wages	121	89.211.185	105.567.386
b) Taxes, social and pension funds	122	38.136.662	46.175.919
c) Contributions for salaries	123	21.230.200	24.491.823
4. Depreciation	124	24.295.916	26.081.355
5. Other expense	125	39.522.092	35.519.816
6. Revalorisation (127+128)	126	893.952	23.655.058
a) of long term assets (excluding financial assets)	127	0	0
b) of short term assets (excluding financial assets)	128	893.952	23.655.058
7. Provisions	129	1.212.201	95.645
8. Other operational expenses	130	10.238.053	11.497.211
III. FINANCIAL REVENUE (132 - 136)	131	21.245.148	21.903.601
1. Interests, exchange rate differentials, dividends and similar	132		
2. Interests, exchange rate differentials, dividends and similar	133	21.217.913	21.884.141
3. Revenue from participating interest and subsidiaries	134	19.562	19.460
4. Non-realized revenue	135	7.673	0
5. Other financial revenue	136		
IV. FINANCIAL EXPENSE (138 - 141)	137	42.343.000	39.576.220
1. Interests, exchange rate differentials, dividends and similar	138		
2. Interests, exchange rate differentials, dividends and similar	139	41.918.546	39.576.220
4. Non-realized loss from financial assets	140	424.454	0
5. Other financial expenses	141		
V. SHARE IN PROFIT FROM AFFILIATED COMPANIES	142	97.177	85.300
VI. SHARE IN LOSS FROM AFFILIATED COMPANIES	143		
VII. EXTRAORDINARY REVENUE	144		
VIII. EXTRAORDINARY EXPENSE	145		
IX. TOTAL REVENUE (111+131+142 + 144)	146	799.554.604	871.947.577
X. TOTAL EXPENSES (114+137+143 + 145)	147	730.080.702	804.637.310
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	69.473.902	67.310.267
1. Profit before tax (146-147)	149	69.473.902	67.310.267
2. Loss before tax (147-146)	150	0	0
XII. INCOME TAX	151	2.046.107	-3.803.590
XIII. PROFIT OR LOSS OF THE PERIOD (148-151)	152	67.427.795	71.113.857
1. Profit of the period (149-151)	153	67.427.795	71.113.857
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			
XIV. PROFIT OR LOSS OF THE PERIOD			
1. Assigned to holders of the capital of the parent company	155	67.427.795	71.113.857
2. Assigned to minority interest	156	0	0
REPORT OF OTHER COMPREHENSIVE INCOME (to be filled by the company in accordance with the			
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	67.427.795	71.113.857

II. OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (159 do	158	0	0
1. Exchange rate differentials from foreign business	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		
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	67.427.795	71.113.857
APPENDIX TO REPORT OF OTHER COMPREHENSIVE INCOME Form (to be filled by the company			
VI. COMPREHENSIVE PROFIT OR LOSS OF THE PERIOD			
1. Assigned to holders of the capital of the parent company	169	67.427.795	71.113.857
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
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 2013 till 31st December 2013

GROUP JGL			
Position	ADP mark	Previous period	Current period
1	2	3	4
CASH FLOW FROM BUSINESS ACTIVITIES			
1. Cash proceeds from buyers	001	677.998.808	748.678.925
2. Cash proceeds from royalties, fees, commissions, etc	002	274.754	1.085
3. Cash proceeds from insurance claims	003	849.941	198.700
4. Cash proceeds from tax return	004	52.955.256	49.635.886
5. Other cash proceeds	005	6.702.368	3.235.491
I. Total increase of cash flow from operating activities (001 - 005)	006	738.781.127	801.750.087
1. Cash outflow for liabilities	007	548.871.702	555.209.394
2. Cash outflow for employees	008	90.138.044	102.116.364
3. Cash outflow to insurance for indemnification of damage	009		
4. Cash outflow for interests	010	20.191.064	20.839.844
5. Cash outflow for taxes	011	81.096.464	87.964.235
6. Other cash outflow	012	6.817.933	5.073.266
II. Total cash outflow from business activities (007 do 012)	013	747.115.207	771.203.103
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014	0	30.546.984
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015	8.334.080	0
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Cash proceeds from sale of long terms intangible and tangible assets	016	703.426	785.432
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment	018	111.497	122.095
4. Cash proceeds of dividend payment	019		
5. Other cash proceeds from investing activities	020	116.521	5.300.000
III. Total cash inflow from investing activities (015 - 019)	021	931.444	6.207.527
1. Cash outflow for acquisition of long term tangible and intangible assets	022	85.577.768	49.704.946
2. Cash outflow for acquisition of equity and debt security instruments	023	5.488.717	1.500.000
3. Other cash outflows from investing activities	024	278.000	5.300.000
IV. Total cash outflow from investing activities (021 - 023)	025	91.344.485	56.504.946
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (020-024)	026	0	0
B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES (024-020)	027	90.413.041	50.297.419
CASH FLOW FROM FINANCE ACTIVITIES			
1. Cash inflow from issuing equity and debt financial instruments	028	0	7.231.587
2. Cash inflow from loan principals, debentures, credits and other borrowings	029	253.403.136	161.619.893
3. Other cash inflows from finance activities	030	36.545.566	11.424.492
V. Total cash inflow from finance activities (027 - 029)	031	289.948.702	180.275.972
1. Cash outflow for repayment of loan principal and bonds	032	93.703.707	125.548.751
2. Cash outflow for dividend payment	033	16.835.700	16.743.224
3. Cash outflow for finance lease	034	10.382.534	6.254.264
4. Cash outflow for buyback of own shares	035	914.446	2.518.434
5. Other cash outflow from finance activities	036	59.929.493	11.263.545
VI. Total cash outflow for finance activities (031 - 035)	037	181.765.880	162.328.218
C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES (030-036)	038	108.182.822	17.947.754
C2) NET CASH FLOW DECREASE FROM FINANCE ACTIVITIES (036-030)	039	0	0
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	040	9.435.701	0
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	041	0	1.802.681
Cash and cash equivalents at the beginning of the period	042	9.058.460	18.494.161
Increase of cash and cash equivalents	043	9.435.701	
Decrease of cash and cash equivalents	044	0	1.802.681
Cash and cash equivalents at the end of the period	045	18.494.161	16.691.480

CHANGES IN EQUITY
for the period from 1.1.2013 to 31.12.2013

Position	ADP mark	Previous period	Current period
1	2	3	4
1. Called up capital	001	5.625.000	58.310.000
2. Capital reserves	002	1.926.364	8.004.817
3. Reserves from equity	003	3.470.416	6.996.731
4. Retained profit or transferred loss	004	236.333.938	243.491.185
5. Profit or loss of the period	005	67.427.795	71.113.857
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	314.783.513	387.916.590
11. Exchange rate differentials from foreign net investments	011		
12. Current and deferred tax	012	2.046.107	-3.803.590
13. Cash flow protection	013		
14. Changes in accounting policies	014		
15. Correction of errors from past periods	015		183.468
16. Other changes in equity	016	52.198.722	76.753.199
17. Total increase or decrease of equity (ADP 011 - 016)	017	54.244.829	73.133.077
17.a Assigned to holders of the capital of the parent company	018	54.244.829	73.133.077
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.

GROUP JGL, Rijeka

**AUDIT REPORT
OF CONSOLIDATED ANNUAL FINANCIAL REPORTS
FOR 2013**

RIJEKA, APRIL 2014

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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 Group 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 is 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, 18th April 2014

For and on behalf of the Management Board

Ivo Usmiani, MPharm. spec.

13 JGL d.d.
Svilina 20 Rijeka



INDEPENDENT AUDITOR'S REPORT FOR THE SHAREHOLDERS OF GROUP JGL, Rijeka

Report on the financial reports

We have performed an audit on the attached financial reports of Group JGL, including the consolidated Balance Sheet as of 31 December 2013, consolidated Income statement with a report of other comprehensive income, consolidated Cash Flow Statement, consolidated Statement of Changes in Owners' Equity for 2013, as well as a summary of important accounting policies and other notes, incl. explanations (enclosed on pages 6 to 33).

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 Group, 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 Group. 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.

Furthermore, we read the Yearly report of Group JGL, Rijeka for 2013, in order to express an opinion about the compliance between the Yearly report and financial reports for 2013.

Opinion

In our opinion, the financial statement provides true and fair representation in all relevant determinants of the financial state of Group JGL, as of 31 December 2013, its business results, cash flow and changes in equity for 2013 to the financial reporting standards set by the European Committee and issued in the Official Gazette of the European Union.

Issues stated

Without influence on stated opinion we draw attention to:

/i/ Note 6, in which is stated that the Parent company in 2013 continued the construction of the new production facility „Svilno 2“ in amount of HRK 27.866.448. In addition to this amount, a significant amount of advances was paid for long term assets which on 31 December 2013 amounts to HRK 12.686.711.

/ii/ Notes 7.b and 28., it is stated that due to the political situation in Ukraine there is a high risk of nonpayment from our customers on the Ukrainian market. According to the article 8 in IFRS 18 – Revenue, and because of the high uncertainty regarding the further development of the political situation and lack of basis for risk assesment, the Parent company has decided to take the conservative approach and adjust the customer receivables in amount of total receivables from Ukrainian customers reduced for the amount insured by the Croatian Credit Inurance. Value adjustment of receivables from Ukrainian customers in 2013 amounts to HRK 22.805.444.

/iii/ In Note 22 it is stated that the Parent company will reinvest the profit realized in 2013 in total amount of HRK 58.954.000 with an intent to increase the share capital. According to the article 6., paragraph 1., point 6. of the Law on Corporate Income Tax and article 12.a of Regulative act, the amount of reinvested profit decreases the income tax base for 2013.

/iv/ Furthermore, in note 28 – events after the balance sheet stated:

- 5.2.2014 the Parent company at the Commercial Court in Beograd, Serbia, registered a new affiliated company JGL d.o.o. Beograd – Sopot 100% owned by the Parent company. The shared capital amounts to HRK 378.488 paid up in cash and HRK 5.069.351 in rights and assets – land, buildings, equipment and licences.
- 26.2.2014 the Ministry of Economy of Croatia, in accordance with the Law on investment incentive, awarded the Parent company the incentive for the project Svilno 2. The Comapny applied for the state incentive with the investment in the new production facility worth EUR 35.722.038 which will ensure new capacity for further global growth of the Parent company on existing and new markets. The Ministry issued a Decision on the maximum incentive in the amount of HRK 103.098.382 which is 40% of the total investment. This incentive can be used in the period of 10 years in the form of 0% rate of income tax.
- 3.4.2014 at the Commercial Court in Rijeka, an increase in called up capital was registered for the company JGL, Rijeka in amount of HRK 644.000, from this date on the called up capital amounts to HRK 58.954.000.

Other issues

The audit of Financial reports for the Group JGL for year 2013 (except Studio Omega d.o.o Rijeka and Adrialab d.o.o. Rijeka, which had materialy insignificant business volume in 2013 and for which a Decision about non performance of the audit was made) was done by other auditors, which have expressed a positive opinion about the Financial reports in question.

Report on other legal demands

Opinion on regulatory compliance

It is our opinion that the attached financial reports are in compliance with the regulations that regulate the business of Group JGL Rijeka, for which, according to the point 6.a MRevS 250 Auditors review of compliance with the Law and Regulations, it is generally accepted that they have a direct effect on determination of meaningful amounts and proclamations in financial reports. Nothing led us to believe that there is a possibility that the attached financial reports are not in compliance with other regulations that regulate the business of Group JGL, Rijeka.

Opinion on compliance of the Yearly report with the Financial reports

It is our opinion that the information in attached Yearly report is in compliance with the attached Financial reports of the Group JGL, Rijeka.

In Rijeka, Rijeka, 18th April 2014

REV-RI
d.o.o. Rijeka
2
„REV-RI“ d.o.o. Rijeka
Užarska 17/II



Management

Authorized auditor


Jadranka Vezmar, dipl. oec.

CONSOLIDATED BALANCE SHEET
as of 31 December 2013

Title	Note	Previous year (net)	Current year (net)
ASSETS			
A) RECEIVABLES FOR SHAREHOLDERS EQUITY, NON-PAID			
B) LONG TERM ASSETS	5	355.250.218	399.713.835
I. INTANGIBLE ASSETS	5a	80.761.572	83.551.992
1 Expenditure for research and development		6.893.445	7.770.077
2 Patents, licences, concessions, trademarks, software and other rights		39.434.059	38.244.824
3 Goodwill		21.561.122	21.561.122
4 Advances on intangible assets			
5 Intangible assets-construction in progress		8.947.765	12.029.569
6 Other intangible assets		3.925.181	3.946.400
II. TANGIBLE ASSETS	5a, b, c	272.840.525	309.596.949
1 Land	5a	6.102.522	6.120.122
2 Buildings	5a	73.536.551	70.409.245
3 Equipment and machinery	5a	95.902.825	90.429.657
4 Tools, power stock and transportation means	5a	15.953.332	14.998.908
5 Biological assets			
6 Advances on tangible assets	5c	892.498	12.686.711
7 Tangible assets-construction in progress	5a	77.347.261	111.848.170
8 Other tangible assets	5a	615.480	614.080
9 Investments in real estate	5b	2.490.056	2.490.056
III. LONG TERM FINANCIAL ASSETS	5d	1.640.651	1.725.952
1 Shares in affiliated companies			
2 Loans to affiliated companies			
3 Participating interest		1.140.147	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)		500.504	585.805
IV. RECEIVABLES	5e	7.470	75.256
1 Receivables from affiliated companies			
2 Receivables from sales on credit			
3 Other receivables		7.470	75.256
V. DEFERRED TAX ASSETS	5f		4.763.686
C) SHORT TERM ASSETS	6	572.134.678	618.540.626
I. INVENTORIES	6a	164.082.258	172.896.852
1 Raw and other material		55.222.009	61.720.883
2 Production in progress			
3 Finished products		60.506.685	60.778.389
4 Trade goods		22.326.267	24.370.283

5 Advances on inventories			
6 Long term assets for sale		26.027.297	26.027.297
7 Biological assets			
II. RECEIVABLES	6b	386.187.915	422.886.106
1 Receivables from affiliated companies		4.906	0
2 Receivables from buyers		364.168.763	406.893.001
3 Receivables from participating companies			
4 Receivables from employees and subsidiaries		62.376	62.436
5 Receivables from government and other institutions		19.715.572	14.182.613
6 Other receivables		2.236.298	1.748.056
III. SHORT TERM FINANCIAL ASSETS	6c	3.370.344	6.066.188
1 Shares in affiliated companies			
2 Loans to affiliated companies		278.000	278.000
3 Participating interest			
4 Loans given to companies with participating interest			
5 Securities investment		1.535.045	1.460.380
6 Given loans, deposits		1.557.299	4.327.808
7 Other short term financial assets			
IV. CASH AT BANKS AND IN HAND	6d	18.494.161	16.691.480
D) PREPAYMENTS AND ACCRUED INCOME	7	6.151.578	7.850.740
E) TOTAL ASSETS		933.536.474	1.026.105.201
F) OFF BALANCE SHEET ITEMS	14	110.313.814	83.670.947
LIABILITIES			
A) CAPITAL AND RESERVES	8	314.783.513	387.916.590
I. CALLED UP CAPITAL		5.625.000	58.310.000
II. CAPITAL RESERVES		1.926.364	8.004.817
III. INCOME RESERVES		3.470.416	6.996.731
1 Compulsory reserves		420.819	3.000.000
2 Reserves for treasury shares		928.818	2.269.752
3 Treasury shares (deductible)		20.000	413.800
4 Statutory reserves			
5 Other reserves		2.140.779	2.140.779
IV. REVALUATION RESERVES			
V. RETAINED PROFIT OR TRANSFERRED LOSS		236.333.938	243.491.185
1 Retained profit		236.333.938	243.491.185
2 Transferred loss			
VI. PROFIT (LOSS) FOR CURRENT YEAR		67.427.795	71.113.857
1 Profit for current year		67.427.795	71.113.857
2 Loss for current year			
VII. MINORITY INTEREST			
B) PROVISIONS	9	917.341	1.012.986
1 Provisions for retirement and similar expenditures		917.341	1.012.986
2 Provisions for taxes and contributions			
3 Other provisions			

C) LONG TERM LIABILITES	10	295.565.735	326.591.328
1 Liabilities for affiliated companies			
2 Liabilities for loans, deposits			
3 Liabilities for bank loans and other financial institutions	10a	156.121.068	186.978.661
4 Liabilities for advances			
5 Accounts payables			
6 Securities payables	10b	139.444.667	139.612.667
7 Liabilities for companies with participating interest			
8 Other long-term liabilities			
9 Deferred tax liability			
D) SHORT-TERM LIABILITIES		312.973.010	293.667.713
1 Liabilities for affiliated companies			
2 Liabilities for loans, deposits	11a	5.373.651	5.745.932
3 Liabilities for bank loans and other financial institutions	11b	123.753.834	112.004.924
4 Liabilities for advances	11c	500.616	648.905
5 Accounts payables	11d	149.867.440	138.124.339
6 Securities payables	11e	1.200.000	3.320.000
7 Liabilities for companies with participating interest	11d	11.333	98.871
8 Liabilities for employees	11f	11.589.387	14.453.065
9 Liabilities for taxes, contributions and other	11g	16.480.801	18.945.942
10 Liabilities for shares in result	11h	18.000	21.000
11 Liabilities for short term assets intended for sale			
12 Other short term liabilities	11i	4.177.948	304.735
E) ACCRUALS AND DEFERRED INCOME	13	9.296.875	16.916.584
F) TOTAL LIABILITIES		933.536.474	1.026.105.201
G) OFF BALANCE SHEET ITEMS	14	110.313.814	83.670.947
ADDITION TO THE BALANCE SHEET			
A) CAPITAL AND RESERVES			
1. Assigned to holders of the capital of the parent company		314.783.513	387.916.590
2. Assigned to minority interest			



Authorized representative

13^{MP}
JGL d.d.
Svilno 20 Rijeka

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

For the period from 1st December 2013 till 31st December 2013

Title	Note	Previous year (net)	Current year (net)
I. BUSINESS REVENUE	15	778.212.279	849.958.676
1 Sales revenue		750.990.748	823.467.585
2 Other operational revenue		27.221.531	26.491.091
II. BUSINESS EXPENSE	16	687.737.702	765.061.090
1 Change in value of inventories for production and goods		2.759.950	-271.703
2 Operating expense		460.237.491	492.248.580
a) Cost of raw material		167.635.888	191.460.605
b) Costs of goods sold		140.006.931	144.214.420
c) Other external costs		152.594.672	156.573.555
3 Expense for employees		148.578.047	176.235.128
a) Net salaries and wages		89.211.185	105.567.386
b) Taxes, social and pension funds		38.136.662	46.175.919
c) Contributions for salaries		21.230.200	24.491.823
4 Depreciation		24.295.916	26.081.355
5 Other expense		39.522.092	35.519.816
6 Revalorisation		893.952	23.655.058
a) of long term assets (excluding financial assets)		0	0
b) of short term assets (excluding financial assets)		893.952	23.655.058
7 Provisions		1.212.201	95.645
8 Other operational expenses		10.238.053	11.497.211
III. FINANCIAL REVENUE	17	21.245.148	21.903.601
1 Interests, exchange rate differentials, dividends and similar revenues from relations with affiliated companies			
2 Interests, exchange rate differentials, dividends and similar revenues from relations with unaffiliated companies and other persons		21.217.913	21.884.141
3 Revenue from participating interest and subsidiaries		19.562	19.460
4 Non-realized revenue		7.673	0
5 Other financial revenue			
IV. FINANCIAL EXPENSE	18	42.343.000	39.576.220
1 Interests, exchange rate differentials, dividends and similar expenses from relations with affiliated companies			
2 Interests, exchange rate differentials, dividends and similar expenses from relations with unaffiliated companies and other persons		41.918.546	39.576.220
3 Non-realized loss (expenses) of financial assets		424.454	0
4 Other financial expenses			
V. SHARE IN PROFIT FROM AFFILIATED COMPANIES	19	97.177	85.300
VI. SHARE IN LOSS FROM AFFILIATED COMPANIES			
VII. EXTRAORDINARY REVENUE			
VIII. EXTRAORDINARY EXPENSE			

IX. TOTAL REVENUE		799.554.604	871.947.577
X. TOTAL EXPENSES		730.080.702	804.637.310
XI. PROFIT OR LOSS BEFORE TAX		69.473.902	67.310.267
1 Profit before tax		69.473.902	67.310.267
2 Loss before tax		0	0
XII. INCOME TAX	20	2.046.107	-3.803.590
XII. PROFIT OR LOSS OF THE PERIOD		67.427.795	71.113.857
1 Profit of the period		67.427.795	71.113.857
2 Loss of the period		0	0
REPORT OF OTHER COMPREHENSIVE INCOME			
I. PROFIT OR LOSS OF THE PERIOD		67.427.795	71.113.857
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	21	67.427.795	71.113.857
APPENDIX TO REPORT OF OTHER COMPREHENSIVE INCOME			
VI. COMPREHENSIVE PROFIT OR LOSS OF THE PERIOD		0	0
1. Assigned to holders of the capital of the parent company		67.427.795	71.113.857
2. Assigned to minority interest		0	0

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JGL d.d.
Svilno 20 Rijeka



Authorized representative

CONSOLIDATED CASH FLOW STATEMENT FOR 2013
For the period from 1st January 2013 till 31st December 2013

Title	Note	Previous year (net)	Current year (net)
CASH FLOW FROM BUSINESS ACTIVITIES			
1 Cash inflow from buyers		677.998.808	748.678.925
2 Cash inflow from charge, fee and royalty		274.754	1.085
3 Cash inflow from insurance for indemnification of damage		849.941	198.700
4 Cash inflow from tax refund		52.955.256	49.635.886
5 Other cash inflow		6.702.368	3.235.491
I. Total cash inflow from operating activities		738.781.127	801.750.087
1 Cash outflow for liabilities		548.871.702	555.209.394
2 Cash outflow for employees		90.138.044	102.116.364
3 Cash outflow to insurance for indemnification of damage			
4 Cash outflow for interests		20.191.064	20.839.844
5 Cash outflow for taxes		81.096.464	87.964.235
6 Other cash outflow		6.817.933	5.073.266
II. Total cash outflow from business activities		747.115.207	771.203.103
A1) NET INCREASE OF CASH FLOW FROM BUSINESS ACTIVITIES		0	30.546.984
A2) NET DECREASE OF CASH FLOW FROM BUSINESS ACTIVITIES		8.334.080	0
CASH FLOW FROM INVESTING ACTIVITIES			
1 Cash inflow from sale of long terms intangible and tangible assets		703.426	785.432
2 Cash inflow from sale of equity and debt security instruments			
3 Cash inflow from interests		111.497	122.095
4 Cash inflow of dividends			
5 Other cash inflow from investing activities		116.521	5.300.000
III. Total cash inflow from investing activities		931.444	6.207.527
1 Cash outflow for acquisition of long term tangible and intangible assets		85.577.768	49.704.946
2 Cash outflow for acquisition of equity and debt security instruments		5.488.717	1.500.000
3 Other cash outflows from investing activities		278.000	5.300.000
IV. Total cash outflow from investing activities		91.344.485	56.504.946
B1) NET CASH FLOW FROM INVESTING ACTIVITIES		0	0
B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES		90.413.041	50.297.419
CASH FLOW FROM FINANCE ACTIVITIES			
1 Cash inflow from issuing equity and debt financial instruments		0	7.231.587
2 Cash inflow from loan principals, debentures, credits and other borrowings		253.403.136	161.619.893
3 Other cash inflows from finance activities		36.545.566	11.424.492
V. Total cash inflow from finance activities		289.948.702	180.275.972
1 Cash outflow for repayment of loan principal and bonds		93.703.707	125.548.751

2 Cash outflow for dividend payment		16.835.700	16.743.224
3 Cash outflow for finance lease		10.382.534	6.254.264
4 Cash outflow for buyback of own shares		914.446	2.518.434
5 Other cash outflow from finance activities		59.929.493	11.263.545
VI. Total cash outflow for finance activities		181.765.880	162.328.218
C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES		108.182.822	17.947.754
C2) NET CASH FLOW DECREASE FROM FINANCE ACTIVITIES		0	0
Total increase of cash flow		9.435.701	0
Total decrease of cash flow		0	1.802.681
Cash and cash equivalents at the beginning of the period		9.058.460	18.494.161
Increase of cash and cash equivalents		9.435.701	
Decrease of cash and cash equivalents	22	0	1.802.681
Cash and cash equivalents at the end of the period		18.494.161	16.691.480

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JGL d.d.
Svilno 20 Rijeka



Authorized representative

CONSOLIDATED CHANGES IN EQUITY
as of 31st of December 2013

Position	Called up capital	Capital reserves	Reserves from profit	Retained profit or transferred loss	Profit or loss of the period	Total capital and reserves
Note						23
31.12. previous year	5.625.000	1.926.364	3.470.416	236.333.938	67.427.795	314.783.513
New shares	206.000	9.405.012				9.611.012
Reinvested profit	52.479.000					52.479.000
Increase in reserves			2.579.181			2.579.181
Transfer of profit of previous year				67.427.795		67.427.795
Transfer of result of business year					67.310.267	67.310.267
Correction of previous period				183.468		183.468
Profit of current year from temporary differences					3.803.590	3.803.590
Transactions with own shares		1.107.500	2.948.434	1.357.500		5.413.434
Effect of consolidation				1.576.099		1.576.099
Total increase	52.685.000	10.512.512	5.527.615	70.544.862	71.113.857	210.383.846
Transfer to retained profit					67.427.795	67.427.795
Transfer to dividend liability				5.811.000		5.811.000
Transfer to reinvested profit				52.479.000		52.479.000
Transfer to called up capital		2.379.425				2.379.425
Transfer to reserves				2.579.181		2.579.181
Transactions with own shares		2.054.634	2.001.300	2.518.434		6.574.368
Total decrease	0	4.434.059	2.001.300	63.387.615	67.427.795	137.250.769
Change	52.685.000	6.078.453	3.526.315	7.157.247	3.686.062	73.133.077
Current period	58.310.000	8.004.817	6.996.731	243.491.185	71.113.857	387.916.590

13^{MP}
JGL d.d.
Svilno 20 Rijeka



Authorized representative

GROUP JGL RIJEKA

NOTES

1. GENERAL DATA

Group JGL, Rijeka, Svilno 20, 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
- Adrialab d.o.o.

Granddaughter companies:

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

2. REPORTING FRAMEWORK

Financial reports of the Group have been compiled in accordance with the Accounting Law ("Official Gazette" No. 109/07 and 54/13) and International Financial Reporting Standards, as determined by the European Committee and published in the "Official Gazette" of the European Union.

3. COMPANY MANAGEMENT SYSTEM

The Parent 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 2nd June 2011, under business number OU 89/2011 Supervisory Board members were chosen for a period from 27th October 2011 till 26th October 2015.

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, MPharm.	Member
Grozdana Božić , dipl.iur.	Member

4. SUMMARY OF BASIC ACCOUNTING POLICIES APPLIED WHILE DRAFTING THE FINANCIAL STATEMENTS FOR 2013.

While drafting the consolidated financial statements for 2013 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>100</i>	<i>100</i>
<i>Ljekarna Jukić, Žrnovnica</i>	<i>Croatia</i>	<i>100</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>10</i>	<i>100</i>
<i>Adrialab d.o.o.</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 assets, 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 are 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 Group. 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 HRK 3.500.

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.

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% are expressed in accordance with the International Accounting Standard 28 "Investing in Affiliate companies" 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.

Small valued 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 are 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, with the state for the paid taxes, contributions and other duties, with the employees on the basis of services used or items of property of the Group 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 with maturity (realization) of up to one year.

j) Policy of showing cash at banks and in hand

Assets in the form of cash are 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. Called up capital
2. Capital reserves
3. Reserves from profit
 - Statutory reserves
 - Reserves 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. Long-term liabilities are liabilities 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 Group'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.

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 for the foreign currency of the affiliate company.

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 in affiliate company's state of registration.

x) 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.

z) Deferred tax assets

Deferred tax assets are recorded for temporary tax differences in valid tax rate for income tax in the reporting year.

5. LONG-TERM ASSETS

a) Long-term intangible assets

Long-term intangible assets are 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 basic assets as of 31 December 2013	76.529.367	105.428.565	614.080	111.848.170	294.420.182	83.551.992
Current value of basic assets as of 31 December 2012	79.639.073	111.856.157	615.480	77.347.261	169.457.971	80.761.572

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. In 2013 HRK 27.866.448 was invested in buildings and new production facility Svilno 2.

Intangible assets are mostly licences, investment in development projects and goodwill.

b) Investments in Property

During 2013, value estimation was executed on the stated real estate according to the National Accounting Standard 40 - "Investments in Property" and it was established that there was no change in market value of the property when compared to the year 2012 (HRK 2.490.056).

At the end of 2012 the Decision of the Management board of the Parent company classified part of the real estate as “property for sale” and accordingly these assets are in the balance sheet presented under the Short-term assets (note 7) – Long-term assets for sale. No property was sold during the year 2013 and by the decision of the Management board the Parent company will continue to try and sell these assets in year 2014. The Parent company has started obtaining energy efficiency certificates for these real estates.

c) Advances on long-term tangible asset

Advances on long-term tangible assets as of 31st December 2013 amount to HRK 12.868.711 (HRK 892.498 in 2012), and relate to the advances paid for equipment, machinery and transportation means. According to the contract, 80% advance in amount of HRK 10.081.688 was paid to the company BAUSCH + STROBEL GmbH for production of equipment.

d) Long-term financial assets

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

Participating interests are investments in:

	2012	2013
	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

Investment in companies with participating interest: Galena d.o.o. and Andros d.o.o., are reported by the method of shares and on 31.12.2013 amount to HRK 585.805 (HRK 500.504 in 2012).

e) Long-term receivables

Long-term receivables amount to HRK 75.256 and are receivables from affiliate company JGL North America LLC, while in 2012 the long-term receivables amounted to HRK 7.470 (receivables from affiliate company Farmis d.o.o. Sarajevo).

f) Deferred tax assets

Deferred tax assets are income tax liabilities on the amount of temporary tax differences for reservations for jubilee awards and severance pay and temporary unrecognized value adjustment for estimated uncollectible receivables in Ukraine (Note 6b).

Deferred tax assets for reservations for jubilee awards and severance pay in year 2012 amount to HRK 183.468 and are reported in year 2013. Error of previous period is not significant, so the retroactive correction of the previous period was not needed (IAS 8 – Accounting policy, change in accounting estimates and errors).

Deferred tax assets are:

	2012	2013
	in HRK	in HRK
Reservations for jubilee awards and severance pay in 2012	0	183.468
Reservations for jubilee awards and severance pay in 2013	0	19.129
Value adjustment of receivables from Ukrainian customers	0	4.561.089
Situation on 31st December	0	4.763.686

7. SHORT-TERM ASSETS

a) Inventories

The inventories are:

	2012	2013
	in HRK	in HRK
Raw material and consumables	55.222.009	61.720.883
Finished products	60.506.685	60.778.389
Goods	22.326.267	24.370.283
Long-term assets for sale	26.027.297	26.027.297
Situation on 31 st December	164.082.258	172.896.852

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 affiliate companies, receivables from buyers, receivables from employees, receivables from the government and other institutions, and other receivables

Receivables from buyers relate to:

	2012	2013
	in HRK	in HRK
Buyers in the country	155.878.400	116.962.132
Buyers abroad	208.290.363	289.930.869
Situation on 31 December	364.168.763	406.893.001

The analysis of the Ukrainian market showed great financial risk in the terms of collection from customers. According to the point 8 of IAS 10 – Events after the date of balance sheet and point 18 IAS 18 – Revenue, and because of the great uncertainty regarding the future development of the situation and lack of base for collection projection, the Parent company decided to act conservatively and adjusted the value of receivables in the amount of receivables from Ukrainian customers minus the amount insured with the Hrvatsko kreditno osiguranje d.d. The value adjustment of receivables from Ukrainian customers in 2013 amounts to HRK 22.805.444.

Receivables from affiliate companies are HRK 0 (HRK 4.906 in 2012).

Receivables from employees are expressed in the amount of HRK 62.436 (HRK 62.376 in 2012).

Receivables from government and other institutions are expressed in the amount of HRK 14.182.613 (HRK 19.715.572 in 2012).

Other receivables are:

	2012	2013
	in HRK	in HRK
Receivables on advances	1.973.740	718.878
Other receivables (cession, assignment and assuming of debt)	2.898	15.713
Receivables on indemnification of damage	259.660	1.013.465
Situation on 31 December	<u>2.236.298</u>	<u>1.748.056</u>

c) Short-term financial asset

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

Loans provided to companies with participating interest are expressed in the amount of HRK 278.000 and refer to the loan to company Galena d.o.o. (HRK 278.000 in 2012).

Receivables for all received securities are expressed in the amount of HRK 1.460.380 (HRK 1.535.045 in 2012) and refer to receivables from received bills of exchange, checks and receivables from business card issuers.

Given loans and deposits are HRK 4.176.529 (HRK 1.557.299 in 2012).

d) Cash at banks and in hand

Cash at bank and in hand on 31.12.2013 was HRK 16.842.759 (HRK 18.494.161 in 2012) 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 7.850.740 (HRK 6.151.578 in 2012) 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 58.310.000 and is divided into 583.100 shares of nominal value in the amount of HRK 100 per each share, thereof 7.500 of series A, 30.000 of series B, 18.750 shares of series C, 2.060 of series D and 524.790 shares of series E.

On 16.1.2013 new shares were registered by the Commercial Court – 510 shares of series D (the shares were paid on 27.12.2012. in the amount of HRK 2.379.425) all according to the Decision of General Assembly of the Parent company.

On 26.3.2013 new shares were registered by the Commercial Court – an increase of 1.550 shares of series D (the shares were paid from 19.03.2013 – 22.03.2013 in the amount of HRK 7.231.587) all according to the Decision of General Assembly of the Parent company.

On 16.5.2013 new shares were registered by the Commercial Court – series E, an increase in called up capital from reinvested profit in amount of HRK 52.479.000. For each existing share 9 new shares were issued, all according to the Decision of General Assembly of the Parent company.

Ownership structure on 31.12.2013

NAME AND SURNAME	NUMBER OF SHARES	% IN CAPITAL
Ivo Usmiani	177.060	30,365
Zdravko Saršon	117.250	20,108
Marina Pulišić	26.200	4,493
Grozdana Božić	14.380	2,466
Sanja Vujić Šmaguc	12.250	2,101
Vesna Črnjarić	11.870	2,036
Đurđica Miletović Forempoher	9.900	1,698
Majid Hejja	7.300	1,252
Jasmin Huljaj	6.970	1,195
JGL	4.138	0,710
Small shareholders	195.782	33,576
UKUPNO	583.100	100,000

Source: JGL

At the beginning of the period the Parent company owned 200 of own shares. After the increase in number of shares from reinvested profit, the Parent company portfolio had 2.000 own shares (200 + 1.800 shares from reinvested profit). During the 2013 the Parent company acquired 4.638 own shares after which the Parent company portfolio had 6.638 own shares.

By the Decision of General Assembly of the Parent company the members of the Executive board were awarded with 2.500 shares without compensation (in 2012 97 shares). After this, the Parent company portfolio has 4.138 shares on 31.12.2013.

All changes occurring after 5.11.2013 were not recorded with the Central Clearing Depository Company.

The Parent company, pursuant to the provisions of the Companies Act, formed reserves for owned shares which on 31 December 2013 amounted to HRK 2.269.752 (HRK 928.818 in 2012).

Legal and other reserves are formed pursuant to the Companies Act and the Statute of JGL, Rijeka. Legal reserves on 31.12.2013 amount to HRK 3.000.000 (HRK 420.819 in 2012). Other reserves on 31.12.2013 amount to HRK 2.140.779 (HRK 2.140.779 in 2012).

Pursuant to the Decision of the General Assembly of the Parent company, retained profit achieved after 2005 was reduced by HRK 5.831.000 (HRK 16.844.700 in 2012) on behalf of the dividend to the holders of regular shares in series "A", "B", "C", "D" and "E" in the amount of HRK 10 per share with the right to a dividend.

Profit of current year is HRK 71.834.786 (HRK 124 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 1.012.986 (HRK 917.341 in 2012).

10. LONG-TERM LIABILITIES

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

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

Long-term liabilities towards banks and other financial institutions amount to HRK 186.978.661 (HRK 156.121.068 in 2012).

Overview of group's debt regarding long-term lease

	2012	2013
	in HRK	in HRK
Erste & Steiermarkische S-leasing	4.132.620	1.929.367
PBZ leasing d.o.o.	8.448.944	6.762.286
Raiffeisen leasing d.o.o.	34.536	0
Unicredit leasing Croatia d.o.o.	0	1.161.320
Situation 31 st of December	12.616.100	9.852.973

Long-term liabilities towards long-term financial leasing are based on several financial leasing agreements 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, etc.

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

	2012	2013
	in HRK	in HRK
Erste & Steiermarkische Bank	50.685.923	37.949.511
SocieteGenerale-Splitska banka	33.537.822	21.587.032
Croatian bank for Reconstruction and Development	0	75.517.595
Privredna banka Zagreb – subsidiary Rijeka	10.355.448	5.925.385
Privredna banka Zagreb	48.925.775	36.146.165
Situation 31 st of December	143.504.968	177.125.688

Liability toward banks in amount of HRK 177.125.688 (HRK 143.504.968 in 2012) 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 2014 in total amount of HRK 63.005.236 (HRK 31.572.714 in 2013) is expressed in the short-term liabilities (Note 11b).

b) Liabilities for securities

Liabilities for securities on 31.12.2013 amount to HRK 139.612.667 relating to liabilities for issued long-term securities (HRK 139.444.667 in 2012).

JGL 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.

Determined interest rate for the period from 11th June 2012 till 11th June 2013 amounts to 6.1725% annually. Determined interest rate for the period from 11th June 2013 till 11th June 2014 is 4,80%. In 2013, the Parent company paid HRK 8.641.500 (HRK 10.122.875 in 2012) for accrued interest.

11. SHORT-TERM LIABILITIES

a) Liabilities for loans and deposits

Liabilities for financial lease on 31.12.2013 are liabilities that will mature in 2014.

	2012	2013
	in HRK	in HRK
Erste & Steiermarkische S-leasing	2.748.958	2.304.346
PBZ leasing d.o.o.	2.587.015	2.994.685
Raiffeisen leasing d.o.o.	37.678	34.944
Unicredit leasing Croatia d.o.o.	0	411.957
Situation on 31 st of December	5.373.651	5.745.932

b) Liabilities toward banks and other financial institutions

Liabilities toward banks and other financial institutions on 31.12.2013 are:

	2012	2013
Hypo Alpe – Adria bank d.d.	56.522.202	10.118.355
Privredna banka Zagreb	13.069.700	33.049.920
Privredna banka Zagreb - subsidiary Rijeka	4.400.000	4.400.000
Raiffeisen bank d.d.	9.975.226	27.788.926
Erste & Steiermarkische Bank	12.933.870	13.431.586
SocieteGenerale-Splitska banka	5.810.856	12.123.730
Slatinska banka	10.000.000	10.000.000
Prvi faktor	10.000.000	0
Liabilities toward fees	1.041.980	1.083.897
Situation on 31 st of December	123.753.834	111.996.414

Above stated liabilities are liabilities toward short-term bank loans for financing tangible assets, current assets, building in project Svilno 2 and for liquidity. The principals of long-term bank loans that mature in 2014 are transferred to short-term liabilities in amount of HRK 63.005.236.

c) Liabilities towards advance payments

Liabilities towards advance payments on 31.12.2013 amount to HRK 657.415 (HRK 500.616 in 2012).

d) Liabilities towards suppliers

Liabilities towards suppliers relate to:

	2012	2013
	in HRK	in HRK
Suppliers in the country	112.040.770	89.060.395
Suppliers/participating interest	11.333	98.871
Suppliers abroad	37.826.670	49.063.944
Situation on 31 st of December	149.878.773	138.223.210

e) Liabilities for securities

Liabilities for securities amount to HRK 3.320.000 (HRK 1.200.000 in 2012).

f) Liabilities toward employees

Liabilities toward employees on 31.12.2013 amount to HRK 14.453.065 (HRK 11.589.387 in 2012). Above stated liabilities refer to liabilities for net wages and reimbursement for December, reimbursement for transport, reimbursement for sick leave, reimbursement for separate life, bonuses for 2013 and suspension of wages.

g) Liabilities for taxes, contributions and other

Liabilities for taxes, contributions and other on 31.12.2013 amount to HRK 18.945.942 (HRK 16.480.801 in 2012). Above stated liabilities refer to liabilities for taxes and contributions from and on income and liabilities for withholding tax.

h) Liabilities for share in profit

Liabilities for share in profit on 31.12.2013 amount to HRK 21.000 (HRK 18.000 in 2012).

i) Other short-term liabilities

Other short-term liabilities relate to the following:

	2012	2013
	in HRK	in HRK
Liabilities for members of the Supervisory Board	29.340	29.787
Liabilities for cession, assignation and similar	2.634.008	196.542
Liabilities for novation contracts	1.500.000	0
Liabilities for the pension fund	14.600	18.100
Other liabilities	0	60.306
Situation on 31 December	4.177.948	304.735

12. 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. 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 16.916.584 (HRK 9.296.875 in 2012) out of which HRK 4.266.178 (HRK 5.439.246 in 2012) relates to outstanding interests on bonds and bank loans, HRK 5.345.589 on accruals (HRK 3.093.579 in 2012), HRK 1.643.469 (HRK 764.050 in 2012) refers to deferred income from the government, HRK 5.661.348 refers to deferred income from the preferential interest and state incentives from the CBRD loan (there was no such income in 2012) and HRK 5.661.348.

14. NOTES THAT ARE NOT IN THE BALANCE SHEET

Notes that are not in the balance sheet in 2013 amount of HRK 83.670.947 (HRK 110.313.814 in 2012) 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:

	2012	2013
	in HRK	in HRK
Revenue from sales	750.990.749	823.467.585
Other revenue	27.221.531	26.491.091
Total	778.212.279	849.958.676

16. OPERATIONAL EXPENDITURES

Operational expenditures are:

	2012	2013
	in HRK	in HRK
Change in inventory	2.759.950	-271.703
Cost of material, energy and small inventory	167.635.888	191.460.605
Costs of goods sold	140.006.931	144.214.420
Costs of services	152.594.672	156.573.555
Expenses for employees	148.578.047	176.235.128
Depreciation	24.295.916	26.081.355
Other expenses	39.522.092	35.519.816
Value adjustment of short-term assets	893.952	23.655.058
Reservations	1.212.201	95.645
Other business expenditures	10.238.053	11.497.211
Total	687.737.702	765.061.090

According to the IAS 23 costs from loan fees in amount of HRK 187.180 are transferred to qualified long-term assets (027 – real estate and buildings in preparation).

Value adjusted in 2013 is HRK 23.655.058 most of which refers to the value adjustment of receivables from Ukrainian customers in amount of HRK 22.805.444 (Note 6b).

17. FINANCIAL REVENUES

Financial revenues are:

	2012	2013
	in HRK	in HRK
Interest revenues	178.340	200.493
Revenues from exchange rate differences	21.039.573	21.683.648
Revenues from participating interests	19.562	19.460
Revenues from increase of value of property investments	7.673	0
Total	<u>21.245.148</u>	<u>21.903.601</u>

18. FINANCIAL EXPENDITURES

Financial expenditures are:

	2012	2013
	in HRK	in HRK
Interest expenditures	18.932.660	18.879.185
Expenditures from exchange rate differences	22.985.886	20.697.035
Expenditures from decrease in value of investment in real estate	424.454	0
Total	<u>42.343.000</u>	<u>39.576.220</u>

According to the IAS 23 costs from regular and preferential interests in total amount of HRK 3.727.103 are transferred to qualified long-term assets (027 – real estate and buildings in preparation). The CBRD loan is for construction of new production facility Svilno 2.

19. SHARE IN PROFIT FROM AFFILIATE COMPANIES

In 2013 the Parent company had a share in profit of affiliate company Galena d.o.o. in total amount of HRK 85.300 (HRK 97.177 in 2012).

20. PROFIT TAX

Profit tax is calculated in accordance with the regulations of the country where the company has headquarters, rates are from 20% in Croatia, 17% in Slovenia to 15% in Serbia and 10% in Bosnia and Herzegovina.

In 2013 the Group made a profit before tax in amount of HRK 67.310.267 (HRK 69.473.902 in 2012).

In 2009 the Parent 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%. While calculating the profit tax for 2013 JGL completely used the tax stimulus in amount of HRK 5.025.383 (HRK 3.378.003 in 2012)

26.2.2014. the Ministry of Economy of Croatia, according to the Law on investment incentive, awarded the Parent company the incentive for the project Svilno 2. This incentive can be used in the period of 10 years in the form of 0% rate of income tax (Note 28) and in 2013 an incentive in amount of HRK 2.705.975 was used.

The Parent will reinvest part of the profit from 2013 with an intention to increase signed up capital in 2014. 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 2013.

The determined tax liability of the Group amounts to HRK 776.628 (HRK 2.046.107 in 2012).

Profit tax is calculated 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.

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 2013, JGL, a joint-stock company from Rijeka, realized profit before tax in the amount of HRK 67.254.568 (HRK 69.749.125 in 2012).

In 2009 the Parent 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%. While calculating the profit tax for 2013 JGL completely used the remaining amount of tax stimulus in amount of HRK 5.025.383 (HRK 3.378.003 in 2012)

26.2.2014. the Ministry of Economy of Croatia, according to the Law on investment incentive, awarded the Parent company the incentive for the project Svilno 2. This incentive can be used in the period of 10 years in the form of 0% rate of income tax (Note 28) and in 2013 an incentive in amount of HRK 2.705.975 was used.

The Parent company will reinvest the profit gained in 2013 in amount of HRK 58.954.000 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 2013.

The determined tax liability amounts to HRK 0 (HRK 1.818.925 in 2012).

The Parent company reported deferred tax assets are income tax liabilities in the amount of HRK 4.580.218 and it refers to temporary tax differences for reservations for jubilee awards and severance pay and temporary unrecognized value adjustment for estimated uncollectible receivables in Ukraine (Note 6b).

The Parent company used the 0% income tax incentive in 2013, so the tax obligation in HRK 0 and the difference between the tax liability of the Group in amount of HRK 776.628 and the deferred tax assets in amount of HRK 4.580.218 increase the net profit of the Group.

21. REPORT ON OTHER COMPREHENSIVE INCOME

Profit of the period and other comprehensive profit are the same and amount to HRK 71.113.857 (in 2012 profit of the period amounts to HRK 67.427.795).

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 increase in the amount of HRK 30.698.263.

The cash flow from investing activities shows a decrease in the amount of HRK 50.297.419.

The cash flow from financing activities shows an increase in the amount of HRK 17.947.754.

The total cash flow for 2013 shows an decrease in the amount of HRK 1.651.402.

23. REPORT ON CHANGES OF EQUITY

Report on changes of equity for 2013 displays the total increase of equity in the amount of HRK 73.133.077 (HRK 54.244.829 in 2012).

24. POTENTIAL LIABILITIES

No procedures have been initiated against the Group. The Parent company and the daughter companies are co-debtors for bank loans.

25. RISK MANAGEMENT

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

The Group 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. The Group has great revenue from export which results in exposure to currency risk in a way that the foreign currency assets are larger than the foreign currency liabilities. The exposure to currency risk is monitored and if needed hedging is used to minimize the risk. Decision on protection depends on the currency in which the receivables are, the type of hedge and its price.

The Group is minimally exposed to interest rate risk because fixed interest rates are agreed for the most interest bearing debt.

Assets that may expose the Group to a credit risk are short-term financial assets, 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 Parent 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 Parent company has insurance policies issued by the Croatian Bank for Reconstruction and Development. Receivables from larger buyers from Ukraine and Kazakhstan are insured by Croatian Credit Insurance. The Parent company is constantly working on increasing the amount of insured receivables in order to increase the share of insured receivables in the total amount of receivables.

Credit risk is connected with the short-term financial assets and money in bank. The Group minimizes the credit risk by keeping the funds in leading business banks in Croatia which have an acceptable level of capital adequacy.

Liquidity risk manifests as a danger that the Group will not be able to pay its debt to creditors. The Group minimizes the liquidity risk by agreements concluded with business banks where the annual credit limits have been contracted in advance and it allows the Group to get liquid funds easy and fast by already established conditions.

26. EVENTS AFTER THE DATE OF THE BALANCE SHEET

On 5.2.2014. the Parent company at the Commercial Court in Beograd, Serbia registered a new affiliated company JGL d.o.o. Beograd – Sopot 100% owned by the Parent company. The shared capital amounts to HRK 378.488 paid up in cash and HRK 5.069.351 in rights and assets – land, buildings, equipment and licences.

On 26.2.2014. the Ministry of Economy of Croatia, according to the Law on investment incentive, awarded the Parent company the incentive for the project Svilno 2. The Company applied for the state incentive with the investment in the new production facility worth EUR 35.722.038 which will ensure new capacity for further global growth of the Parent company on existing and new markets. The Ministry issued a Decision on the maximum incentive in the amount of HRK 103.098.382 which is 40% of the total investment. This incentive can be used in the period of 10 years in the form of 0% rate of income tax.

At the beginning of 2014 the Parent company analyzed the political situation in Ukraine and came to a conclusion that there is a high risk of nonpayment, and a value adjustment of the receivables from Ukrainian customers was made accordingly in amount of HRK 22.805.444 (Note 6b).

On 3.4.2014. at the Commercial Court in Rijeka, an increase in called up capital for the Parent company was made in amount of HRK 644.000, so the called up capital now amounts to HRK 58.954.000.

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JGL d.d.
Svilno 20 Rijeka



Authorized representative

JADRAN - GALENSKI LABORATORIJ
joint stock company
R I J E K A
Svilno 20
SUPERVISORY BOARD
Convocation 2011-2015

EXCERPT FROM
THE MINUTES

From the 19th working session of the Supervisory Board of Jadran - Galenski laboratorij, joint stock company from Rijeka, convocation 2011 – 2015, held on 29th April 2014 with a beginning at 9:30 a.m. at the business offices of “Ljekarnički klub Jadran” in Rijeka, Vlačićev trg 3.

Under the point 2 of the daily agenda was:

“Consideration of consolidated financial reports od Jadran - Galenski laboratorij, joint stock company for 2013”, and this decision was made:

DECISION NO. 86

I

The Supervisory Board of Jadran - Galenski laboratorij, joint stock company confirms the validity of consolidated financial reports of Jadran - Galenski laboratorij, joint stock company for 2013 as composed by the Management Board of the Company.

II

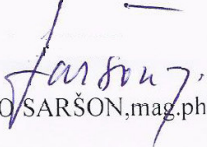
Management Board and Supervisory Board of Jadran - Galenski laboratorij, joint stock company determined the consolidated financial reports of Jadran - Galenski laboratorij, joint stock company for 2013.

III

The Decision comes into force on the date of its making.

All present Members of the Supervisory Board voted for this Decision

PRESIDENT OF THE SUPERVISORY BOARD


ZDRAVKO SARŠON, mag. pharm.