Attachment 1.

Period: 1.1.2014 to 31.12.2014

Yearly financial report GFI-POD

Registration number (MB): **03715957**

Registration number (MBS): **040004561**

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

Company: **JGL d.d.**

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

Adress: **Svilno 20**

e-mail: jgl@jgl.hr

Internet adress: www.jgl.hr

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

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

Number of employees (at the end of the period): **946**

Consolidated report: **YES**

NKD code: **2120**

Companies in consolidation (in acc. with IFRS):	Headquarters:	MB:
Farmis d.o.o.	**Sarajevo, BIH**	
Jadran-Galenski laboratorij Ljubljana d.o.o.	**Ljubljana, Slovenija**	
Jadran-Galenski laboratorij Beograd d.o.o.	**Beograd, Srbija**	
JGL Beograd d.o.o.	**Beograd, Srbija**	
JGL North America LLC	**New York, SAD**	
Pablo d.o.o.	**Zagreb**	**1162772**

Accounting:

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

Phone: **051 660 710** Fax: **051 660 711**

e-mail: verica.crnkovis@jgl.hr

Surname and name: **Jasmin Huljaj, Dražen Jakšić**
(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 2014

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	399.713.835	507.846.603
I. INTANGIBLE ASSETS (004 - 009)	003	83.551.992	85.436.416
1. Expenditure for research and development	004	7.770.077	7.078.095
2. Patents, licences, concessions, trademarks, software and other rights	005	38.244.824	34.475.651
3. Goodwill	006	21.561.122	24.293.857
4. Advances on intangible assets	007		
5. Intangible assets-construction in progress	008	12.029.569	15.735.622
6. Other intangible assets	009	3.946.400	3.853.191
II. TANGIBLE ASSETS (011 - 019)	010	309.596.949	420.015.361
1. Land	011	6.120.122	6.991.821
2. Buildings	012	70.409.245	88.173.038
3. Equipment and machinery	013	90.429.657	108.263.118
4. Tools, power stock and transportation means	014	14.998.908	15.504.766
5. Biological assets	015		
6. Advances on tangible assets	016	12.686.711	8.252.606
7. Tangible assets-construction in progress	017	111.848.170	187.995.969
8. Other tangible assets	018	614.080	608.920
9. Investments in real estate	019	2.490.056	4.225.123
III. LONG TERM FINANCIAL ASSETS (021 - 028)	020	1.725.952	1.512.437
1. Shares in affiliated companies	021		
2. Loans to affiliated companies	022		
3. Participating interest	023	1.140.147	1.200.147
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	585.805	312.290
IV. RECEIVABLES (030 - 032)	029	75.256	36.881
1. Receivables from affiliated companies	030		
2. Receivables from sales on credit	031		
3. Other receivables	032	75.256	36.881
V. DEFERRED TAX ASSETS	033	4.763.686	845.508
C) SHORT TERM ASSETS (035+043+050+058)	034	618.540.626	605.510.008
I. INVENTORIES (036 - 042)	035	172.896.852	204.628.316
1. Raw and other material	036	61.720.883	51.110.167
2. Production in progress	037	0	228.095
3. Finished products	038	60.778.389	100.558.468
4. Trade goods	039	24.370.283	23.468.072
5. Advances on inventories	040		
6. Long term assets for sale	041	26.027.297	29.263.514
7. Biological assets	042		
II. RECEIVABLES (044 - 049)	043	422.886.106	354.549.452
1. Receivables from affiliated companies	044		
2. Receivables from buyers	045	406.893.001	317.729.290
3. Receivables from participating companies	046		
4. Receivables from employees and subsidiaries	047	62.436	41.987
5. Receivables from government and other institutions	048	14.182.613	22.820.460
6. Other receivables	049	1.748.056	13.957.715
III. SHORT TERM FINANCIAL ASSETS (051 - 057)	050	5.914.909	22.677.112
1. Shares in affiliated companies	051		
2. Loans to affiliated companies	052	278.000	98.000
3. Participating interest	053		
4. Loans given to companies with participating interest	054		
5. Securities investment	055	1.460.380	1.006.678
6. Given loans, deposits	056	4.176.529	686.328
7. Other short term financial assets	057	0	20.886.106
IV. CASH AT BANKS AND IN HAND	058	16.842.759	23.655.128
D) PREPAYMENTS AND ACCRUED INCOME	059	7.850.740	5.760.348
E) TOTAL ASSETS (001+002+034+059)	060	1.026.105.201	1.119.116.959
F) OFF BALANCE SHEET ITEMS	061	83.670.947	352.302.753

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	**062**	387.916.590	383.704.449
I. CALLED UP CAPITAL	**063**	58.310.000	117.908.000
II. CAPITAL RESERVES	**064**	8.004.817	7.776.478
III. INCOME RESERVES (066+067-068+069+070)	**065**	6.996.731	13.768.790
1. Compulsory reserves	**066**	3.000.000	6.000.000
2. Reserves for treasury shares	**067**	2.269.752	8.110.811
3. Treasury shares (deductible)	**068**	413.800	2.482.800
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**	243.491.185	233.772.609
1. Retained profit	**073**	243.491.185	233.772.609
2. Loss for current year	**074**		
VI. PROFIT/LOSS FOR CURRENT YEAR (076-077)	**075**	71.113.857	10.478.572
1. Profit for current year	**076**	71.113.857	10.478.572
2. Loss for current year	**077**		
VII. MINORITY INTEREST	**078**		
B) PROVISIONS (080 - 082)	**079**	1.012.986	940.947
1. Provisions for retirement and similar expenditures	**080**	1.012.986	940.947
2. Provisions for taxes and contributions	**081**		
3. Other provisions	**082**		
C) LONG TERM LIABILITES (084 - 092)	**083**	326.591.328	365.717.428
1. Liabilities for affiliated companies	**084**		
2. Liabilities for loans, deposits	**085**		
3. Liabilities for bank loans and other financial institutions	**086**	186.978.661	221.437.161
4. Liabilities for advances	**087**		
5. Accounts payables	**088**		
6. Securities payables	**089**	139.612.667	139.780.667
7. Liabilities for companies with participating interest	**090**		
8. Other long-term liabilities	**091**		
9. Deferred tax liability	**092**	0	4.499.600
D) SHORT-TERM LIABILITIES (094 - 105)	**093**	293.667.713	346.120.591
1. Liabilities for affiliated companies	**094**		
2. Liabilities for loans, deposits	**095**	0	0
3. Liabilities for bank loans and other financial institutions	**096**	117.742.346	175.461.905
4. Liabilities for advances	**097**	657.415	367.059
5. Accounts payables	**098**	138.124.339	155.832.274
6. Securities payables	**099**	3.320.000	1.900.000
7. Liabilities for companies with participating interest	**100**	98.871	0
8. Liabilities for employees	**101**	14.453.065	4.563.598
9. Liabilities for taxes, contributions and other	**102**	18.945.942	7.185.494
10. Liabilities for shares in result	**103**	21.000	26.400
11. Liabilities for short term assets intended for sale	**104**		
12. Other short term liabilities	**105**	304.735	783.861
E) ACCRUALS AND DEFERRED INCOME	**106**	16.916.584	22.633.544
F) TOTAL LIABILITIES (062+079+083+093+106)	**107**	1.026.105.201	1.119.116.959
G) OFF BALANCE SHEET ITEMS	**108**	83.670.947	352.302.753
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**	387.916.590	383.704.449
2. Assigned to minority interest	**110**		

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

CONSOLIDATED INCOME STATEMENT

from 1st January 2014 and 31st December 2014

GROUP JGL

Position	ADP mark	Previous period	Current period
1	2	3	4
I. BUSINESS REVENUE (112+113)	111	849.958.676	738.067.375
1. Sales revenue	112	823.467.585	687.823.011
2. Other operational revenue	113	26.491.091	50.244.364
II. BUSINESS EXPENSE (115+116+120+124+125+126+129+130)	114	765.061.090	680.552.058
1. Change in value of inventories for production and goods	115	-271.703	-40.008.174
2. Operating expense(117 - 119)	116	492.248.580	485.974.439
a) Cost of raw material	117	191.460.605	188.634.310
b) Costs of goods sold	118	144.214.420	139.383.511
c) Other external costs	119	156.573.555	157.956.618
3. Expense for employees (121 - 123)	120	176.235.128	155.606.434
a) Net salaries and wages	121	105.567.386	96.717.900
b) Taxes, social and pension funds	122	46.175.919	36.210.395
c) Contributions for salaries	123	24.491.823	22.678.139
4. Depreciation	124	26.081.355	29.096.003
5. Other expense	125	35.519.816	33.967.098
6. Revalorisation (127+128)	126	23.655.058	995.881
a) of long term assets (excluding financial assets)	127	0	5.893
b) of short term assets (excluding financial assets)	128	23.655.058	989.988
7. Provisions	129	95.645	0
8. Other operational expenses	130	11.497.211	14.920.377
III. FINANCIAL REVENUE (132 - 136)	131	21.903.601	72.182.014
1. Interests, exchange rate differentials, dividends and similar	132		
2. Interests, exchange rate differentials, dividends and similar	133	21.884.141	50.126.566
3. Revenue from participating interest and subsidiaries	134	19.460	15.080
4. Non-realized revenue	135	0	21.290.738
5. Other financial revenue	136	0	749.630
IV. FINANCIAL EXPENSE (138 - 141)	137	39.576.220	114.250.199
1. Interests, exchange rate differentials, dividends and similar	138		
2. Interests, exchange rate differentials, dividends and similar	139	39.576.220	113.647.971
4. Non-realized loss from financial assets	140	0	602.228
5. Other financial expenses	141		
V. SHARE IN PROFIT FROM AFFILIATED COMPANIES	142	85.300	76.485
VI. SHARE IN LOSS FROM AFFILIATED COMPANIES	143		
VII. EXTRAORDINARY REVENUE	144		
VIII. EXTRAORDINARY EXPENSE	145		
IX. TOTAL REVENUE (111+131+142 + 144)	146	871.947.577	810.325.874
X. TOTAL EXPENSES (114+137+143 + 145)	147	804.637.310	794.802.257
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	67.310.267	15.523.617
1. Profit before tax (146-147)	149	67.310.267	15.523.617
2. Loss before tax (147-146)	150	0	0
XII. INCOME TAX	151	-3.803.590	5.045.045
XIII. PROFIT OR LOSS OF THE PERIOD (148-151)	152	71.113.857	10.478.572
1. Profit of the period (149-151)	153	71.113.857	10.478.572
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	71.113.857	10.478.572
2. Assigned to minority interest	156		
REPORT OF OTHER COMPREHENSIVE INCOME (to be filled by the company in accordance with the IFRS)			
I. PROFIT OR LOSS OF THE PERIOD (= 152)	157	71.113.857	10.478.572
II. OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (159 do	158		
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		
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	71.113.857	10.478.572
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	71.113.857	10.478.572
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 2014 till 31st December 2014

GROUP JGL			
Position	**ADP mark**	**Previous period**	**Current period**
1	2	3	4
CASH FLOW FROM BUSINESS ACTIVITIES			
1. Cash proceeds from buyers	**001**	748.678.925	808.687.582
2. Cash proceeds from royalties, fees, commissions, etc	**002**	1.085	22.865
3. Cash proceeds from insurance claims	**003**	198.700	337.951
4. Cash proceeds from tax return	**004**	49.635.886	21.796.303
5. Other cash proceeds	**005**	3.235.491	1.055.421
I. Total increase of cash flow from operating activities (001 - 005)	**006**	801.750.087	831.900.122
1. Cash outflow for liabilities	**007**	555.058.115	543.888.595
2. Cash outflow for employees	**008**	102.116.364	111.757.207
3. Cash outflow to insurance for indemnification of damage	**009**		
4. Cash outflow for interests	**010**	20.839.844	18.602.960
5. Cash outflow for taxes	**011**	87.964.235	86.194.367
6. Other cash outflow	**012**	5.073.266	5.622.918
II. Total cash outflow from business activities (007 do 012)	**013**	771.051.824	766.066.047
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (006-013)	**014**	30.698.263	65.834.075
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (013-006)	**015**	0	0
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Cash proceeds from sale of long terms intangible and tangible assets	**016**	785.432	1.114.847
2. Cash proceeds from sale of equity and debt security instruments	**017**		
3. Cash proceeds from interest payment	**018**	122.095	40.235
4. Cash proceeds of dividend payment	**019**		
5. Other cash proceeds from investing activities	**020**	5.300.000	3.680.000
III. Total cash inflow from investing activities (015 - 019)	**021**	6.207.527	4.835.082
1. Cash outflow for acquisition of long term tangible and intangible assets	**022**	49.704.946	88.885.520
2. Cash outflow for acquisition of equity and debt security instruments	**023**	1.500.000	0
3. Other cash outflows from investing activities	**024**	5.300.000	0
IV. Total cash outflow from investing activities (021 - 023)	**025**	56.504.946	88.885.520
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (020-024)	**026**	0	0
B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES (024-020)	**027**	50.297.419	84.050.438
CASH FLOW FROM FINANCE ACTIVITIES			
1. Cash inflow from issuing equity and debt financial instruments	**028**	7.231.587	3.496.920
2. Cash inflow from loan principals, debentures, credits and other borrowings	**029**	161.619.893	195.941.685
3. Other cash inflows from finance activities	**030**	11.424.492	772.797
V. Total cash inflow from finance activities (027 - 029)	**031**	180.275.972	200.211.402
1. Cash outflow for repayment of loan principal and bonds	**032**	125.548.751	127.491.637
2. Cash outflow for dividend payment	**033**	16.743.224	10.514.376
3. Cash outflow for finance lease	**034**	6.254.264	31.705.619
4. Cash outflow for buyback of own shares	**035**	2.518.434	5.330.259
5. Other cash outflow from finance activities	**036**	11.263.545	140.779
VI. Total cash outflow for finance activities (031 - 035)	**037**	162.328.218	175.182.670
C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES (030-036)	**038**	17.947.754	25.028.732
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**	0	6.812.369
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	**041**	1.651.402	0
Cash and cash equivalents at the beginning of the period	**042**	18.494.161	16.842.759
Increase of cash and cash equivalents	**043**		6.812.369
Decrease of cash and cash equivalents	**044**	1.651.402	
Cash and cash equivalents at the end of the period	**045**	16.842.759	23.655.128

CHANGES IN EQUITY

for the period from 1.1.2014 to 31.12.2014

Position	ADP mark	Previous period	Current period
1	2	3	4
1. Called up capital	001	58.310.000	117.908.000
2. Capital reserves	002	8.004.817	7.776.478
3. Reserves from equity	003	6.996.731	13.768.790
4. Retained profit or transferred loss	004	243.491.185	233.772.609
5. Profit or loss of the period	005	71.113.857	10.478.572
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	387.916.590	383.704.449
11. Exchange rate differentials from foreign net investments	011		
12. Current and deffered tax	012	3.803.590	-5.045.045
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	69.146.019	832.904
17. Total increase or decrease of equity (ADP 011 - 016)	017	73.133.077	-4.212.141
17.a Assigned to holders of the capital of the parent company	018	73.133.077	-4.212.141
17. b Assigned to minority interest	019		

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

Notes

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

JGL Group Rijeka

REPORT ON THE PERFORMED AUDIT
OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
AND ANNUAL REPORT FOR THE YEAR 2014

RIJEKA, APRIL 2015

TABLE OF CONTENTS

Declaration of responsibility by the Board and Executive Directors

Pursuant to the Accounting Act of the Republic of Croatia, the Board and Executive Directors are responsible for ensuring that financial statements for each financial year are prepared in compliance with the International Financial Reporting Standards determined by the European Commission and published in the Official Journal of the European Union, presenting a true and objective image of the Group's position, as well as its business results for the said period.

Following the audit, the Board and Executive Directors reasonably expect that the Group will have appropriate resources at their disposal in the foreseeable future, and when preparing financial statements they continue to adopt the going concern assumption.

Responsibilities of the Board and Executive Directors when preparing financial statements include the following:

- selecting and then consistently applying adequate accounting policies
· giving justified and reasonable judgements and assessments
· acting in accordance with applicable accounting standards, in addition to disclosing and justifying all material deviations in financial statements and
· preparing financial statements under the going concern assumption, unless the assumption that the Group will continue with its operations is not applicable.

The Board and Executive Directors are responsible for keeping appropriate accounting records, which show the financial position of the Group with justified accuracy at any time. Furthermore, the Board and Executive Directors shall ensure that financial statements are in compliance with the Accounting Act. In addition, the Board and Executive Directors are responsible for safekeeping the assets of the Group and for taking justified measures for preventing and identifying fraud and other irregularities.

Rijeka, 23 April 2015

For JGL d.d.

____

Ivo Usmiani, the Board

____

Jasmin Huljaj, CEO

____

Dražen Jakšić, Executive Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF JGL D.D. Rijeka

Report on financial statements

We have preformed an audit of the enclosed financial statements of the public limited company JGL Group Rijeka, which include Consolidated Balance Sheet dated 31 December 2014, Consolidated Profit and Loss Account with the report on other comprehensive income, Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity for the year ending with the said date, as well as the summary of significant accounting policies and other explanatory information (enclosed on pages 6 to 38).

Responsibility of the Board and Executive Directors for financial statements

The Board and Executive Directors are responsible for preparing financial statements presenting a true and objective image in accordance with the Accounting Act and International Financial Reporting Standards determined by the European Commission and published in the Official Journal of the European Union and for those internal controls the Board and Executive Directors deem necessary for preparing financial statements without material misrepresentation due to fraud or error.

Responsibility of the Auditor

Our responsibility is to express our opinion on these financial statements on the basis of our audit. We have conducted our audit in accordance with the International Auditing Standards. These standards require that we act in accordance with ethical requirements and plan and conduct the audit in order to acquire reasonable belief that the financial reports are without material misrepresentation.
The audit includes the application of procedures for collecting audit evidence on the amounts and disclosures in financial statements. The chosen procedures depend on the auditor's judgement, as well as on risk assessment of material misrepresentation of financial statements due to fraud or error. In creating these risk assessments, the auditor takes into consideration internal controls relevant for the preparation of financial statements, presenting a true and objective image, in order to form audit procedures appropriate for the circumstances, without the purpose of expressing the opinion on the efficiency of internal controls performed by the business entity. The audit also includes the evaluation of adequacy of applied accounting policies and reasonableness of accounting estimates performed by the management, as well as the evaluation of overall presentation of financial statements.
We believe the audit evidence we have collected is sufficient and appropriate to form a basis for our audit opinion.

In addition, we have read the enclosed annual report of JGL Group, Rijeka for 2014 in order to be able to express our opinion on the compliance of the annual report with the enclosed financial statements of JGL Group, Rijeka for 2014.

Opinion

In our opinion, the financial statements provide a true and objective image of the financial position of JGL Group, Rijeka on 31 December 2014, its financial performance and its cash flows for the year ending with the said date pursuant to the Accounting Act and International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union.

Highlighted issues

Without any influence on the expressed opinion, we highlight the following:

/i/ We would like to draw attention to Note 5a, which states that the assessment of lifespan of office furniture was made at the Parent Company in 2014, and that it was established that the lifespan of 5 years was underestimated and that the actual lifespan was 10 years. The effect of this change reflected in the lower depreciation costs for the furniture in the amount of HRK 263.184 with respect to the previous period.

Furthermore, a decision on change was made at the Parent Company during 2014 regarding the reduction of limit for accounting distinction between small inventory and long-term assets from HRK 3.500 to HRK 1.000. The effect of this change in limit was a reduced cost of write-off of small inventory and an increased cost of depreciation, which produces a net reduction of costs in the amount of HRK 568.385 with respect to the previous period.

The total effect of the said changes amounts to HRK 831.569 less in stated costs for 2014 with respect to the previous period.

/ii/ Furthermore, Notes 6a and 16 state that the finished goods inventory amounted to HRK 100,558,468 in 2014 (HRK 60.788.389 in 2013). The increase in the value of finished goods inventory amounts to HRK 39.780.079 with respect to the previous period. Such a large increase is a result of sudden devaluation of ruble in December 2014. Due to contractual provisions and customs regulations in Russia, it was not possible to modify prices in a relatively short period of time, so the company did not deliver its good to Russia in December. For this reason, there was a large increase in the finished goods inventory, which resulted in changes in the value of this inventory in the Profit and Loss Account.

/iii/ Furthermore, Note 27 - Events after the balance sheet date, states the following:

- The Parent Company signed the Loan Agreement with the European Bank for Reconstruction and Development for the amount of EUR 20.000.000 on 22 January 2015. The approved loan is intended for working capital, and it will be used to close loans at business banks, therefore this loan does not represent the increase of liabilities towards financial institutions. The loan is divided into two tranches, the first tranche in the amount of EUR 12 million will have a one-year grace period, after which 50% of the tranche will be repaid in semi-annual instalments until 2018, and the remaining 50% will be repaid in 2019. The second tranche in the amount of EUR 8 million is a revolving credit for 5 years, and it will be repaid completely in 2019, however this tranche needs to be repaid entirely for 2 weeks in June each year.

- At the beginning of 2015, the Parent Company paid HRK 6.600.000 into capital reserves of its subsidiary Adrialab d.o.o Rijeka.

Other issues

The audit of annual financial statements of subsidiaries from JGL Group, Rijeka for 2014 (except JGL d.o.o. Beograd Sopot, for which a Decision not to perform an audit was made due to materially irrelevant amount of business operations in 2014) was performed by other auditors, who expressed positive opinion on these financial statements.

Report on other regulatory requirements

Opinion on the compliance with regulations governing business operation

In our opinion, the enclosed financial statements are in compliance with the regulations governing the business operation of JGL Group, Rijeka which, pursuant to item 6a of ISA 250 The Auditor's consideration of compliance with laws and regulations, are generally considered to have direct impact on determining significant amounts and disclosures in financial reports and nothing made us believe the enclosed financial statements were not in compliance with other regulations governing the operations of JGL Group, Rijeka.

Opinion on the compliance of annual report with financial statements

In our opinion, the information contained in the enclosed annual report for 2014, for which the financial statements are prepared, are in accordance with enclosed financial statements of JGL Group, Rijeka for 2014.

Rijeka, 23 April 2015

REV-RI d.o.o. Rijeka
Užarska 17/II

Certified Auditor	the Board
Jadranka Vezmar, dipl. oec.	Bosiljka Meštrović, dipl. oec.

CONSOLIDATED BALANCE SHEET

State on 31 December 2014

Position name	Note no.	Previous year (net)	Current year (net)
ASSETS			
A) RECEIVABLES FOR UNPAID SUBSCRIBED CAPITAL			
B) LONG-TERM ASSETS	5	399.713.835	507.846.603
I. INTANGIBLE ASSETS	5a	83.551.992	85.436.416
1. Development costs		7.770.077	7.078.095
2. Concessions, patents, licences, trade and service marks, software and other rights		38.244.824	34.475.651
3. Goodwill		21.561.122	24.293.857
4. Advance payments for the procurement of intangible assets			
5. Intangible assets in preparation		12.029.569	15.735.622
6. Other intangible assets		3.946.400	3.853.191
II. TANGIBLE ASSETS	5a,b,c	309.596.949	420.015.361
1. Land		6.120.122	6.991.821
2. Buildings		70.409.245	88.173.038
3. Plants and equipment		90.429.657	108.263.118
4. Tools, plant inventory and transportation assets		14.998.908	15.504.766
5. Biological assets			
6. Advance payments for tangible assets		12.686.711	8.252.606
7. Tangible assets in preparation		111.848.170	187.995.969
8. Other tangible assets		614.080	608.920
9. Investment property		2.490.056	4.225.123
III. LONG-TERM FINANCIAL ASSETS	5d	1.725.952	1.512.437
1. Shares (interests) in affiliated undertakings			
2. Loans given to affiliated undertakings			
3. Participating interests (shares)		1.140.147	1.200.147
4. Loans given to undertakings in which there is participating interest			
5. Investments in securities			
6. Given loans, deposits and similar			
7. Other long-term financial assets			
8. Investments calculated using the equity method		585.805	312.290
IV. RECEIVABLES	5e	75.256	36.881
1. Receivables from affiliated undertakings			
2. Receivables on the basis of credit sale			
3. Other receivables		75.256	36.881
V. DEFERRED TAX ASSETS	5f	4.763.686	845.508
C) SHORT-TERM ASSETS	6	618.540.626	605.510.008
I. INVENTORY	6a	172.896.852	204.628.316
1. Raw materials		61.720.883	51.110.167
2. Work in progress		0	228.095
3. Finished goods		60.778.389	100.558.468
4. Trade goods		24.370.283	23.468.072
5. Advance payments for inventory			
6. Long-term assets intended for sale		26.027.297	29.263.514
7. Biological assets			
II. RECEIVABLES	6b	422.886.106	354.549.452
1. Receivables from affiliated undertakings			

2. Trade receivables		406.893.001	317.729.290
3. Receivables from participating undertakings			
4. Receivables from employees and company members		62.436	41.987
5. Receivables from the Government and other institutions		14.182.613	22.820.460
6. Other receivables		1.748.056	13.957.715
III. SHORT-TERM FINANCIAL ASSETS	**6c**	5.914.909	22.677.112
1. Shares (interests) in affiliated undertakings			
2. Loans given to affiliated undertakings		278.000	98.000
3. Participating interests (shares)			
4. Loans given to undertakings in which there is participating interest			
5. Investments in securities		1.460.380	1.006.678
6. Given loans, deposits and similar		4.176.529	686.328
7. Other financial assets		0	20.886.106
IV. CASH AT BANK AND IN HAND	**6d**	16.842.759	23.655.128
D) PREPAID EXPENSES AND ACCRUED INCOME	**7**	7.850.740	5.760.348
E) TOTAL ASSETS		1.026.105.201	1.119.116.959
F) OFF-BALANCE ENTRIES	**14**	83.670.947	352.302.753
LIABILITIES			
A) CAPITAL AND RESERVES	**8**	387.916.590	383.704.449
I. SHARE (SUBSCRIBED) CAPITAL		58.310.000	117.908.000
II. CAPITAL RESERVES		8.004.817	7.776.478
III RESERVES FROM PROFIT		6.996.731	13.768.790
1. Legal reserves		3.000.000	6.000.000
2. Reserves for own shares		2.269.752	8.110.811
3. Own shares and interests (deductible item)		413.800	2.482.800
4. Statutory reserves			
5. Other reserves		2.140.779	2.140.779
IV. REVALUATION RESERVES			
V. PROFIT OR LOSS BROUGHT FORWARD		243.491.185	233.772.609
1. Profit brought forward		243.491.185	233.772.609
2. Loss brought forward			
VI. PROFIT OR LOSS FOR THE FINANCIAL YEAR		71.113.857	10.478.572
1. Profit for the financial year		71.113.857	10.478.572
2. Loss for the financial year			
VII. MINORITY INTEREST			
B) PROVISIONS	**9**	1.012.986	940.947
1. Provisions for pensions, severances and similar obligations		1.012.986	940.947
2. Provisions for taxation			
3. Other provisions			
C) LONG-TERM LIABILITIES	**10**	326.591.328	365.717.428
1. Liabilities towards affiliated undertakings			
2. Liabilities for loans, deposits and similar			
3. Liabilities towards banks and other financial institutions	**10a**	186.978.661	221.437.161
4. Liabilities for advance payments			
5. Liabilities towards suppliers			
6. Liabilities arising from securities	**10b**	139.612.667	139.780.667
7. Liabilities towards undertakings in which there is participating interest			
8. Other long-term liabilities			
9. Deferred tax liability	**10c**	0	4.499.600

D) SHORT-TERM LIABILITIES	**11**	293.667.713	346.120.591
1. Liabilities towards affiliated undertakings			
2. Liabilities for loans, deposits and similar		0	0
3. Liabilities towards banks and other financial institutions	**11a**	117.742.346	175.461.905
4. Liabilities for advance payments	**11b**	657.415	367.059
5. Liabilities towards suppliers	**11c**	138.124.339	155.832.274
6. Liabilities arising from securities	**11d**	3.320.000	1.900.000
7. Liabilities towards undertakings in which there is participating interest		98.871	0
8. Liabilities towards employees	**11e**	14.453.065	4.563.598
9. Liabilities for taxes, contributions and similar charges	**11f**	18.945.942	7.185.494
10. Liabilities due to share in result	**11g**	21.000	26.400
11. Liabilities due to long-term assets intended for sale			
12. Other short-term liabilities	**11h**	304.735	783.861
E) DEFERRED PAYMENT OF COSTS AND INCOME FOR THE FUTURE PERIOD	**13**	16.916.584	22.633.544
F) TOTAL – LIABILITIES		1.026.105.201	1.119.116.959
G) OFF-BALANCE ENTRIES	**14**	83.670.947	352.302.753
ADDITION TO THE BALANCE SHEET (to be filled out by the company preparing the consolidated annual financial statement)			
A) CAPITAL AND RESERVES			
1. Attributable to equity holders of the parent company		387.916.590	383.704.449
2. Attributable to minority interest			

Jasmin Huljaj, CEO

LS

Dražen Jakšić, Executive Director

CONSOLIDATED PROFIT AND LOSS ACCOUNT WITH THE REPORT ON OTHER COMPREHENSIVE INCOME
For the period from 01/01/2014 to 31/12/2014

Position name	Note number	Previous year	Current year
I. OPERATING REVENUE	15	849.958.676	738.067.375
1. Sales revenue		823.467.585	687.823.011
2. Other operating revenue		26.491.091	50.244.364
II. OPERATING EXPENSES	16	765.061.090	680.552.058
1. Changes in the value of work in progress and finished goods inventory		-271.703	-40.008.174
2. Material costs		492.248.580	485.974.439
a) Costs of raw materials		191.460.605	188.634.310
b) Costs of sold goods		144.214.420	139.383.511
c) Other external costs		156.573.555	157.956.618
3. Personnel costs		176.235.128	155.606.434
a) Net wages and salaries		105.567.386	96.717.900
b) Costs of taxes and contributions from salary		46.175.919	36.210.395
c) Contributions on salary		24.491.823	22.678.139
4. Depreciation		26.081.355	29.096.003
5. Other costs		35.519.816	33.967.098
6. Value adjustment		23.655.058	995.881
a) of long-term assets (except financial assets)		0	5.893
a) of short-term assets (except financial assets)		23.655.058	989.988
7. Provisions		95.645	0
8. Other operating expenses		11.497.211	14.920.377
III. FINANCIAL REVENUE	17	21.903.601	72.182.014
1. Interest, exchange rate differences, dividends and similar revenue from the relation with affiliated undertakings			
2. Interest, exchange rate differences, dividends and similar revenue from the relation with unaffiliated undertakings and other persons		21.884.141	50.126.566
3. Share of revenue from affiliated undertakings and participating interest		19.460	15.080
4. Unrealized profit (revenue) from financial assets		0	21.290.738
5. Other financial revenue		0	749.630
IV. FINANCIAL EXPENSES	18	39.576.220	114.250.199
1. Interest, exchange rate differences and other expenses with affiliated undertakings			
2. Interest, exchange rate differences and other expenses from the relation with unaffiliated undertakings and other persons		39.576.220	113.647.971
3. Unrealized losses (expenses) from financial assets		0	602.228
4. Other financial expenses			
V. SHARE IN PROFIT FROM AFFILIATED UNDERTAKINGS	19	85.300	76.485
VI. SHARE IN LOSS FROM AFFILIATED UNDERTAKINGS			
VII. EXTRAORDINARY - OTHER REVENUE			
VIII EXTRAORDINARY - OTHER EXPENSES			
IX. TOTAL REVENUE		871.947.577	810.325.874
X. TOTAL EXPENSES		804.637.310	794.802.257
XI PROFIT OR LOSS BEFORE TAXATION	20	67.310.267	15.523.617
1. Profit before taxation		67.310.267	15.523.617
2. Loss before taxation		0	0

XII. CORPORATE INCOME TAX	**20**	-3.803.590	5.045.045
XIII. PROFIT OR LOSS FOR THE PERIOD	**20**	71.113.857	10.478.572
1. Profit for the period		71.113.857	10.478.572
2. Loss for the period		0	0
ADDITION TO THE PROFIT AND LOSS ACCOUNT (to be filled out by the company preparing the consolidated annual financial statement)			
XIV. PROFIT OR LOSS FOR THE PERIOD			
1. Attributable to equity holders of the parent company		71.113.857	10.478.572
2. Attributable to minority interest			
REPORT ON OTHER COMPREHENSIVE INCOME (to be filled out by the company subject to IFRS application)			
I. PROFIT OR LOSS FOR THE PERIOD		71.113.857	10.478.572
II. OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAXATION		0	0
1. Exchange differences on translation of foreign operations			
2. Changes in revaluation reserves of long-term tangible and intangible assets			
3. Profit or loss from revaluation of financial assets available for sale			
4. Profit or loss from effective cash flow protection			
5. Profit or loss from effective protection of net foreign investments			
6. Share in other comprehensive income/loss of affiliated undertakings			
7. Actuarial gain/loss on defined benefit schemes			
III. TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD			
IV. OTHER NET COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD		0	0
V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD	**21**	71.113.857	10.478.572
ADDITION to the Report on other comprehensive income (to be filled out by the company preparing the consolidated annual financial statement)			
VI. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD			
1. Attributable to equity holders of the parent company		71.113.857	10.478.572
2. Attributable to minority interest			

Jasmin Huljaj, CEO

LS

Dražen Jakšić, Executive Director

CONSOLIDATED CASH FLOW STATEMENT
for the period from 01/01/2014 to 31/12/2014

Position name	Note no.	Previous year	Current year
CASH FLOW FROM OPERATING ACTIVITIES			
1. Cash inflows from customers		748.678.925	808.687.582
2. Cash inflows from royalties, fees, commissions and similar		1.085	22.865
3. Cash inflows from damage compensation based on insurance		198.700	337.951
4. Cash inflows from tax refund		49.635.886	21.796.303
5. Other cash inflows		3.235.491	1.055.421
I. Total cash inflows from operating activities		801.750.087	831.900.122
1. Cash outflows for suppliers		555.058.115	543.888.595
2. Cash outflows for employees		102.116.364	111.757.207
3. Cash outflows from damage compensation based on insurance			
4. Cash outflows for interest		20.839.844	18.602.960
5. Cash outflows for tax		87.964.235	86.194.367
6. Other cash outflows		5.073.266	5.622.918
II. Total cash outflows from operating activities		771.051.824	766.066.047
A1) NET INCREASE IN CASH FLOW FROM OPERATING ACTIVITIES		30.698.263	65.834.075
A2) NET DECREASE IN CASH FLOW FROM OPERATING ACTIVITIES		0	0
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Cash inflow from the sale of long-term tangible and intangible assets		785.432	1.114.847
2. Cash inflow from the sale of equity and debt instruments			
3. Cash inflows from interest		122.095	40.235
4. Cash inflows from dividends			
5. Other cash inflows from investment activities		5.300.000	3.680.000
III Total cash inflows from investment activities		6.207.527	4.835.082
1. Cash outflow for the purchase of long-term tangible and intangible assets		49.704.946	88.885.520
2. Cash outflow for acquiring equity and debt financial instruments		1.500.000	0
3. Other cash outflows from investment activities		5.300.000	0
IV. Total cash outflows from investment activities		56.504.946	88.885.520
B1) NET INCREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES		0	0
B2) NET DECREASE IN CASH FLOW FROM INVESTMENT ACTIVITIES		50.297.419	84.050.438
CASH FLOW FROM FINANCIAL ACTIVITIES			
1. Cash inflow from issuing equity and debt financial instruments		7.231.587	3.496.920
2. Cash inflow from loan principal, debentures, borrowings and similar		161.619.893	195.941.685
3. Other inflows from financial activities		11.424.492	772.797
V. Total cash inflows from financial activities		180.275.972	200.211.402
1. Cash outflows for the repayment of loan principle and bonds		125.548.751	127.491.637
2. Cash outflows for the payment of dividends		16.743.224	10.514.376
3. Cash outflows for finance lease		6.254.264	31.705.619
4. Cash outflows for the purchase of own shares		2.518.434	5.330.259

5. Other cash outflows from financial activities		11.263.545	140.779
VI. Total cash outflows from financial activities		162.328.218	175.182.670
C1) NET INCREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES		17.947.754	25.028.732
C2) NET DECREASE IN CASH FLOW FROM FINANCIAL ACTIVITIES		0	0
Total increase in cash flow		0	6.812.369
Total decrease in cash flow		1.651.402	0
Cash and cash equivalents at the beginning of the period		18.494.161	16.842.759
Increase in cash and cash equivalents	**22**		6.812.369
Decrease in cash and cash equivalents		1.651.402	
Cash and cash equivalents at the end of the period		16.842.759	23.655.128

Jasmin Huljaj, CEO

LS

Dražen Jakšić, Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY ON 31 DECEMBER 2014

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						**25**
31.12. previous year	58.310.000	8.004.817	6.996.731	243.491.185	71.113.857	**387.916.590**
New shares	644.000	61.806.920				**62.450.920**
Reinvested profit	58.954.000					**58.954.000**
Increase in reserves			3.000.000			**3.000.000**
Transfer of profit of previous year				67.310.267		**67.310.267**
Transfer of result of business year					14.396.750	**14.396.750**
Correction of previous period						**0**
Profit of current year from temporary differences				3.803.590		**3.803.590**
Transactions with own shares		690.800	5.841.059	0		**6.531.859**
Total increase	**59.598.000**	**62.497.720**	**8.841.059**	**71.113.857**	**14.396.750**	**216.447.386**
Transfer to retained profit					67.310.267	**67.310.267**
Transfer to dividend liability					3.803.590	**3.803.590**
Transfer to liability for dividend				10.519.776		**10.519.776**
Transfer to reinvested profit				58.954.000		**58.954.000**
Transfer to called up capital		58.954.000				**58.954.000**
Transfer to reserves				3.000.000		**3.000.000**
Profit of current year from temporary differences					3.918.178	**3.918.178**
Transactions with own shares		3.772.059	2.069.000	6.021.058		**11.862.117**
Effect of consolidation				2.337.599		**2.337.599**
Total decrease	**0**	**62.726.059**	**2.069.000**	**80.832.433**	**75.032.035**	**220.659.527**
Change	**59.598.000**	**-228.339**	**6.772.059**	**-9.718.576**	**-60.635.285**	**-4.212.141**
Current period	117.908.000	7.776.478	13.768.790	233.772.609	10.478.572	**383.704.449**

Jasmin Huljaj, CEO

LS

Dražen Jakšić, Executive Director

1. GENERAL DATA

Business activities of JGL Group, Rijeka, Svilno 20 include the production and sale of pharmaceutical products, basic pharmaceutical raw materials, other chemical products, as well as the production and sale of perfumes and toiletry and cosmetic products.

The Group consists of:
Parent Company – JGL d.d. Rijeka
Subsidiaries

- *Farmis d.o.o. Sarajevo*
- *Jadran - Galenski laboratorij d.o.o., Ljubljana*
- *Jadran - Galenski laboratorij d.o.o., Beograd*
- *JGL d.o.o., Beograd Sopot*
- *Pablo d.o.o., Zagreb*
- *JGL North America LLC,New York, USA*
- *Adrialab d.o.o. Rijeka*

Sub-subsidiary

- *ZU Pablo, Rijeka*
- *Poliklinika Pablo, Solin*

The subsidiary JGL d.o.o. Beograd Sopot, in 100% ownership of JGL d.d. Rijeka, was founded in 2014 . Pablo d.o.o. Zagreb merged with its subsidiary Studio Omega d.o.o. Rijeka in 2014 .

2. REPORTING FRAMEWORK

Financial statements of the Group have been prepared in accordance with the Accounting Act (Official Gazette no. 109/07 and 54/13) and International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union.

Financial statements of the Group have been prepared in accordance with the Accounting Act (Official Gazette no. 109/07 and 54/13) and International Financial Reporting Standards established by the European Commission and published in the Official Journal of the European Union.

The structure and content of shown financial statements is in accordance with the provisions of IAS 1. Financial statements have been reclassified in accordance with the requirements of the Ordinance on the structure and contents of financial statements (Official Gazette no. 38/08,12/09 and 130/10).

Over the years, the companies have adopted subsequent new and supplemented IFRS and guidelines of the International Financial Reporting Interpretations Committee (IFRIC) approved by the EU. In the Official Gazette no. 45 dated 16 April 2013, the Decision amending the Decision on the publication of International Financial Reporting Standards was published.

- *Amendment to IAS 1 Presentation of financial statements with respect to other comprehensive income (in force for one-year periods starting on or following 1 July 2012). The main change resulting from this Amendment is the requirement for entities to group items presented in other comprehensive income on the basis of whether they are* *potentially re-classifiable to the profit and loss account subsequently. The Amendment affects only presentation, and therefore did not have any influence on the financial position or results of the Company.*

- *Amendment to IAS 19 Employee benefits (in force for one-year periods starting on or after 1 January 2013) significantly changes the way in which costs of defined pensions and severances are recognised and measured, as well as disclosures for all employee benefits. The standard requires the recognition of all changes in net liability/(asset) for defined benefits, when they occur, as follows: (i) costs of services and net interest in the profit and loss account, i (ii) remeasurement in other comprehensive income*

- *Amendment to IFRS 1 First-time adoption, with respect to government loans (in force for one-year periods starting on or after 1 January 2013). This Amendment clarifies the manner in which the entity adopting IFRS for the first time accounts for a government loan with a below-market rate of interest when passing to IFRS. It also adds an exemption from retroactive adoption of IFRS for first-time adopters of IFRS, as well as for entities not adopting them for the first time when the requirement for disclosure included in IAS 20 was issued in 2008. This Amendment does not apply to the operations of the Company because the Company is not adopting IFRS for the first time.*

- *Amendment to IFRS 7 Financial instruments: Disclosures in relation to asset and liability offsetting (in force for one-year periods starting on or after 1 January 2013) requires new disclosures that will facilitate comparisons between entities preparing financial statements in accordance with IFRS and entities preparing them in accordance with GAAP. This Amendment did not affect the financial position or results of the Company.*

- *IFRS 13 – Fair value measurement aligned with the requirements of SFAS 157 - Fair value measurement defines fair value as exit price, and not as entry price any more, as it was the case in the previously applicable IFRS. The aforementioned standard, besides defining the term fair value, sets the framework for determining fair value, and defines information disclosed about the process of determining fair value. The application of the said standard has begun on 1 January 2013, and it is mandatory for all entities subject to IFRS when determining fair values.*

- *IAS 27 – Separate financial statements. The aim of this IAS is to present certain requirements that should be applied when accounting for investment values and disclosing information on investments into subsidiaries, joint ventures and associates in cases when companies are preparing separate financial statements.*

- *IAS 28 Investments in associates and joint ventures, regulates the issues of accounting for investments in associates and joint ventures. It is applied by all companies that have investments with joint control or joint influence in the company which is the subject of investment.*

- *IFRS 10 – Consolidated financial statements, consolidation of financial statements was formerly regulated by IAS 27 – Consolidated and separate financial statements. For the period starting on 1 January or afterwards, the requirements of IFRS 10 - Consolidated financial statements shall apply, while for non-consolidating financial statements the new IAS 27 - Separate financial statements shall apply.*

- *IFRS 11 – Joint arrangements, regulates the issues of financial reporting principles for companies having share in arrangements under joint control, and must be applied by all companies that jointly control an arrangement.*

- *IFRS 12 – Disclosure of interests in other entities, its aim is to regulate the disclosure of information allowing the beneficiaries of financial statements to determine the nature of its interests in other entities and related risks and effects of these interests on its financial position, financial performance and cash flows. Consequently, requirements of this standard must be applied by all companies having interest in: subsidiaries, joint arrangements, associates and unconsolidated structured entities.*

- *Amendment to IAS 32 Financial instruments: disclosures regarding asset and liability offsetting. The amendments are guidelines for the application of IAS 23 Financial instruments: Presentation, and they clarify some of the requirements for offsetting financial assets and financial liabilities in the Financial position report.*

- *Amendment to IAS 36 Disclosures regarding impairment of assets up to recoverable amounts. The amendment determines the information that need to be disclosed in connection with recoverable amounts of impaired assets if this amount is based on a fair value reduced by the cost of misappropriation.*

- *Amendment to IAS 39 Financial instruments: Recognition and measurement 'Novation of derivatives and continuation of hedge accounting. The amendment provides easier discontinuation of hedge accounting when the novation of derivatives meets certain criteria of the central counterparty.*

3. PARENT COMPANY MANAGEMENT SYSTEM

Until 30 December 2014, the Parent Company was managed by the Company Board through its general director. The Board was accountable for its work to the Supervisory Board. The Board was appointed by the Supervisory Board. The Board was responsible for leadership, strategy, administration and harmonious organisation of all business processes and management organisational units. Ivo Usmiani, mr. pharm. spec., performed the duty of the president of the Board.

Members of the Supervisory Board of the Parent Company were appointed for the period from 27 October 2011 by the resolution of the General Meeting from 2 June 2011, under no. OU 89/2011.

Members of the Parent Company Supervisory Board from 27 October 2011 to 30 December 2014:

Name and surname	*Function in the Supervisory Board*
Zdravko Saršon, mr. pharm.	*President*
Eva Usmiani Capobianco, mr.spec.	*Vice President*
Marina Pulišić, mag. pharm.	*Member*
Grozdana Božić, dipl.iur.	*Member*

By the resolution of the General Meeting from 24 June 2014, the restructured organisation of the Parent Company is in force since 31 December 2014. Pursuant to the Companies Act, the Parent Company passed from the current two-tier structure of the public limited company, in which *the function of corporate governance (performed by the Board) is separate from the function of supervising the work of the Board (performed by the Supervisory Board), to the one-tier structure, in which the functions of governance and supervision are taken over by a single body - the Board of Directors.*

Members of the Parent Company Board of Directors since 31 December 2014:

Name and surname	*Function in the Board of Directors*
Ivo Usmiani	*President*
Zdravko Saršon	*Vice President*
Marina Pulišić	*Member*
Grozdana Božić	*Member*
Eva Usmiani Capobianco	*Member*

According to the Articles of Association, the Board of Directors appointed executive directors who are in charge of representing and managing the company:

Name and surname	*Function*
Jasmin Huljaj	*CEO and executive director for business development and customer relationship management*
Sanja Vujić Šmaguc	*Deputy CEO and executive director for brand and portfolio management*
Dražen Jakšić	*Executive director for corporate finance*
Mate Poropat	*Executive director for pharmaceutical and technical operations.*

4. SUMMARY OF BASIC ACCOUNTING POLICIES APPLIED IN THE PREPARATION OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR 2014

When preparing consolidated annual financial statements for the year 2014, the Group applied the accepted accounting policies based on the International Financial Reporting Standards and the Accounting Act.

Consolidated annual financial statements are expressed in Croatian kuna (HRK), which is a domicile functional currency.

Basic accounting policies applied when preparing financial statements for 2014 were as follows:

a) <u>Basis for consolidation</u>

Consolidated financial statements include financial statements of the Parent Company and entities controlled by the Company and subsidiaries given below. The control exists if the Parent Company is able to manage financial and business policies of a subject so as to benefit from its activities. Consolidated financial statements include financial statements of the following companies:

COMPANY	COUNTRY	% SHARE 2013	% SHARE 2014
Farmis d.o.o. Sarajevo	*Bosnia and Herzegovina*	*100*	*100*
Jadran-Galenski laboratorij Ljubljana d.o.o.	*Slovenia*	*100*	*100*
Jadran-Galenski laboratorij Beograd d.o.o.	*Serbia*	*100*	*100*
JGL d.o.o. Beograd Sopot	*Serbia*	*0*	*100*
Pablo d.o.o. Zagreb	*Croatia*	*100*	*100*
ZU Pablo Rijeka	*Croatia*	*100*	*100*
Poliklinika Pablo, Solin	*Croatia*	*100*	*100*
Studio Omega, Rijeka	*Croatia*	*100*	*0*
JGL North America LLC,New York	*USA*	*100*	*100*
Adrialab d.o.o. Rijeka	*Croatia*	*100*	*100*

All transactions within the Group, as well as all states, revenues and expenses were eliminated during consolidation. Unrealised profit and unrealised loss within the Group was also eliminated.

b) Long-term intangible and tangible assets (fixed assets)

Long-term intangible assets are expenses for internally developed intangible assets, investments in non-owned assets, investments into computer programmes and licences, and goodwill.

Expenses for internally developed intangible assets are expressed as intangible assets if they meet the requirements in item 57 of the International Accounting Standard 38 – "Intangible Assets".

Long-term tangible assets include land, buildings, plants and equipment, tools, plant and office inventory, furniture and means of transportation.

The items property, plant and equipment are expressed at procurement cost or estimated amount reduced by accumulated depreciation. Procurement of long-term tangible assets throughout the year is recorded at their acquisition value. Acquisition value consists of invoice value of procured means, increased by all costs incurred until the moment they are put into use.

Subsequent costs are acknowledged into the accounting amount of property, plant and equipment items, only if they increase future economic benefits in connection with the asset, and if they will flow into the companies. The remaining costs represent the cost in the Profit and Loss Account in the period in which they occurred.

c) Depreciation

The depreciation of long-term tangible and intangible assets is calculated using the straight-line method, according to rates that do not exceed the rates laid down by the Corporate Income Tax Act of the country where the subsidiary is located, and which are determined by depreciating the value of fixed assets in equal annual amounts during the expected useful life of fixed assets.

The calculation of depreciation is performed per individual fixed assets up to their complete write-off.

Land is not depreciated because its useful life is considered unlimited.
Assets in preparation are not depreciated because they are not activated.

d) *Investment property*

Property kept with the aim of generating income from lease or capital appreciation, or both, are expressed as investment property pursuant to the International Accounting Standard 40 - "Investment property".

Investment property is initially measured at procurement cost, and subsequently using the fair value method.

Profit or loss arising from the change in fair value of investment property is recognized in the Profit and Loss Account for the period in which it occurred.

e) *Investments into long-term financial assets*

The Parent Company has shares in subsidiaries for which, pursuant to the revised International Accounting Standard 27 – "Consolidated and separate financial statements" consolidated financial statements are prepared, and it expresses these shares in business books and financial statements as shares in subsidiaries at procurement cost, while in the Profit and Loss Account, the revenue is expressed only in the amount of received dividends.

Shares of which the Parent Company is 20 to 50% owner are expressed pursuant to the International Accounting Standard 28 "Investments in Associates" in business books separately using the equity method, for which the investment is initially recorded at the investment cost and subsequently adjusted to reflect the changes in the investor's share in the net assets of the associate, and the report on profit reflects the investor's share in the results of the associate's operations.

The Parent Company classifies its investments in the shares of insurance companies and other unrelated companies according to the International Accounting Standard 39 – "Financial Instruments: Recognition and Measurement" as investments "available for sale" and expresses them at fair value or acquisition cost in business books and financial statements.

f) *Inventory*

Inventories are expressed at the lower of cost/procurement price or net realisable value.

The consumption of inventory is calculated using the method of average weighted price.

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

Small inventory is written-off at the rate of 100% when it is given for use.

Trade goods are expressed at procurement value.

Long-term assets intended for sale are expressed at fair value reduced by costs to sell pursuant to the IFRS 5 Non-current assets held for sale and discontinued operations.

g) <u>Short-term receivables</u>

Short-term receivables arise due to regular operations in relations with customers in the country and abroad for sold products and goods, performed services, with the government for overpaid taxes, contributions and other duties, with employees due to used services or asset items of companies that are payable within one year and other receivables payable within one year.

Trade receivables are based and expressed in accordance with authentic accounting document containing the data on type and date of the occurrence of business event, on the value of receivables occurred and time in which receivables become due.

h) <u>Depreciation of receivables</u>

The assessment of irrecoverable amount from the sale of products, goods and services is performed on the balance sheet date according to the estimated value of the collection of questionable receivables. Each client is assessed separately.

i) <u>Short-term financial assets</u>

Short-term financial assets include investments and placements of cash or other values with the purpose of generating earnings or profit with the due (realisation) date of up to one year.

Short-term financial assets also include receivables from financial derivatives in the amount of change in fair value in the period from contracting to the value date.

j) <u>Policy for expressing cash at bank and in hand</u>

The assets in form of cash are expressed in nominal value in Croatian monetary unit (HRK). It includes accounts at banks and cash in hand.

k) <u>Prepaid expenses and accrued income</u>

Expenses that are paid or invoiced, and refer to a future period are expressed at value given in the accounting document on business event. This is done when invoiced or paid cost does not correspond to the time the cost was incurred, and the cost will be charged in the period following the balance sheet period.

l) <u>Policy for expressing capital</u>

In business books and financial statements, capital is expressed as:
1 Share (subscribed) capital
2 Capital reserves
3 Reserves from profit
- *Legal reserves*
- *Reserves for own shares*
- *Own shares and interests (deductible item)*
- *Statutory reserves*
- *Other reserves*

4 Revaluation reserves
5 Profit or loss brought forward
6 Profit or loss for the financial year

m) *Provisions*

Provisions are recognized if the company currently has legal or constructive obligation resulting from an event from the previous period and if it is likely that outflow of resources will be necessary to settle this obligation and if the amount of obligation can be reliably evaluated.

n) *Long-term liabilities*

Long-term liabilities are expressed in business books at their nominal value, based on a proven authentic document and an agreement on the creation of these liabilities. A liability whose due date is in the period exceeding one year from the balance sheet date is expressed as a long-term liability.

A liability that was initially expressed as long-term liability, and it becomes due completely or in part within one year from the initial recognition on the balance sheet date, is expressed as short-term liability.

o) *Short-term liabilities*

Short-term liabilities are expressed separate from long-term liabilities, and they include liabilities whose due date, with respect to their occurrence or balance sheet date, is within one year. The recording of short-term liabilities is expressed at the nominal value from the accounting document, which has been revised, and which shows that a business change has occurred.

p) *Deferred payment of costs and income for the future period*

Within deferred payment of costs, accrued costs that have not become due are expressed.

State aid regarding the procurement of long-term tangible assets is included in liabilities as the income for the future period from state aid, and it is accounted for in the Profit and Loss Statement parallel to the depreciation of assets compensated by the aid.

q) *Revenue*

Revenue is gross increase of economic benefit during the period resulting from regular activities of companies, when this increase results in the increase of principal, except increases in connection with investments by the owner.

Pursuant to regulations, operating revenue is recognised upon the delivery of products or services, or provision of services at invoice value, when material risks and benefits from ownership are transferred to the customer, reduced by approved discounts and taxes.

r) *Expenses*

Expenses are a decrease of economic benefit during the period in form of an outflow or exhaustion of assets or increase of liabilities resulting in the reduction of principal, except for decrease in connection with distribution of principal to principal participants.

Operating costs contained in realised services, or delivered goods, consist of all costs incurred with respect to the invoiced realisation.

s) *Current and investment maintenance*

The costs of current and investment maintenance of tangible assets are compensated from the income of the current accounting period. Reconstruction and adaptation changing the capacity or purpose of fixed assets are accounted for or expressed as an increase in the value of tangible assets.

t) *Revenue from interest*

The interest accrued on receivables from business relations is expressed in the Profit and Loss Account as financial revenue when it is realised.

u) *Interest as expenses*

Interest arising from liabilities, charged until the balance sheet date, is expressed in the Profit and Loss Account as financial expenses.

If the company has long-term assets that meet the criteria of qualifying assets according to the IAS 23 - Borrowing costs, the relevant interest costs are not expressed as expenses for the period, but they increase the value of qualifying long-term assets.

v) *Conversion of foreign means of payment and accounting treatment of exchange rate differences*

All assets and liabilities in currencies different from the functional value of individual companies are converted according to the middle exchange rate of the local national bank valid on the balance sheet date.

Negative exchange rate differences, or positive exchange rate differences resulting from the conversion of all assets and liabilities in foreign currencies into functional currency are expressed in the Profit and Loss Account within financial expenses and revenue.

All positions of balance sheets of foreign subsidiaries are converted into the reporting currency (HRK) according to the middle exchange rate of the Croatian National Bank valid on the balance sheet date.

All positions of Profit and Loss Accounts of foreign subsidiaries are converted into reporting currency (HRK) according to the middle exchange rate of the Croatian National Bank for the functional value of foreign subsidiary.

w) *Corporate income tax*

The amount of corporate income tax for the period consists of current and deferred taxes.

The amount of corporate income tax is calculated pursuant to the tax act of the country of registered office of each company within JGL Group.

x) *Goodwill and excess of acquisitor's share in net fair value of assets (negative goodwill)*

Goodwill resulting from consolidation represents the excess of acquisition cost above the company's share in the fair value of recognisable assets, liabilities and unforeseen liabilities of an associated company, subsidiary or entity jointly controlled on the acquisition date. Goodwill is *expressed within long-term intangible assets.*

Negative goodwill resulting from consolidation represents the excess of the company's share in the fair value of recognisable assets, liabilities and unforeseen liabilities of an associated company, subsidiary or entity jointly controlled above the acquisition costs. Negative goodwill is expressed within profit brought forward.

y) Deferred tax assets

Deferred tax assets are recorded for temporary tax differences in the amount of valid corporate income tax rate in the accounting year.

5 LONG-TERM ASSETS

a) Long-term intangible and tangible assets (fixed assets)

Long-term intangible and tangible assets are expressed as follows:

	Real estate (land and buildings)	Equipment and machinery, power tools, 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 assets on 31st December 2014	95.164.859	123.767.884	608.920	187.995.969	407.537.632	85.436.416
Current value of assets on 31st December 2013	76.529.367	105.428.565	614.080	111.848.170	294.420.182	83.551.992

In the year 2012, the investments of the Parent Company in the Svilno 2 project - construction of new production plant began at the Svilno site, Rijeka. Therefore, the most significant increases in long-term assets are related to this project in 2014 as well. The amount of HRK 85.207.538 was allocated for the construction of the new production plant Svilno 2 in 2014 (HRK 27.866.448 was allocated in 2013).

In 2014, pursuant to the International Accounting Standard 23 – "Borrowing costs", the value of buildings within Svilno 2 project increased by HRK 4.657.220 of regular and privileged interest costs (HRK 3.727.103 in 2013) and loan fees in the amount of 143.654 (HRK 187.180 in 2013), notes 16 and 18.

The assessment of lifespan of office furniture was made at the Parent Company in 2014, and it was established that the lifespan of 5 years was underestimated and that the actual lifespan was 10 years. Consequently, depreciation rate was reduced from 20% to 10%. The change in depreciation rate resulted in lower depreciation of furniture in the amount of HRK 263.184 with respect to the previous period.

A decision on change was made at the Parent Company during 2014 regarding the reduction of limit for accounting distinction between small inventory and long-term assets from HRK 3.500 to HRK 1.000. The effect of this change in limit was a reduced cost of write-off of small inventory and an increased cost of depreciation, which produces a net reduction of costs in the amount of HRK 568.385 with respect to the previous period.

The total effect of the said changes amounts to HRK 831.569 less in stated costs for 2014 with respect to the previous period.

Intangible assets mostly refer to licences, investments into development projects and goodwill.

b) <u>Investment property</u>

In 2014, the Parent Company performed additional reclassification of part of the property pursuant to the International Accounting Standard 40 - Investment property. The assessment of fair values of property was conducted, and it was reclassified according to the International Accounting Standard 40 - Investment property. The value of property recorded in the position "Investment property" on 31 December 2014 amounted to HRK 4.225.123 (HRK 2.490.056 in 2013).

c) <u>Advance payments for long-term tangible assets</u>

Advance payments for long-term tangible assets amounted to HRK 8.252.606 on 31 December 2014 (HRK 12.686.711 in 2013), and they include advance payments paid for plants, equipment and means of transport. The amount of HRK 7.508.242 represents the advance payment given to the company FERRETTO GROUP Spa for the delivery of equipment, which amounts to 70% of the contracted price.

d) <u>Long-term financial assets</u>

Long-term financial assets include participating interests (shares) and investments calculated using the equity method.

Participating interests (shares) consist of investments into:

	2013	*2014*
	in HRK	*in HRK*
Kanal Ri d.o.o.	*785.000*	*845.000*
Kvarner Vienna Insurance Group d.d., Rijeka	*337.575*	*337.575*
Menadžer d.o.o.	*7.572*	*7.572*
RI Novine d.o.o.	*10.000*	*10.000*
Situation on 31 December	*1.140.147*	*1.200.147*

The investment in the associated company Galena d.o.o. was recorded using the equity method and it amounted to HRK 312.290 on 31 December 2014 (HRK 585.805 in 2013 which also includes the investments in the company Andros d.o.o. that merged with Pablo d.o.o. Rijeka in 2014).

e) <u>Long-term receivables</u>

Long-term receivables amount to HRK 36.881 and they refer to the receivables of the company Farmis d.o.o. Sarajevo, while the receivables amounted to HRK 75.256 in 2013 and they referred to the receivables of the company JGL NORTH AMERICA LLC.

f) <u>Deferred tax assets</u>

Deferred tax assets include corporate income tax liability to the amount of temporary tax *differences for provisions for honorary awards and severances and temporarily unrecognised value adjustment for assessed unpayable receivables.*

Deferred tax assets include:

	2013 in HRK	2014 in HRK
Reservations for jubilee awards and severance pay	*202.597*	*188.189*
Value adjustment of receivables from Ukrainian customers	*4.561.089*	*657.319*
Situation on 31st December	*4.763.686*	*845.508*

6 SHORT-TERM ASSETS

a) Inventory

Inventory consists of:

	2013 in HRK	2014 in HRK
Raw material and consumables	*61.720.883*	*51.110.167*
Materials in production	*0*	*228.095*
Finished products	*60.778.389*	*100.558.468*
Goods	*24.370.283*	*23.468.072*
Long-term assets for sale	*26.027.297*	*29.263.514*
Situation on 31st December	*172.896.852*	*204.628.316*

Finished goods inventory amounted to HRK 100.558.468 in 2014 (HRK 60.788.389 in 2013). The appreciation of finished goods inventory in the amount of HRK 39.780.079 occurred because finished goods were not delivered to the Russian market at the end of 2014, note 16.

Long-term assets intended for sale are expressed pursuant to IFRS 5 Non-current assets held for sale and discontinued operations. This position records equipment intended for sale and property whose active sale is continued in 2015.

b) Receivables:

Receivables include: trade receivables, receivables from affiliated undertakings, receivables from participating undertakings, receivables from employees, receivables from the Government and other institutions and other receivables.

Trade receivables refer to:

	2013 in HRK	2014 in HRK
Buyers in the country	*116.962.132*	*91.382.186*
Buyers abroad	*289.930.869*	*226.347.104*
Situation on 31 December	*406.893.001*	*317.729.290*

Due to political situation in Ukraine, the Parent Company recorded the correction of overall receivables from Ukraine customers in 2013, reduced by the amount insured with the Croatian Credit Insurance. The value correction of receivables of Ukrainian customers amounted to HRK 22.805.444 in 2013. During 2014, HRK 19.518.849 was collected out of the said amount.

Receivables from employees amounted to HRK 41.987 (HRK 62.436 in 2013).

Receivables from the Government and other institutions amounted to HRK 22.820.460 (HRK 14.182.613 in 2013).

Other receivables include:

	2013 in HRK	2014 in HRK
Receivables on advances	718.878	13.047.395
Other receivables	15.713	7.877
Receivables on indemnification of damage	1.013.465	902.443
Situation on 31 December	1.748.056	13.957.715

Increase of receivables for advance payments mostly refers to receivables for advance payments for finance lease in the amount of HRK 11.330.623 (HRK 0 in 2013).

c) Short-term financial assets

Short-term financial assets consist of: loans given to affiliated undertakings, receivables for investments in securities, given loans and deposits.

Loans given to affiliated undertakings are expressed in the amount of HRK 98.000, which refers to the loan to the associated company Galena d.o.o. Rijeka (HRK 278.000 in 2013).

Receivables for received securities are expressed in the amount of HRK 1.006.678 (HRK 1.460.380 in 2013), and they refer to the receivables due to received bills of exchange, cheques by citizens and receivables from business card issuers.

Given loans and deposits are expressed in the amount of HRK 686.328 (HRK 4.176.529 in 2013).

Other financial assets consist of receivables under forward contracts in the amount of HRK 20.886.106 (HRK 0 in 2013).

d) Cash at bank and in hand

Cash at bank and in hand amounted to HRK 23.655.128 on 31 December 2014 (16.842.759 in 2013), and it refers to funds in transfer accounts and foreign-exchange and non-resident accounts, cash in hand and foreign-exchange cash in hand.

7 PREPAID EXPENSES AND ACCRUED INCOME

Prepaid expenses in the amount of HRK 5.760.348 (HRK 7.850.740 in 2013) refer to *interest for lease charged in advance, registration costs paid in advance and other prepaid expenses.*

8 CAPITAL AND RESERVES

Share capital of the Parent Company amounts to HRK 117.908.000 and it is divided into 1.179.080 shares with a nominal value of HRK 100 each, namely A series 7.500, B series 30.000, C series 18.750, D series 8.500, E series 524.790 and F series 589.540 items.

On 3 April 2014, a new issue of shares was registered at the Commercial Court - D series in the amount of 6.440 shares (the payment was made on 27 March - 1 April 2014 in the amount of HRK 3.496.920), based on the Resolution of the General Meeting of the Parent Company.

On 2 July 2014, a new issue of shares was registered at the Commercial Court - F series, increase of share capital from reinvested profit in the amount of HRK 58.954.000. For each of existing shares, 1 share of reinvested profit was issued, pursuant to the Resolution of the General Meeting of the Parent Company.

Ownership structure on 31 December 2014.

Name and Surname	Number of shares	% in capital
Ivo Usmiani	366.924	31,12
Zdravko Saršon	235.196	19,95
Marina Pulišić	53.096	4,50
Grozdana Božić	29.282	2,48
Sanja Vujić Šmaguc	25.000	2,12
Vesna Črnjarić	24.862	2,11
Đurđica Miletović Forempoher	19.800	1,68
Majid Hejja	14.600	1,24
Radmila Načeta	12.000	1,02
JGL d.d.	24.828	2,11
Minority shareholders (200 persons)	373.492	31,67
TOTAL	1.179.080	100,00

Source: JGL

At the beginning of the period, the Parent Company owned 4.138 of own shares. Until the reinvestment process, the Parent Company acquired 970 more own shares. In the reinvestment process, for each own share, 1 new share was assigned. Until the end of the period, the Parent Company acquired 14.612 more own shares. In the course of 2014, the number of own shares increased by 20.690 own shares, after which the portfolio included 24.828 own shares on 31 December 2014.

In the course of 2014, none of own shares was assigned to the members of the Executive Board free of charge (2.500 in 2013).

In accordance with the provisions of the Companies Act, the Parent Company formed reserves for own shares which amounted to HRK 8.110.811 on 31 December 2014 (HRK 2.269.752 in 2013).

Legal and other reserves are created in accordance with the Companies Act and the Articles of Association of JGL d.d., Rijeka. Legal reserves amounted to HRK 6.000.000 on 31 December 2014 (HRK 3.000.000 in 2013). Other reserves amounted to HRK 2.140.779 on 31 December 2014 (HRK 2.140.779 in 2013).

By the resolution of the General Meeting of the Parent Company, the total of HRK 10.519.776 (HRK 5.811.000 in 2013) was allocated for dividend from profit brought forward generated after 2005, to the holders of A, B, C, D, E and F series regular shares, in the amount of HRK 9 per share with dividend rights.

Net profit of the Group amounted to HRK 10.478.572 in 2014 (HRK 71.113.857 in 2013) and it represents the profit generated according to the Profit and Loss Account. Net profit per share amounted to HRK 9 on 31 December 2014 (HRK 123/share in 2013).

9 PROVISIONS

The Company abolished part of provisions for risks and expenses at the end of the year.

Provisions for the costs of honorary awards and severances amounted to HRK 940.947 on 31 December 2014 (HRK 1.012.986 in 2013).

10 LONG-TERM LIABILITIES

After the initial recognition, the Group measures long-term liabilities at depreciated cost using the effective interest rate method.

Long-term liabilities of the Group consist of:

- *Liabilities towards banks and other financial institutions,*
- *Liabilities arising from securities.*

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

Long-term liabilities towards banks and other financial institutions amount to HRK 221.437.161 (HRK 186.978.661 in 2013).

Liabilities for long-term finance lease consist of several finance lease agreements whose subject is goods vehicles, clean room system, machines for the production and packaging of drugs, analytical equipment, laser barcode scanner, eye drop production system, sterilizer, etc.

Current maturity of long-term liabilities arising from finance lease agreements becoming due for refund in 2015 is described in note 11.a.

Overview of the status of liabilities for long-term finance lease on 31 December 2014 in parallel with the status on 31 December 2013 is shown in the table below:

	2013 in HRK	2014 in HRK
Erste & Steiermarkische S-leasing	1.929.367	3.858.653
Hypo leasing		8.019.922
OTP leasing		640.526
PBZ leasing d.o.o.	6.762.286	3.622.078
Raiffeisen leasing		6.711.189
Porsche leasing	58.719	26.616
SG leasing		2.022.636
Unicredit leasing Croatia d.o.o.	1.161.320	1.632.110
Situation 31st of December	9.911.692	26.533.730

Liabilities toward banks arising from long-term loan agreements amounted to HRK 194.903.431 on 31 December 2014 (177.066.969 in 2013).

The abovementioned long-term loans refer to the Loan programme for financing exporters and Loan programme for financing economy from the funds of Croatian Bank for Reconstruction and Development, and long-term loans invested into equipment.

Current maturity of long-term liabilities arising from short-term and long-term loan agreements with banks is described in note 11.a.

Overview of the status of long-term loans on 31 December 2014 in parallel with the previous year is shown in the table below:

	2013 in HRK	2014 in HRK
Erste & Steiermarkische Bank	37.949.511	18.661.688
SocieteGenerale-Splitska banka	21.587.032	12.432.308
Croatian bank for Reconstruction and Development	75.517.595	149.189.474
Privredna banka Zagreb	42.012.831	4.619.961
Raiffeisen banka		10.000.000
Situation 31st of December	177.066.969	194.903.431

b) Liabilities arising from securities

Liabilities arising from securities amounted to HRK 139.780.667 on 31 December 2014, and they include liabilities for issued long-term bonds (HRK 139.612.667 in 2013).

The Parent Company issued bonds in the amount of HRK 140.000.000 on 20 April 2011 on the basis of Information Memorandum that was not the subject of HANFA's approval, since it was exempted from disclosure pursuant to Article 351, paragraph 1, item 3 of the Capital Market Act, because the offer of Bonds was addressed to investors who paid the amount of at least EUR 50.000 for subscribed bonds.

On 3 November 2011, HANFA issued a Decision CLASS: UP/I-451-04/11-12/5 REG. NO.: 326-111/11-8, approving the unique prospecture for listing 140.000.000 bonds, designation JDGL-O-166A, registered, in non-materialised form, denominated in HRK 1 with variable interest rate, with due date on 10 June 2016, on a regulated market.

The interest rate of 4,80% was established for the period from 9 June 2013 to 10 June 2014. The interest rate amounted to 4,25% in the period from 10 June 2014 to 9 June 2015.

The Parent Company paid HRK 6.720.000 for accrued interest during 2014 (HRK 8.641.500 in 2013).

c) Deferred tax liability

Deferred tax liability consists of the liability for corporate income tax to the amount of estimated fair value of pharmaceutical licences for pharmacies taken over. Deferred tax liability amounted to HRK 4.499.600 on 31 December 2014 (HRK 0 in 2013).

11 SHORT-TERM LIABILITIES

Short-term liabilities of the Group consist of:

- *Liabilities towards banks and other financial institutions,*
- *Liabilities for advance payments,*
- *Liabilities towards suppliers,*
- *Liabilities arising from securities,*
- *Liabilities towards employees,*
- *Liabilities for taxes, contributions and similar charges,*
- *Liabilities due to share in result,*
- *Other short-term liabilities.*

a) <u>Liabilities towards banks and other financial institutions</u>

Short-term liabilities towards banks and other financial institutions amounted to HRK 175.461.905 on 31 December 2014 (HRK 117.742.346 in 2013).

Liabilities for finance lease amounted to HRK 9.567.824 on 31 December 2014, and it amounted to HRK 5.745.932 in the preceding year.

The next overview shows the condition of liabilities on 31 December 2014 per individual leasing companies:

	2013 in HRK	*2014 in HRK*
Erste & Steiermarkische S-leasing	*2.304.346*	*1.967.344*
Hypo leasing	*0*	*2.053.748*
OTP leasing	*0*	*144.233*
PBZ leasing d.o.o.	*2.994.685*	*3.161.306*
Raiffeisen leasing	*0*	*1.329.233*
SG leasing	*0*	*374.897*
Unicredit leasing Croatia d.o.o.	*411.957*	*450.620*
Unicredit leasing d.o.o. Sarajevo	*34.944*	*86.443*
Situation on 31st of December	*5.745.932*	*9.567.824*

These liabilities refer to the current maturity of long-term liabilities for finance lease for 2015: The subject of lease financing includes goods vehicles, clean room system, machines for the production and packaging of drugs, analytical equipment, laser barcode scanner, eye drop production system, sterilizer, etc.

Liabilities toward banks and card companies amounted to HRK 165.894.081 on 31 December 2014 (111.996.414 in 2013).

The next overview shows the condition of liabilities on 31 December 2014 towards individual banks, card companies and the amount of liabilities for compensation:

	2013 in HRK	2014 in HRK
Erste & Steiermarkische Bank	*13.431.586*	*34.991.645*
CBRD	*0*	*1.162.472*
Hypo Alpe – Adria bank d.d.	*10.118.355*	*7.669.101*
Podravska banka	*0*	*10.000.000*
Primorska banka	*0*	*5.056.571*
Privredna banka Zagreb	*37.449.920*	*48.941.517*
Raiffeisen bank d.d.	*27.788.926*	*25.375.129*
Sber bank	*0*	*22.984.413*
Slatinska banka	*10.000.000*	*0*
SocieteGenerale-Splitska banka	*12.123.730*	*9.172.056*
Liabilities for credit cards	*103.618*	*45.596*
Liabilities for fees	*980.279*	*495.581*
Situation on 31st of December	*111.996.414*	*165.894.081*

Said liabilities towards banks refer to current maturity of long-term loan liabilities, short-term loans for the procurement of tangible assets, working capital, financing property within Svilno 2 project and maintaining liquidity.

b) <u>Liabilities for advance payments</u>

Liabilities for customers' advance payments amounted to HRK 367.059 on 31 December 2014 (657.415 in 2013).

c) <u>Liabilities towards suppliers</u>

Liabilities towards suppliers include:

	2013 in HRK	2014 in HRK
Suppliers in the country	*90.426.715*	*95.710.590*
Suppliers abroad	*47.697.624*	*60.121.684*
Situation on 31st of December	*138.124.339*	*155.832.274*

d) <u>Liabilities arising from securities</u>

Liabilities arising from securities amounted to HRK 1.900.000 on 31 December 2014 (HRK 3.320.000 in 2013), and they refer to issued bills of exchange.

e) <u>Liabilities towards employees</u>

Liabilities towards employees amounted to HRK 4.563.598 on 31 December 2014 (HRK 14.453.065 in 2013). These liabilities include liabilities for net salary and allowances for December, refund for transportation, paid sick days, separation allowance and liabilities for suspension of payment. Annual awards and bonuses were not calculated in 2014, while they were calculated in 2013.

f) Liabilities for taxes, contributions and similar charges

Liabilities for taxes, contributions and similar charges amounted to HRK 7.185.494 on 31 December 2014 (HRK 18.945.942 in 2013). Said liabilities include liabilities for taxes and contributions from and to personal income, liabilities for corporate income tax, liabilities for withholding tax and value added tax.

g) Liabilities due to share in result

Liabilities due to share in result amounted to HRK 26.400 on 31 December 2014 (HRK 21.000 in 2013).

h) Other short-term liabilities

Other short-term liabilities refer to the following:

	2013 in HRK	2014 in HRK
Liabilities for members of the Supervisory Board	29.787	29.879
Liabilities for cession, assignation and similar	196.542	730.653
Liabilities for the pension fund	18.100	21.100
Other short term liabilities	60.306	2.229
Situation on 31 December	304.735	783.861

12 EMPLOYEE BENEFITS

In course of regular business operations, regular payment of contributions is performed along with the payment of salaries on behalf of its employees. Mandatory pension contributions paid to funds are expressed as part of salary expense upon their calculation. Liabilities for non-taxable benefits, supports and awards are recognized in the period in which they are realised.

13 DEFERRED PAYMENT OF COSTS AND INCOME FOR THE FUTURE PERIOD

Deferred payment of costs and income for the future period amounted to HRK 22.633.544 (HRK 16.916.584 in 2013), of which HRK 3.848.854 (HRK 4.266.178 in 2013) refers to calculated non accrued interest from bonds and loans, HRK 5.248.627 to deferred payment of costs (HRK 5.345.589 in 2013), HRK 1.537.497 to deferred income from state aid for grants (HRK 1.643.469 in 2013), HRK 11.955.733 to deferred income with privileged interest from state aid under HBOR loan (HRK 5.661.348 in 2013) and HRK 42.833 to other income for the future period (HRK 0 in 2013).

14 OFF-BALANCE ENTRIES

Off-balance entries amounted to HRK 352.302.753 in 2014 (HRK 83.670.947 in 2013), and they refer to records of approved credit lines, agreed transactions with financial derivatives, received letters of credit from customers, received bank guarantees, given bank guarantees, letters of credit given to foreign suppliers and received loans.

Given bank guarantees, given letters of credit and received short-term loans cause spending of credit lines

15 OPERATING REVENUE

Operating revenue includes:

	2013 in HRK	*2014 in HRK*
Revenue from sales	*823.467.585*	*687.823.011*
Other revenue	*26.491.091*	*50.244.364*
Total	*849.958.676*	*738.067.375*

Other operating revenue mostly refers to revenue from subsequently collected unrecognised adjustments, revenue from financial approvals and revenue based on use of own products and services. Other operating revenue, to a lesser extent, also refers to revenue from grants and subsidies, surpluses and sale of long-term assets.

Revenue from subsequently collected unrecognised adjustments amounted to HRK 20.030.706 in 2014 (HRK 704.150 in 2013) of which HRK 19.518.849 refers to uncollected receivables from Ukrainian customers that were corrected in 2013.

Revenue from subsequently approved financial approvals amounted to HRK 15.060.585 in 2014 (HRK 16.659.483 in 2013). It mostly refers to the approvals for trade goods.

Ordinance on amendments to the Ordinance on the structure and contents of financial statements (OG 130/2010) abolished the position Revenues based on the use of own products, goods and services, and they are therefore displayed in the position Other operating revenues in the amount of HRK 5.628.580 (HRK 5.691.236 in 2013).

16 OPERATING EXPENSES

Operating expenses include:

	2013 in HRK	*2014 in HRK*
Change in inventory of finished goods	*-271.703*	*-40.008.174*
Cost of material, energy and small inventory	*191.460.605*	*188.634.310*
Costs of goods sold	*144.214.420*	*139.383.511*
Costs of services	*156.573.555*	*157.956.618*
Employee costs	*176.235.128*	*155.606.434*
Depreciation	*26.081.355*	*29.096.003*
Other costs	*35.519.816*	*33.967.098*
Value adjustment of short-term assets	*23.655.058*	*995.881*
Reservations	*95.645*	*0*
Other business expenditures	*11.497.211*	*14.920.377*
Total	*765.061.090*	*680.552.058*

Change in the value of work in progress and finished goods inventories amounted to HRK -40.008.174 (HRK -271.703 in 2013) which mostly resulted from the appreciation of finished goods inventories at the Parent Company (HRK 39.780.079). Such a large increase is a result of sudden devaluation of ruble in December 2014. Due to contractual provisions and customs regulations in Russia, it was not possible to modify prices in a relatively short period of time, so the company did not deliver its goods to Russia in December. Consequently, there was a large increase in the finished goods inventory, and therefore a change in the value of inventory in the profit and loss account.

Discontinuation of deliveries in December lead to intensified sale in the first two months of 2015 with respect to the same period last year.

Pursuant to IAS 23, costs of loan fees in the amount of HRK 143.654 have been transferred to qualifying long-term assets (027 - property and buildings in preparation). The amount of transferred costs of loan fees to qualifying assets amounted to HRK 187.180 in 2013.

Value adjustment amounted to HRK 995.881 in 2014 (HRK 23.655.058 in 2013, of which adjustment of receivables of Ukrainian customers amounted to HRK 22.805.444).

17 FINANCIAL REVENUE

Financial revenue includes:

	2013 in HRK	2014 in HRK
Interest revenues	200.493	235.958
Revenues from exchange rate differences	21.698.353	49.882.822
Revenues from dividend	4.755	22.866
Other financial revenue	0	749.630
Revenues from increase of value of property (IAS 40) and financial derivatives	0	21.290.738
Total	21.903.601	72.182.014

Revenue from exchange rate differences amounted to HRK 49.882.822 (HRK 20.683.648 in 2013). Out of this amount, HRK 37.059.989 (HRK 9.519.513 in 2013) falls within positive exchange rate differences per non resident accounts in foreign representative offices, which is a result of reducing daily debit and credit turnover of non resident accounts to the exchange rate on 31 December 2014.

The position Other financial revenue shows realised revenue from financial derivatives - forward in the amount of HRK 749.630 (HRK 0 in 2013).

The position Unrealised revenue from the increase of fair property value pursuant to IAS 40 and financial derivatives shows unrealised revenue in the amount of HRK 21.290.738 (HRK 0 in 2013), of which HRK 20.886.106 falls within unrealised revenue from financial derivatives - forward.

18 FINANCIAL EXPENSES

Financial expenses include:

	2013 in HRK	2014 in HRK
Interest expenditures	*17.728.656*	*18.025.374*
Expenditures from exchange rate differences	*21.847.565*	*95.539.967*
Other expenditures	*0*	*82.630*
Expenditures from decrease in value of property (IAS 40) and financial derivatives	*0*	*602.228*
Total	*39.576.220*	*114.250.199*

Pursuant to IAS 23, the costs of regular and privileged loan interest in the amount of HRK 4.657.220 (HRK 3.097.941) have been transferred to the qualifying long-term assets (027 - property and buildings in preparation).

Expenses from exchange rate differences amounted to HRK 95.539.967 (HRK 21.847.565 in 2013). Out of this amount, HRK 52.398.706 (HRK 4.926.707 in 2013) falls within negative exchange rate differences from receivables from foreign customers . The Parent Company started invoicing goods to Russian customers in ruble in the current year. Taking into consideration that the sale to Russian customers is dominant in the company's sale, such a rapid growth of negative exchange rate differences is the result of strong devaluation of Russian ruble, especially in the last quarter of 2014.

Out of the total amount of expenses from exchange rate differences, HRK 37.303.935 (HRK 9.519.513 in 2013) falls within negative exchange rate differences per non resident accounts in foreign representative offices of the Parent Company, which is a result of reducing daily debit and credit turnover of non resident accounts to the exchange rate on 31 December 2014. The remaining part of negative exchange rate differences refers to exchange rate differences from loan liabilities, liabilities towards foreign suppliers, foreign-exchange accounts, etc.

The position Unrealised expenses from the decrease of fair property value pursuant to IAS 40 and financial derivatives shows unrealised expenses in the amount of HRK 602.228 (HRK 0 in 2013), of which the total amount refers to unrealised expenses from the decrease of fair property value.

19 SHARE IN PROFIT FROM AFFILIATED UNDERTAKINGS

The Parent Company participated in the profit of the associated company Galena d.o.o. with HRK 76.485 in the course of 2014 (HRK 85.300 in 2013).

20 CORPORATE INCOME TAX

Liabilities for corporate income tax are calculated for each company individually, based on positive legal regulations in the country of registered office of the company at the rate of 20% in Croatia, 17% in Slovenia, 15% in Serbia and 10% in Bosnia and Herzegovina.

In 2014, the Group generated profit before taxation in the amount of HRK 15.523.617 (gross profit amounted to HRK 67.310.267 in 2013).

The Parent Company was assigned the status of beneficiary of incentive measures in 2009 pursuant to the Act on Investment Promotion and it uses tax reliefs in the form of reduced corporate income tax rate, which amounts to 7%. This tax incentive was used entirely in the calculation of corporate income tax for 2014.

The Ministry of Economy awarded the status of beneficiary of incentive measures to the Parent Company for the Svilno 2 project pursuant to the Act on Investment Promotion on 26 February 2014. The Parent Company uses tax incentives in the form of reduced corporate income tax rate which amounts to 0%.

When calculating corporate income tax for 2014, the tax incentive on the basis of both incentives was used in the amount of HRK 2.729.344 (HRK 7.731.358 in 2013).

The Parent Company abolished HRK 3.918.178 of deferred tax assets in 2014 based on uncollected receivables arising from previously temporarily unrecognised tax differences. Deferred tax assets were formed in the amount of HRK 4.580.218 in 2013, based on temporary tax differences arising from the provision of costs for honorary awards and severances and on unrecognised value adjustment of undue receivables from customers on the Ukrainian market.

The Parent Company used the tax incentive in 2014, and by the application of 0% tax rate, it reduced the actual tax liability to HRK 0. The abolishment of deferred tax assets in the amount of HRK 3.918.178 reduced the gross profit for the period. The determined tax liability of other companies amounted to HRK 1.126.867 in 2014 (HRK 776.628 in 2013).

Net profit of the Group amounted to HRK 10.478.572 (HRK 71.113.857 in 2013).

21 STATEMENT OF OTHER COMPREHENSIVE INCOME

The income for the period and comprehensive income are equal and they amount to HRK 10.478.572 (HRK 71.113.857 in 2013).

22 CASH FLOW STATEMENT

The cash flow statement was made using the direct method and it shows cash flow from business, investment and financial activities.

Cash flow from business activities shows an increase in the amount of HRK 65.834.075.

Cash flow from investment activities shows an increase in the amount of HRK 84.050.438.

Cash flow from financial activities shows an increase in the amount of HRK 25.028.732.

Total cash flow shows an increase in the amount of HRK 6.812.369 in 2014.

23 STATEMENT OF CHANGES IN EQUITY

The Statement of changes in equity for 2014 shows the total decrease in equity in the amount of HRK 4.212.141 (the increase in equity for the Group amounted to HRK 73.133.077 in 2013).

24 CONTINGENT LIABILITIES

No court proceedings have been initiated against the companies within the Group.

The Parent Company and subsidiaries are in co-debtor relation for liabilities from loans.

25 RISK MANAGEMENT

The companies are exposed to various financial risks in connection with currency, interest, loan and liquidity risks. The companies are monitoring the said risks and they are trying to reduce their potential effect on financial exposure of the company.

The companies are exposed to risks of foreign exchange rate fluctuations in procurement and sale denominated in foreign currencies. Foreign currency risk is present due to possible foreign exchange rate fluctuations. The dominant role of export in the company's sale results in the exposure to foreign currency risk, since foreign currency assets exceed the amount of foreign currency liabilities. The exposure to foreign currency risk is constantly monitored and hedge accounting is used as necessary. The decision on hedging depends on the currency in which the receivables are expressed and the type of hedge accounting as well as on its price.

The Parent Company started invoicing products to almost all Russian customers in Russian ruble in 2014. At the end of 2014, Russian ruble started to devalue and the Parent Company concluded forward contracts as a hedge against foreign currency risk. Even though such hedge is an expensive set of great interest differential, the conclusion of forward contracts turned out to be a good business decision, which is evidenced by the fact that the fair value of forward contracts amounted to HRK 20.886.106 on 31 December 2014. The Parent Company will keep using this hedge against foreign currency risk in accordance with best business practice.

The companies are exposed to foreign currency risk to a lesser extent since most of the loan debt has been contracted with a fixed interest rate.

The assets that potentially could expose the companies to credit risk include short-term financial assets, cash and trade receivables. Credit risk in connection with trade receivables is unlimited since these receivables are spread across various geographical areas and customers.

The Parent Company tries to protect itself by obtaining payment insurance instruments and by selecting customers based on the evaluation of their creditworthiness. For large customers on the Russian territory, the Parent Company has at its disposal insurance policies issued by HBOR, while major customers in other countries are covered by insurance policies issued by the Croatian Credit Insurance. The Parent Company has been continuously cooperating with the said partners on increasing the part of insured customers in the total amount of receivables.

Credit risk is also related to short-term financial assets, as well as to cash at bank. The companies protect themselves against the said risks through business banks, performing the rest of business activities through them as well, and these banks are among leading banks in the country of registered office and they posses satisfying levels of capital adequacy.

Liquidity risk manifests itself as the risk that the company will not be able to fulfil its obligations towards creditors. The companies protect themselves from liquidity risks through credit lines that enable easy and fast fulfilment of current need for liquid assets under previously arranged and known terms.

26 TRANSACTIONS WITH RELATED PARTIES

In 2014, the companies had transactions with related parties consisting of 15 members of key management and 1 procurator and members of Parent Company Supervisory Board.

Transactions with key management members are as follows:

	2013 in HRK	*2014 in HRK*
Contributions on salaries	*2.750.799*	*1.183.741*
Contributions from salaries and taxes	*8.638.792*	*3.034.491*
Net salaries	*9.260.524*	*4.282.212*
Total	*20.650.115*	*8.500.444*

Annual awards and bonuses to key management were not calculated in 2014.

Members of Supervisory Board and procurators received remuneration in the amount of HRK 916.560 in 2014 (HRK 891.746 in 2013).

27 EVENTS AFTER THE BALANCE SHEET DATE

The Parent Company signed the Loan Agreement with the European Bank for Reconstruction and Development for the amount of EUR 20.000.000 on 22 January 2015. The approved loan is intended for working capital, and it will be used to close loans at business banks, therefore this loan does not represent the increase of liabilities towards financial institutions. The loan is divided into two tranches, the first tranche in the amount of EUR 12 million will have a one-year grace period, after which 50% of the tranche will be repaid in semi-annual instalments until 2018, and the remaining 50% will be repaid in 2019. The second tranche in the amount of EUR 8 million is a revolving credit for 5 years, and it will be repaid completely in 2019, however this tranche needs to be repaid entirely for 2 weeks in June each year.

At the beginning of 2015, the Parent Company paid HRK 6.600.000 into capital reserves of its subsidiary Adrialab d.o.o Rijeka.

Jasmin Huljaj, CEO

LS

Dražen Jakšić, Executive Director

ANNUAL CONSOLIDATED REPORT ON THE STATUS AND RESULTS OF OPERATIONS OF JGL GROUP FOR 2014

RIJEKA, APRIL 2015

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

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

Previous period is period from January 2013 till December 2013, while Current period refers to a period from January 2014 till December 2014.

CONTENT

INTRODUCTION

Last year was one of the most challenging business year in the history of JGL. After years of propulsive growth, 2014 was marked by a significant decline in operating income and profit. The business was primarily influenced by the geopolitical and economic crisis which escalated to armed conflict in our key markets, Russia and Ukraine, resulting in a territorial separation of part of Ukraine. In very difficult circumstances, with reduced forces, thanks to the rapid measures taken - reducing the stock in the wholesalers and the consequent reduction in trade receivables, we managed to decrease the negative impact.

The operations in Croatia was affected by the drastic reduction in prices of medicaments, which, due to the structure of the portfolio, most affected domestic producers. With all other associated negative trends, including a constant decrease in consumer purchasing power, slow administration regarding regulations change and creation of a better business climate, after 23 years of continuous growth of revenues, in 2014 JGL had an income decrease of 8%.

Total revenues of Company JGL amounted to HRK 634.412.326,29 of which HRK 407.637.130,09 export revenues. Exports were mainly achieved in the key markets of the company, the CIS market, based on which JGL is still a company with a pronounced international prefix. Largely because of problems in Russian and Ukrainian market, the worsening company standing caused by the depreciation of the Russian ruble and Ukrainian hryvnia and the loss on exchange rate differentials, JGL ended last year with net profit of HRK 17.957.348,84 which is a decrease of 75% when compared to 2013.

Total revenue of the JGL Group in 2014 decreased by 7% and amounted to HRK 810.325.873,48. Last year net profit amounted to HRK 10.478.572,05, representing a drop of about 85% compared to 2013.

Despite a multi-year economic stagnation in Croatia, JGL continued with its investment cycle and employment.

The past 12 months were marked, above all, with three big investments, key strategic projects that carry the vision of the company. Svilno 2 - Pharma Valley, Adrialab and JGL Sopot are a part of the current investment upsurge that was accomplished by a multidisciplinary JGL team made from many departments of the company. One of the most important achievement is a continuation of "Pharma Valley" project, an extension to the existing production facility at Svilno. This will provide the company increased development, production and storage capacities which will ensure the realization of the planned sustainable, profitable growth for the next ten years or longer.

On the organizational plan, 2014 was marked by preparations for changing the organizational structure of the company, switching from a dualistic to a monistic model of corporate governance with the aim of contributing to a better implementation of the strategy. The plan was to change the entire organizational structure from functional to process organization in the central end-to-end processes, all with the aim of increasing efficiency, productivity and complying with our customer-oriented strategy. The Croatian market was the first market in which these changes were implemented. During this year it was organized by selected customer segments, and furthermore we focused on on strengthening customer relationships through a number of activities knowing that the key to good relations is good communication. We tried as much as possible to establish direct and honest dialogue and find out what their needs are. Improving the quality of the relationship remains our priority and our competitive advantage.

The most significant project in 2014 in Human Resources was the job description audit with the aim of optimizing work activities, achieving more clear understanding of the roles and responsibilities of each employee, all in order to avoid duplication of work. It consisted of a critical appraisal and revision of the key responsibilities and tasks of each position, with emphasis on its purpose, and taking into account the key and supporting processes of the company. It is the excellence of human resources management that is one of the main levers of JGL growth, with an emphasis on the continuous development and acquisition of new knowledge and skills. We are proud to be on the list of Top 5 Partner Employers for the third year in a row.

Last year we successfully participated and offered support in several cooperation projects. We would like to specially mention the cooperation with the Greek pharmaceutical company PHARMATHEN on development of drug Travoprost. Over 2500 series of final products were produced and received positive conclusion from six third party audits and eleven inspections of competent authorities / certification houses. During the 2014, a record number of audits was performed, a total of 17, which is 21% more than in 2013.

With a total of nine releases of prescription drugs in 2014, Prescritpion program continued the trend of complementing the broad portfolio of generic drugs. The past year was marked by the release of antibiotics, local antifungal drugs, anti-asthma drugs, oncology and antiglaucoma drugs, antipsychotics, antidepressants and painkillers.

Last year we celebrated the global number one position in the nose solution segment, marked the 15th anniversary of the release of Aqua Maris and production of the 100 millionth Aqua Maris product. We redesigned the product packaging, released new products and conquered new markets, confirm the continuity and quality through important awards and achievements.

We are enormously pleased that the interes for our portfolio is growing around the world and that the same causes commercial interest with partners such as Actavis, Sanofia, Gideon, Takeda and many other world pharmacutical leaders. Last year, the focus was on the EU countries, South East Asian Nations (ASEAN), China, the Middle East and North Africa (MENA) and Latin America. The result consists of successfully finalized negotiations, three signed and a dozen agreements in the making.

We are proud that we successfully continued cooperation with renowned multinational company for the project of licensing out products xylomethazoline + sea water (Meralys), nasal spray, and achieved the first export of Meralys on the EU market.

The continuatio of B2B licensing collaborations with companies in various regions, with the aim of capitalization of know-how and development of business models can bring new revenue which is one of the top-level goals of our strategy. This year we successfully licensed and released nine new drugs - Rhinorelief, Cefixime, Valeral, Montelux, Exemestane, Liorin, Fungilac, Moxacin and Tramadox.

The year was marked by the realization of significant licensing out project with a multinational company Actavis AG. The project is implemented for one product and in ten EU countries - Sweden, Norway, Finland, Denmark, Iceland, Bulgaria, Ireland, Romania, Slovakia and Switzerland.

In the previous year, we can be extremely proud that we received EU registration for Brimonidine eye drops in a very short time. DCP registration procedure included communication with a very respectable Medicines Agency of Denmark, France, Austria, Germany, Italy, Polish, Slovenian, Czech Republic, Slovakia, Spain and Portugal, where Brimonidine is now registered. After this experience, we can safely say that European markets are not unattainable, and that with our knowledge and expertize we can easily overcome regulatory requirements.

We can say that 2014 was the year with most regulatory procedures in the registration of our products. Total number of amendments which had been reported in all our markets exceeds the figure of 300 and the majority took place on the SEE markets.

This year will be remembered as the year of successful completion and implementation of the new Document management system, introduced to automate the documentation processes in JGL. In order to build a stable, fast and reliable information system numerous projects were carried out, such as: redesigning the network, designing the network infrastructure at the new location Svilno 2 and the development of its own data center, electronic ordering of raw materials, the central ordering of goods and services and building local intranet system to Microsoft Sharepoint platform.

During 2014, we received two Index DOP awards in the category Large companies. First we received in April and referred to the results and activities in 2012, while the second we received in December for the results achieved in 2013. The award was given by the Croatian Chamber of Economy and Croatian Business Council for Sustainable Development.

Our goals for 2015 are set within an ambitious strategic plan and based on penetrating new markets, increase of market share in existing markets and developing new products. According to current estimates, next year we expect 10% growth of revenue.

Our propulsive organic growth was always based on a developing and releasing new products and expansion into new markets. Thanks to the existing agreements and agreements in preparation, JGL will focus on large and fast-growing markets and key regions of the world - the Middle East, Western Europe, the United States, South America, China and Vietnam. In conclusion, according to our expectations over the next four business years we will be present in more than 50 markets worldwide. We remain committed to our long-term vision of becoming a global leader in the field of nasal decongestant and generic ophthalmic which requires exceptional technological and therapeutic expertize. We are continuously increasing production, development and storage facilities, as well as our core competencies, particularly with investments that are in progress. The year 2015 will be marked with important corporate projects, such as the continuation and conclusion of the largest investments in the company's history - Pharma Valley, the launch of the new production of spin-off company Adrialab - daughter company owned by JGL and focused on the production and promotion of traditional portfolio, and the new production in Serbia within daughter company JGL Beograd - Sopot.

Overall, the 2014 was a turning point in the context of restructuring and laying down the foundation for future sustainable profitable business and continued growth of income. We sincerely thank the employees who despite unpopular measures to reduce salaries during the last two months of the year, kept the enthusiasm and commitment without which these results would not have been possible. Also, we would like to thank the Supervisory Board, all shareholders, financial institutions and business partners JGL for the support and understanding. Hereby we present the report on the status and results of operations of the Group JGL for 2014.

JADRAN - GALENSKI LABORATORIJ d.d.[1] (JGL d.d.)

Ivo Usmiani, mr. pharm., spec.

Management Bord Member

Jasmin Huljaj, mr. pharm.

Chief Executive Officer

Dražan Jakšić, dipl. oec.

Chief Financial Officer

[1] *Pursuant to the changes of the Bylaws of JGL (Hereinafter the Company), up to 31 December 2014, the dualistic structure of the Company was in force, and Ivo Usmiani was the only member of the Management Board. From the date of 31 December 2014 on, the one-tier structure of the Company is active with the Chief Executive Officer and Executive Officers who jointly represent the Company and manage its operations.*

CORPORATIVE MANAGING

ORGANIZATION

Basic elements of JGL's organization or business system are: strategy management system (BSC), process map, organization structure, information system and internal and external system delivery. Development and management of JGL's business system includes the development and management of all mentioned elements. In between mentioned elements of the business system there exists a co-dependence, as well as a causal conditioning of their evaluation.

Strategy management system is a foundation of the business system. In accordance with the long term business goals, strategy defines values and the way a business system should deliver them in the long run. That is why development objectives of the JGL's business system are defined within the strategic plan, alongside the long-term planning of business objectives. This kind of demand of the business system is formed through JGL's BSC system, which consists of strategic maps and BSC scorecards of related strategic objectives.

All values planned by the JGL's strategy, are delivered by the processes. Due to that fact, process map of the company occupies a central position within the JGL's business system. Processes present a dynamic perspective on the business system, while other elements of the business system present a static perspective. Processes are supported by the adequate organization structure, that is, by the optimal organization of human resources. A rule is applied that organization structure must be oriented towards company's processes as much as possible, in order to ensure their utmost efficiency.

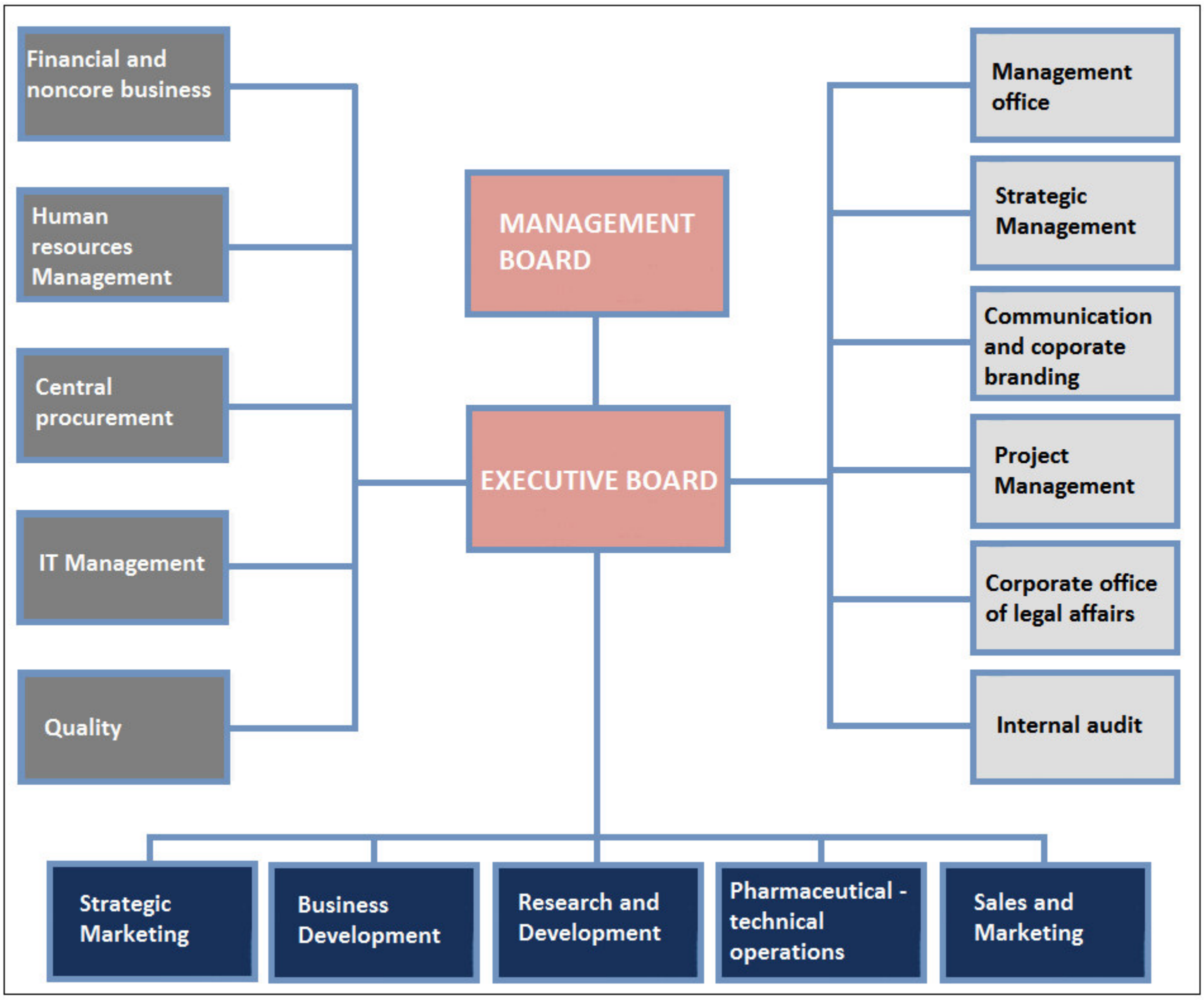
Just as organizations' structure, architecture of JGL's information system directly stems from the request for company's processes support. That is why a display of information flow is obligatory in the process description, alongside organization roles for making demands placed on the IT system (infrastructure and applications) easier to define.

STRUCTURE

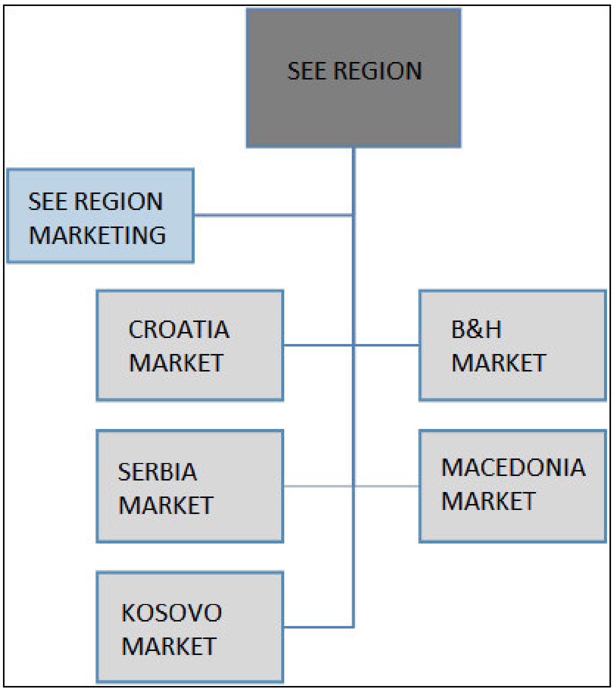
Up to 31 December 2014 there were no major structural changes in the organizational structure of the company. At the beginning of 2014, the Research and development department had a slight organizational change when compared to 2013. The processes of research and technological development were linked in order to increase their efficiency and R & D organization was divided into: Development of formulations and technological process, Development of analytical processes, Stability and R&D documentation and the R&D Office.

Shown below is the organizational structure in 2014, as well as structure of the SEE region (South East Europe), CIS region (The Commonwealth of Independent States) and Global Markets region.

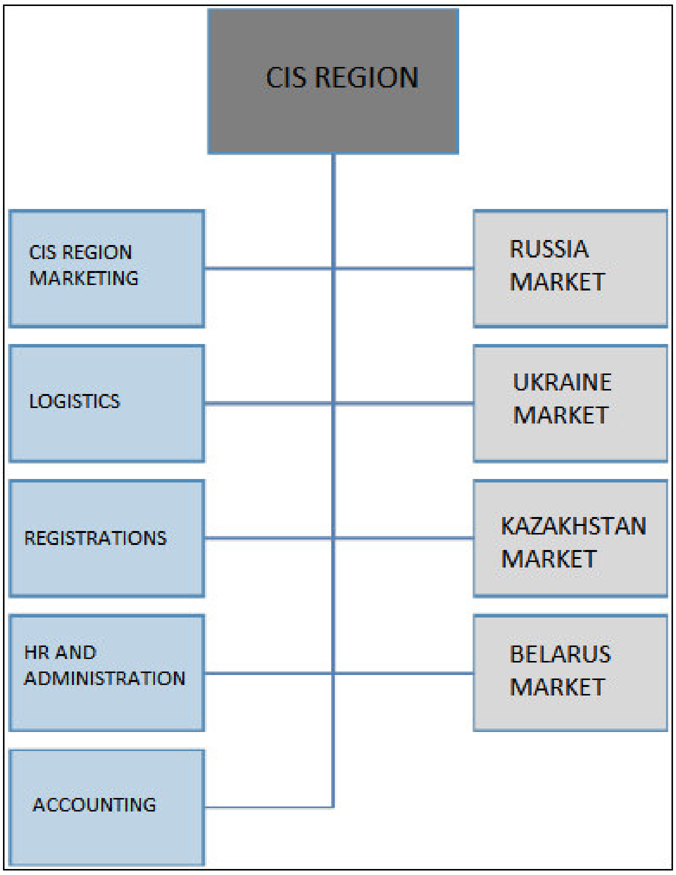
Organizational structure of company JGL in 2014



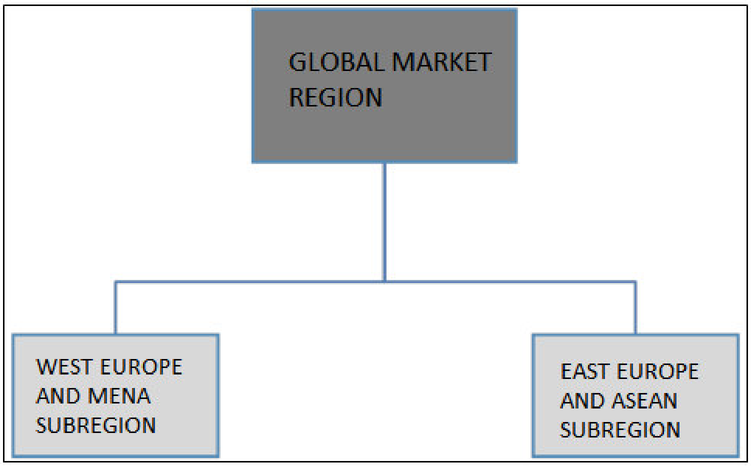
Organizational structure of SEE Region in 2014



Organizational structure of CIS Region in 2014



Organizational structure of Global market region in 2014



ORGANIZATION DEVELOPMENT

Speed, service, solutions fully adapted to customer needs and flexibility are the key terms which JGL considers in relation to further development of the company, which must succeed in new market conditions. The dynamics of change within the business environment leads to the need for new and more flexible organizational models.

In that context in the future JGL will turn even more to so called *cross-functional* organization formed around so called *end to end* process. Such approach, called horizontal or process organization, is to be applied to organization of resources which support company's Central (Core) processes, while functional or vertical management is to be retained for the organization of resources in support processes, requiring functional specialization.

MANAGEMENT SYSTEM

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

- **strategy development**
- **strategy planning**
- **organization alignment**
- **operation planning**
- **strategy realization monitoring**
- **strategy revision**

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

After strategic maps and related scorecards have been created at the higher organization level, strategic team performs the strategic alignment in the third stage, by cascading strategic maps and scorecards according to other strategically relevant organization segments. What follows is the alignment of employees through formal communication process and through connecting their personal business goals with the strategic objectives of the company.

After aligning organizational units and employees with the strategy, in the fourth stage JGL's management, in accordance with strategic inputs, creates operative plan through its basic components: planning of the improvements of strategically relevant processes, detailed prognosis of sales, resources capacity plan, creation of the budget for the operative expenses and capital expenditures.

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

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

DIRECTING, MANAGING, SUPERVISORY BODIES AND HIGHER MANAGEMENT

The Board of Directors manages the company, through its chief executive officer, appointed by the Supervisory Board. The Board of Directors is accountable to the Supervisory Board. At annual shareholders' meetings, the Supervisory Board presents the operation of the company from the previous period and informs stockholders about all matters crucial for the company's business, in accordance with the pre-determined agenda.

At the shareholders' meeting, company's CEO presents the company's annual report to stockholders, while all decisions and amendments, delivered to stockholders prior to the meeting, are discussed and determined. If necessary, stockholders are also provided information in writing or at a special meeting, should a specific situation require it.

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

Executive Board of the company is a multifunctional authority, encompassing directors of key business functions with adequate authority and executive power. It convenes on a determined basis and reviews pre-defined topics. The Board discusses vital strategic and operational corporate issues.

The Executive Board's primary role is to analyze business operations and to participate in decision making related to current company operation, as well as to define high-priority projects and activities. Key responsibilities include responsibility for business results, supervision of strategic plans, coordination and organizational units conflict handling, as well as making key decisions. Members of the Executive Board answer to the company's Board of Directors with regards the operation of organizational units under their direct management, as well as organizational units assigned to them based on a special decision of the Management Board.

Strategic Board (SB) is a multifunctional and multidisciplinary expert body that consists of experts with appropriate qualifications and authority to propose and develop strategies companies. Key responsibilities are recommendations and review of corporate strategy, review of potential acquisitions and / or strategic alliances; monitoring of strategic development of industry in which the company competes: assessment of key investments, project / production decisions or write-off of a specific business process of JGL Group; evaluations and recommendations of strategic key Research and Development projects, as well as communicating the strategy throughout the company.

Members of the Strategic Board (SB) are:

- **Members of the Executive board**
- **Directors of business functions,**
- **Key executives of business units, if necessary**

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

INFORMATION ON THE MANAGEMENT AND THE SUPERVISORY BOARD

Management Board’s role in the Company is essential for achieving the goals and improving the quality system in accordance with the policies of quality. The Management Board with its work gives an example to other employees.

President of the Management Board is Ivo Usmiani, mr. Pharm. spec.

The Company’s Supervisory Board consists of 5 members. Four members are appointed by the General Assembly, and one member is appointed by the employees in the manner and procedure prescribed by the Labour Act.

Members of the Supervisory Board, elected by the General Assembly are chosen from among experts in the fields relevant to the company's operations.

Members of the Supervisory Board from 27.10.2011 are:

- Zdravko Saršon, mr. pharm., president
- Eva Usmiani Capobianco, mr. spec., vice presidents
- Marina Pulišić, mag. pharm., member
- Grozdana Božić, dipl. iur., member

CHANGES IN ORGANIZATION ON 31.12.2014.

Dynamic and ever-changing business environment requires constant adaptation, change and continuous improvement of business processes. In order to ensure timely transition of the company, faster and better business decisions, business efficiency and competitiveness in the global market, JGL changed the organizational scheme from dualistic to one-tier system of corporate governance.

By the Companies Act and amendments of this act, in force since 1.10.2008., companies in Croatia have the right to choose between dualistic and one-tier system of corporate governance. JGL had a dualistic structure with the Management Board and Supervisory Board in charge. One-Tier structure is simpler and more transparent, its fundamental value is in the functional separation of management and control of operations.

On 31.12.2014 JGL transferred to the one-tier system of corporate governance in which the roles of management and control are integrated in the Management Board of the company. The Management Board appointed the Executive Directors who represent the company and manage its operations.

Members of the Management Board of JGL:

Ivo Usmiani, mr. pharm., spec. – President of the Management Board,
Zdravko Saršon, mr.pharm. – Deputy President of the Management Board,
Marina Pulišić, mr.pharm. – Member of the Management Board,
Grozdana Božić, dipl.iur. – Member of the Management Board,
Eva Usmiani Capobianco, mr. sc. – Member of the Management Board.

Members of the Executive Board of JGL:

Jasmin Huljaj, mr. pharm. – Chief Executive Director and Executive Director for Business Development and Customer Relationship Management
Sanja Vujić Šmaguc, mr. pharm. - Chief Executive Director deputy and Brands and Portfolio Management Executive Director
Dražen Jakšić, dipl. oec. – Corporate Finance Executive Director
Mate Poropat, mr. pharm. – Pharmaceutical Technical Operations Executive Director

Whole organizational structure was transformed, the key change is in the process organization at the core of business operations, all in order to increase business efficiency and implementation of corporate strategy – focus on the customer.

MEMBERS OF JGL GROUP

The consolidated financial statements of JGL Group comprise the financial statements of parent company and those entities controlled by parent company and the subsidiaries listed below. Control is present if parent company has the power to manage a company's financial and business policies in a way that it benefits from its activities. The consolidated financial statements of JGL Group include financial statements of the following companies:

Parent Company – JGL d.d. Rijeka

First tier subsidiaries:

- Farmis d.o.o. Sarajevo,
- Jadran - Galenski laboratorij d.o.o. Ljubljana,
- Jadran - Galenski laboratorij d.o.o. Beograd,
- Jadran - Galenski laboratorij d.o.o. Beograd Sopot,
- Pablo d.o.o. Zagreb,
- JGL North America LLC New York USA,
- Adrialab d.o.o. Rijeka.

Second tier subsidiaries:

- ZU Pablo Rijeka,
- Poliklinika Pablo Solin.

FIRST YEAR OF ADRIALAB - FROM IDEA TO PRODUCTION WITH GMP STANDARDS

As a result of strategy revision and support for focus on a portfolio that has international and global potential, a space has been created to take over the remaining part of traditional pharmacy programs and continue their further development.

At the end of 2013, Spin Off company was formed named Adrialab, 100% owned by JGL. Behind the name of Adrialab is rich pharmacological heritage, but also modern technology, experience, science and innovation and implemented high standards of good manufacturing practice (GMP). In 2014, Adrialab began with the activities of developing and manufacturing the traditional part of the JGL portfolio, introducing new medicines, medical products, dietary supplements and cosmetics, manufactured in accordance with the high standards of the pharmaceutical industry.

Key brands, including baby ointment JGL, Holyplant, Nasyne, Galenia and Dr. Bezz, Adrialab wants to empower, bring even closer to the customers, thus justifying the trust of the loyal as well as attracting new customers.
Following the trends and specific requirements of the pharmaceutical industry, Adrialab has opted for pharmaceutical production of semi-solid forms (ointments, creams, pastes ...) and non-esteric solutions (syrups, drops, lotions ...)

The total investment in production is worth over HRK 15 million, and it refers to the launch of modern production at location Pulac, where JGL started its business. The largest part of production investment refers to clean rooms, process and laboratory equipment in the amount of HRK 13,4 million. Additional HRK 1,6 million was invested in IT systems for materials management and production conditions. Adrialab's operating income in 2014 amounted to HRK 3.618.936, with a realized profit of HRK 686.880.

The JGL Group has thus obtained another independent pharmaceutical company that wants to expand its operations on the domestic market and markets of the region.

ZU PABLO

Company JGL diversified its operations by establishing a Pharmacy chain, ZU Pablo, Rijeka 1999. Today, ZU Pablo has 34 pharmacy units with 157 employees. It is an already recognizable chain of pharmacies in which employees with their professional skills provide the best pharmacy care to our users. ZU Pablo's operating income in 2014 amounted to HRK 159.767.948,88 with a realized profit of HRK 1.471.314,84.

A comprehensive rebranding project of the pharmacy chain was launched last year, aiming to differentiate the service, increase the credibility and value of ZU Pablo with existing and new users. A new and more modern visual identity was created for the target group, necessary to create consistent experience. The focus of the institution is the motivation of each employee to help prevent, and address the health and lifestyle problems of customers by providing a complete, proactive and personalized access to health.

JGL d.o.o. BEOGRAD SOPOT

By acquiring company in bankruptcy BG Pharma and further investing approximately EUR 2 million, JGL Group, through the newly founded company JGL Beograd Sopot, expanded its operations and started the production of prescription and OTC products in Serbia. During 2014, JGL Boegrad Sopot received all the necessary permits from the authorities and is currently undergoing the validation phase and preparation for the start of production expected in the last quarter of 2015.

The production will mostly be oriented to Serbia's market of over seven million people and partly to export markets such as Russia, Kazakhstan, Belarus, Turkey and the CEFTA countries, primarily because of the free trade agreement that the Republic of Serbia has with the countries of the environment.

JGL d.o.o. LJUBLJANA

JGL d.o.o. Ljubljana was established in 1992 in Ljubljana, as a daughter company of JGL and in 2014 had six employees. Inadequate business trends, uncertain business environment, decline in purchasing power due to large unemployment, savings measures and lower drug prices have also reflected on JGL Ljubljana's business results over the past business year. JGL Ljubljana is a daughter company operating in the territory of Slovenia. 2014 was the first full year of the company's operations as a wholesaler, resulting in a 8% drop in costs, and retained by market sales at the level of the previous year, EUR 1,48 million, while total revenue amounted to EUR 1.903.321.

The focus of JGL Ljubljana's activities over the past year was to maintain close relationships with existing customers and to initiate new co-operation by involving them in various professional and socially responsible activities.

FARMIS d.o.o.

Farmis d.o.o. was founded in 2000 in Sarajevo, Bosnia and Herzegovina, as a daughter company of JGL and in 2014 had 17 employees. High standards of business and quality orientation have resulted in the construction of a recognizable company in Bosnia and Herzegovina, but also in the region. The business is in line with the quality management system EN ISO 9001: 2008, which further guarantees safety and stability. Apart from JGL's products, the Farmis portfolio includes numerous products from Croatia, Slovenia, Germany, Italy, UK, as well as products from domestic partners.

The year 2014, as in most markets, is characterized by instability, but despite the difficulties we can say it was very successful. Sales revenue increased by 7,21% and profit was 53,46%.

During 2014, Farmis has increased the number of customers across the entire country, as well as the total number of items, so that the portfolio has over 2.500 different products, in different regulatory categories. The year was marked by the move new business premises, renovation of the fleet, as well as work permits and ISO standards.

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

Overview of the financial ratios in period of 2010 - 2014

000 HRK	2013	2012	2011	2010	2009
Business revenues	562.239	663.354	597.968	508.156	489.240
Croatia	117.333	133.294	146.125	145.028	165.502
Export	407.637	521.161	439.940	353.326	312.716
EBITDA	88.288	131.411	111.130	107.617	79.726
Normalized earnings before tax*	21.911	90.216	70.218	70.861	54.804
Earnings before tax[2]	21.876	67.255	69.749	69.786	39.192
Total assets	1.034.816	939.632	832.840	716.408	578.789
Capital and reserves	393.218	387.614	315.336	262.437	202.106
Investment	146.654	57.492	103.598	66.192	25.485
Ratios					
EBITDA	15,7%	19,8%	18,6%	21,2%	16,3%
Normalized gross margin*	3,9%	13,6%	11,7%	13,9%	11,2%
Gross margin	3,9%	10,1%	11,7%	13,7%	8,0%
ROE	5,6%	17,4%	22,1%	26,6%	19,4%
ROA	2,1%	7,2%	8,4%	9,7%	6,8%
Capital to asset ratio	38,0%	41,3%	37,9%	36,6%	34,9%
Number of employees					
On 31.12.2014	733	660	602	524	477

**Difference between normalized earnings before tax and earnings before tax are in write-off of receivables. In 2013 a write-off of receivables from Ukrainian customers was made (minus the insured amount with the insurance company HKO d.d.) in total amount of HRK 22.8 million. A similar situation was in 2010 when the Company had write-off of receivables in amount of HRK 15.6 million due to the world economic crisis and bankruptcy of several Russian wholesaler companies. In other years shown in the table, write-offs were less than 0.2% of revenue.*

[2] The Company has incentives and uses the tax benefits in terms of reduced income tax rates, therefore, for comparison purposes data on pre-tax profit and gross margin are used in this table

INCOME STATEMENT FOR JGL

Income statement of Company JGL for periods of 2013 and 2014

Position	Previous period	Current period	Index
OPERATING REVENUE	**663.354.057,84**	**562.238.618,49**	**84,76**
Revenue from domestic sales	**133.294.117,48**	**117.333.417,73**	**88,03**
Revenue from foreign sales	**521.160.684,58**	**407.637.130,09**	**78,22**
Revenues from refunds, grants, subventions and free receipts	**333.383,80**	**647.037,66**	**194,08**
Revenues from use of own products (by 2013.)	**5.294.404,41**	**5.398.008,90**	**101,96**
Other business revenues	**3.271.467,57**	**31.223.024,11**	**954,40**
OPERATING EXPENSES	**578.659.162,40**	**500.003.169,27**	**86,41**
Change of stock value	**-271.703,03**	**-39.780.079,56**	**14.641,01**
Material costs and services	**342.208.206,50**	**342.769.632,23**	**100,16**
Cost of raw material	189.148.963,62	185.464.147,90	98,05
Costs of sold goods	2.992.978,34	3.304.900,50	110,42
Costs of services	150.066.264,54	154.000.583,83	102,62
Staff costs	**149.225.757,05**	**127.366.805,78**	**85,35**
Net salaries	89.831.247,19	80.189.723,62	89,27
Taxes, surtaxes and contribution from salaries	59.394.509,86	47.177.082,16	79,43
Depreciation	**23.755.369,54**	**26.017.331,73**	**109,52**
Other costs	**30.118.987,21**	**28.923.173,68**	**96,03**
Value adjustment of assets	**22.961.033,42**	**35.351,41**	**0,15**
Provisions for risks and costs	**95.645,00**	**0,00**	**0,00**
Other operating expenses	**10.565.866,71**	**14.670.954,00**	**138,85**
FINANCIAL REVENUES	**21.438.621,77**	**72.097.222,72**	**336,30**
FINANCIAL EXPENSES	**38.964.249,42**	**112.533.630,51**	**288,81**
SHARE IN PROFIT FROM AFFILIATED COMPANIES	**85.300,69**	**76.485,08**	**89,67**
OTHER REVENUES	**0,00**	**0,00**	**0,00**
OTHER EXPENSES	**0,00**	**0,00**	**0,00**
TOTAL REVENUES	**684.877.980,30**	**634.412.326,29**	**92,63**
TOTAL EXPENSES	**617.623.411,82**	**612.536.799,78**	**99,18**
RESULT BEFORE TAXATION	**67.254.568,48**	**21.875.526,51**	**32,53**
Income tax and deferred tax assets	**-4.580.217,71**	**3.918.177,67**	**-85,55**
RESULT OF THE PERIOD	**71.834.786,19**	**17.957.348,84**	**25,00**

After years of growth of operating income, in 2014 it decreased by 15% compared to the same period in the previous year, with export sales decrease of almost 25%. The export share in the operating income decreased from 78.56% (2013) to 72.50% (2014) as a result of significant political and economic turmoil (economic sanctions and depreciation in currencies: ruble and hryvnia) in our most important markets of Russia and Ukraine.

The most significant decline in sales results was in Russia (25% decrease compared to 2013) and Ukraine (52% decrease compared to 2013). Russia, regardless of the decrease in sales, still dominates and has a significant impact on total revenue and export performance with share in export of 66,59%. Despite the decline, and despite the crisis, sales of our products to end customers on the Russian market (in market sales) are rising 8% compared to last year, and therefore our market share is, in fact, increasing.

Despite the crisis that the company faced, severe currency risks the company was exposed to, by analyzing the specifics of individual markets in the region, the Belarus market was recognized as a market of great potential, which resulted in the decision to start operations and open a representative office in the capital of the Republic of Belarus, Minsk. JGL in Belarus registered 15 products and now has 9 employees. Net sales in Belarus grew at a rate of 792%, compared to the previous year, compared to when JGL was present in Belarus through a partner company.

Within the CIS region, significant results were achieved on the market of Kazakhstan, with the growth in net sales of 1,95% when compared to the last year - primarily in Prescription Program, which grew at a rate of 78,36%.

The Croatian market, as the second largest market, realized 96% of last year's sales which suggests further stagnation due to the fact that this market is still in a recessionary period and suffers continuous pressure of price reductions of generic drugs.

Operating expenses decreased by 13% (HRK 78 million), mainly influenced by the 15% reduction in personnel costs (HRK 22 million) in the context of pay cuts last two months of the year and the decision on non-payment of bonuses for 2014.

Financial income increased significantly (336%) due to higher foreign exchange gains, but according to currency fluctuations financial expenses also increased, primarily due to higher interest expense and necessary hedging of currency.

Such negative difference in favor of decrease in revenues compared to the decrease in expenses resulted in a decrease in net profit from HRK 71.834.786 to HRK 17.957.348,84, which represents a decrease of 75% compared to the previous year.

The Company used the tax incentive by applying the tax rate of 0% which reduces the actual tax liability to HRK 0, but the elimination of deferred tax assets in the amount of HRK 3.918.178 reduces gross profit for the period. The eliminated deferred tax assets are in connection to the collection of receivables whose value adjustment was tax (Ukrainian customers - 2013). A more detailed explanation can be found in the notes.

RISK MANAGEMENT

The Company is exposed to various financial risks such as currency, interest rate, credit and liquidity risk. The Company monitors these risks and seeks to minimize their potential impact on the financial exposure of the Company.

The Company is exposed to foreign currency exchange rate risk in purchases and sales denominated in foreign currencies. Currency risk is present due to changes in foreign exchange rates. The dominant share of exports in sales of the company results in currency risk in a way that foreign currency assets exceed the amount of foreign currency liabilities. Foreign currency exposure is continuously monitored and, if necessary, hedging is applied. Decision on the hedging depends on the currency in which the claim is stated and the type of hedging instrument as well as its price.

In 2014, the Company begun invoicing all Russian buyers in Russian rubles. At the end of 2014 the Russian ruble began to depreciate, and the Company used forward contracts as hedging instruments in order to minimize the currency risk involved. Although such hedging instruments are expensive because of the high interest rate differential, forwards proved to be a good business decision, which confirms the fact that the fair value of forward on 31.12.2014 amounted to HRK 20.886.106,30. The Company will continue to use these instruments in the future to minimize currency risks, all in accordance with best business practices.

The Company is exposed to interest rate risk on a small scale because most of the interest bearing debt is contracted at fixed interest rates.

Assets that potentially expose the Company to credit risk consist of short-term financial assets, cash and trade receivables. Credit risk on trade receivables is limited due to the risk distribution among various geographical areas and customers. The Company seeks to protect by obtaining collateral payments and selection of customers based on the assessment of solvency. For larger customers in the territory of Russia, the Company has insurance policies issued by HBOR while significant buyers of other countries covered by insurance policies issued by HKO (Croatian credit insurance). The Company is continuously working with these partners to increase the share of insured customers in the total amount of receivables. Credit risk is connected with the current financial assets, as well as money in the bank. The Company protects against these risks by holding funds with commercial banks over who does and the rest of the business, which are among the leading banks in Croatia and have a satisfactory level of capital adequacy.

Liquidity risk as the risk that the Company will fulfill its obligations to creditors. From the liquidity risk to society protects through credit lines that allow the company to easily and quickly overcome the current need for liquidity with the pre-agreed and known conditions.

EVENTS AFTER THE DATE OF THE BALANCE SHEET

On 22.1.2015 the Company signed a loan agreement with the European Bank for Reconstruction and Development (EBRD) in the amount of 20 million euros. The approved loan's use will be used as working capital to close loans in commercial banks, which is why this loan does not represent an increase in debt toward financial institutions. The loan will be in two tranches, the first tranche of EUR 12 million will have a grace period of one year after which it will be repaid in semi-annual installments (50% of the tranche) by 2018, and the remaining 50% in 2019. The second tranche of eight million is a revolving loan for five years and will be paid in full in 2019, with the obligation to return the loan fully for two weeks in June every year.

BALANCE SHEET

Balance sheet of Company JGL for periods of 2013 and 2014

Position	Previous period	Current period	Index
TOTAL ASSETS	**939.631.914,40**	**1.034.816.337,80**	**110,13**
LONG TERM ASSETS	**365.264.088,49**	**476.714.199,11**	**130,51**
Intangible assets	31.874.940,64	33.925.117,58	106,43
Tangible assets	291.991.522,59	394.876.754,59	135,24
Long term financial assets	36.633.939,35	47.066.818,70	128,48
Deferred tax assets	4.763.685,91	845.508,24	17,75
SHORT TERM ASSETS	**566.670.097,73**	**552.465.353,64**	**97,49**
Stock	150.026.836,75	181.874.192,18	121,23
Receivables	407.613.829,93	333.194.868,33	81,74
Short term financial assets	970.136,62	23.063.966,14	2.377,39
Cash at banks and in hand	8.059.294,43	14.332.326,99	177,84
PREPAID COSTS AND ACCRUED REVENUES	**7.697.728,18**	**5.636.785,05**	**73,23**
TOTAL CAPITAL AND LIABILITIES	**939.631.914,40**	**1.034.816.337,80**	**110,13**
CAPITAL AND RESERVES	**387.613.592,36**	**393.217.826,32**	**101,45**
Called up capital	58.310.000,00	117.908.000,00	202,21
Premium on issued shares	8.004.817,18	7.776.478,30	97,15
Treasury shares	-413.800,00	-2.482.800,00	600,00
Reserves	7.410.530,46	16.251.589,34	219,30
Retained profit + undistributed profits of last year	242.467.258,53	235.807.209,84	97,25
RESULT OF THE PERIOD	**71.834.786,19**	**17.957.348,84**	**25,00**
LONG TERM PROVISIONS	**1.012.986,00**	**940.947,00**	**92,89**
LONG TERM LIABILITES	**320.665.942,76**	**349.274.628,21**	**108,92**
Liabilities for bonds	139.612.666,66	139.780.666,66	100,12
Other long term liabilities	181.053.276,10	209.493.961,55	115,71
SHORT TERM LIABILITIES	**213.749.448,01**	**269.306.318,50**	**125,99**
Liabilities for subsidiaries	6.129.168,09	6.416.255,15	104,68
Short term financial liabilities	83.057.191,35	145.824.880,38	175,57
Liabilities for securities	3.320.000,00	1.900.000,00	57,23
Trade payables	90.103.068,27	106.070.938,16	117,72
Liabilities towards employees	13.046.189,31	3.029.488,41	23,22
Liabilities for taxes and contributions	17.183.682,97	4.932.074,24	28,70
Liabilities due to share in result	21.000,00	26.400,00	125,71
Other short term liabilities	889.148,02	1.106.282,16	124,42
DEFERRED SETTLEMENTS OF COSTS AND REVENUE DEFERRED TO FUTURE PERIOD	**16.589.945,27**	**22.076.617,77**	**133,07**

Increase in total assets in comparison to the previous period was 10%. Tangible assets had the biggest increase (34%) in long-term assets because of the investment in new facility called Svilno 2.

Substantial growth of 28% can be seen in financial assets, this is a result of an increase in capital of daughter company Jadran Galenski laboratorij d.o.o. Beograd.

Short-term assets decreased 2,5% in comparison to the previous period mostly because of the decrease of receivables (18,25% decrease when compared to 2013). This decrease is the result of a business decision made at the end of 2014 to stop deliveries to Russia due to the rapid devaluation of the Russian ruble. This decision is reflected in increase of stock as well.

There has been a significant increase in short-term financial assets, this increase is the result of hedging against currency risk using forward contracts. On the 31.12.2014 the Company had receivables from forward contracts in the amount of HRK 20.886.106,30.

In capital and reserves most important increase is in the share capital by HRK 58,3 million to HRK 117,9 million. The reason for this is the increase in capital of the Company from retained earnings carried out in June 2014.

The increase in long-term liabilities is a result of an increase in long-term bank loans from HRK 171 million to HRK 183 million and an increase in long-term liabilities for leasing from HRK 10 million to HRK 26 million. This growth is mostly related to credit from HBOR and investment in equipment (Svilno 2). The level of short-term liabilities increased by 26%, this increase was due to the increase in liabilities to credit institutions from HRK 77 million to HRK 136 million. Short-term loans on the 31.12.2014 amounted to HRK 73 million and were used to finance working capital, while the difference of HRK 59 million is short term obligation on long term loans in 2015.

CONSOLIDATED PROFIT AND LOSS STATEMENT

Profit and loss statement for JGl Group in 2013 and 2014

Postition	Previous period	% UP	Current period	% UP	Index	Change
OPERATING REVENUE	**849.958.676,06**	**97,48**	**738.067.374,84**	**91,08**	**86,84**	**-111.891.301,22**
Revenue from domestic sales	**323.200.247,28**	**37,07**	**307.949.410,66**	**38,00**	**95,28**	**-15.250.836,62**
Revenue from foreign sales	**500.267.337,30**	**57,37**	**379.873.599,81**	**46,88**	**75,93**	**-120.393.737,49**
Revenues from refunds, grants, subventions and free receipts	**582.054,92**	**0,07**	**1.222.920,53**	**0,15**	**210,10**	**640.865,61**
Revenues from use of own products (by 2013.)	**5.691.235,69**	**0,65**	**5.628.850,18**	**0,69**	**98,90**	**-62.385,51**
Other business revenues	**20.217.800,87**	**2,32**	**43.392.593,66**	**5,35**	**214,63**	**23.174.792,79**
OPERATING EXPENSES	**765.061.090,35**	**87,74**	**680.552.057,89**	**83,98**	**88,95**	**-84.509.032,46**
Change of stock value	**-271.703,03**	**-0,03**	**-40.008.174,28**	**-4,94**	**14.724,96**	**-39.736.471,25**
Material costs and services	**492.248.579,79**	**56,45**	**485.974.439,41**	**59,97**	**98,73**	**-6.274.140,38**
Cost of raw material	191.460.605,23	21,96	188.634.310,27	23,28	98,52	-2.826.294,96
Costs of sold goods	144.214.419,91	16,54	139.383.511,37	17,20	96,65	-4.830.908,54
Costs of services	156.573.554,65	17,96	157.956.617,77	19,49	100,88	1.383.063,12
Staff costs	**176.235.128,06**	**20,21**	**155.606.434,18**	**19,20**	**88,29**	**-20.628.693,88**
Net salaries	105.567.385,75	12,11	96.717.900,62	11,94	91,62	-8.849.485,13
Taxes, surtaxes and contribution from salaries	70.667.742,31	8,10	58.888.533,56	7,27	83,33	-11.779.208,75
Depreciation	**26.081.355,11**	**2,99**	**29.096.003,09**	**3,59**	**111,56**	**3.014.647,98**
Other costs	**35.519.815,84**	**4,07**	**33.967.097,51**	**4,19**	**95,63**	**-1.552.718,33**
Value adjustment of assets	**23.655.058,16**	**2,71**	**995.881,21**	**0,12**	**4,21**	**-22.659.176,95**
Provisions for risks and costs	**95.645,00**	**0,01**	**0,00**	**0,00**	**0,00**	**-95.645,00**
Other operating expenses	**11.497.211,42**	**1,32**	**14.920.376,77**	**1,84**	**129,77**	**3.423.165,35**
FINANCIAL REVENUES	**21.903.601,41**	**2,51**	**72.182.013,56**	**8,91**	**329,54**	**50.278.412,15**
FINANCIAL EXPENSES	**39.576.220,48**	**4,54**	**114.250.199,00**	**14,10**	**288,68**	**74.673.978,52**
SHARE IN PROFIT FROM AFFILIATED COMPANIES	**85.300,69**	**0,01**	**76.485,08**	**0,01**	**89,67**	**-8.815,61**
OTHER REVENUES	**0,00**	**0,00**	**0,00**	**0,00**	**0**	**0,00**
OTHER EXPENSES	**0,00**	**0,00**	**0,00**	**0,00**	**0**	**0,00**
TOTAL REVENUES	**871.947.578,16**	**100,00**	**810.325.873,48**	**100,00**	**92,93**	**-61.621.704,68**
TOTAL EXPENSES	**804.637.310,83**	**92,28**	**794.802.256,89**	**98,08**	**98,78**	**-9.835.053,94**
RESULT BEFORE TAXATION	**67.310.267,33**	**7,72**	**15.523.616,59**	**1,92**	**23,06**	**-51.786.650,74**
Income tax and deferred tax assets	**-3.803.590,37**	**-0,44**	**5.045.044,54**	**0,62**	**-132,64**	**8.848.634,91**
RESULT OF THE PERIOD	**71.113.857,70**	**8,16**	**10.478.572,05**	**1,29**	**14,73**	**-60.635.285,65**

JGL Group's operating income in 2013 amounted to HRK 738.067.375 which is a decrease of 13% compared to the previous year, primarily under the influence of parent company decision to reduce the stock on the market and under the influence of the political situation on the largest market Russia. With this move, the level of stock of product on the market was significantly reduced, and thus the exchange rate / credit risk. In addition, in December 2014, due to the sudden weakening of Russian ruble and high exposure to foreign exchange risk, parent company stopped its exports to Russia (due to contractual relations with customers and customs regulations, the price change process lasts approximately 30 days).

The share of exports in the Group's operating income was 51,47% and was realized by the parent company. The most significant export markets are CIS countries and Global Markets. Exports to CIS countries account for 88,01% of total Group exports, while exports to the Global Market account for 9,54%.

Despite the natural increase in sales, the Croatian market recorded a drop of about 5% compared to the previous period due to the continuing trend in price cuts. Macroeconomic situation in Croatia is also the reason for the reduced contribution of domestic companies to the consolidated results of JGL Group.

Other business revenues are significantly higher in 2014 than in 2013 due to the collection of previously written off receivables from Ukrainian customers in the amount of HRK 19,5 million.

Group Business Expenditures in 2014 decreased by 11% compared to 2013 due to reduced sales, material costs and costs of goods sold at the Group level. The biggest reduction is in staff costs due to wage cuts and unpaid bonuses for 2014.

Financial revenues increased significantly (229%) due to higher positive exchange rate differences, but according to currency fluctuations, financial expenses also grew, primarily due to higher interest expense and the need to hedge.

Consolidated net profit for the period is HRK 10.478.572,05.

CONSOLIDATED BALANCE SHEET

Balance sheet for JGL Group for 2013 and 2014

Position	Previous period	% UA	Current period	% UA	Index	Change
TOTAL ASSETS	**1.026.105.201,10**	**100,00**	**1.119.116.959,06**	**100,00**	**109,06**	**93.011.757,96**
LONG TERM ASSETS	**399.713.835,11**	**38,95**	**507.846.602,78**	**45,38**	**127,05**	**108.132.767,67**
Intangible assets	83.551.992,32	8,14	85.436.415,07	7,63	102,26	1.884.422,75
Tangible assets	309.596.949,33	30,17	420.015.361,16	37,53	135,67	110.418.411,83
Long term financial assets	1.801.207,55	0,18	1.549.318,31	0,14	86,02	-251.889,24
Deferred tax assets	4.763.685,91	0,46	845.508,24	0,08	17,749	-3.918.177,67
SHORT TERM ASSETS	**618.540.625,58**	**60,28**	**605.510.007,98**	**54,11**	**97,89**	**-13.030.617,60**
Stock	172.896.851,49	16,85	204.628.315,55	18,28	118,35	31.731.464,06
Receivables	422.886.106,27	41,21	354.549.452,56	31,68	83,84	-68.336.653,71
Short term financial assets	5.914.909,22	0,58	22.677.112,05	2,03	383,39	16.762.202,83
Cash at banks and in hand	16.842.758,60	1,64	23.655.127,82	2,11	140,45	6.812.369,22
PREPAID COSTS AND ACCRUED REVENUES	**7.850.740,41**	**0,77**	**5.760.348,30**	**0,51**	**73,37**	**-2.090.392,11**
TOTAL CAPITAL AND LIABILITIES	**1.026.105.201,10**	**100,00**	**1.119.116.959,06**	**100,00**	**109,06**	**93.011.757,96**
CAPITAL AND RESERVES	**387.916.590,23**	**37,80**	**383.704.448,55**	**34,29**	**98,91**	**-4.212.141,68**
Called up capital	58.310.000,00	5,68	117.908.000,00	10,54	202,21	59.598.000,00
Premium on issued shares	8.004.817,18	0,78	7.776.478,30	0,69	97,15	-228.338,88
Treasury shares	-413.800,00	-0,04	-2.482.800,00	-0,22	600,00	-2.069.000,00
Reserves	7.410.530,46	0,72	16.251.589,34	1,45	219,30	8.841.058,88
Retained profit + undistributed profits of last year	243.491.184,89	23,73	233.772.608,86	20,89	96,01	-9.718.576,03
RESULT OF THE PERIOD	**71.113.857,70**	**6,93**	**10.478.572,05**	**0,94**	**14,73**	**-60.635.285,65**
LONG TERM PROVISIONS	**1.012.986,00**	**0,10**	**940.947,00**	**0,08**	**92,89**	**-72.039,00**
LONG TERM LIABILITES	**326.591.328,25**	**31,83**	**365.717.428,26**	**32,68**	**111,98**	**39.126.100,01**
Liabilities for bonds	139.612.666,66	13,61	139.780.666,66	12,49	100,12	168.000,00
Other long term liabilities	186.978.661,59	18,22	225.936.761,60	20,19	120,84	38.958.100,01
SHORT TERM LIABILITIES	**293.667.712,65**	**28,62**	**346.120.591,41**	**30,93**	**117,86**	**52.452.878,76**
Liabilities for subsidiaries	0,00	0,00	0,00	0,00	0,00	0,00
Short term financial liabilities	117.742.345,92	11,47	175.461.906,16	15,68	149,02	57.719.560,24
Liabilities for securities	3.320.000,00	0,32	1.900.000,00	0,17	57,23	-1.420.000,00
Trade payables	138.223.209,85	13,47	155.832.273,80	13,92	112,74	17.609.063,95
Liabilities towards employees	14.453.064,51	1,41	4.563.597,81	0,41	31,58	-9.889.466,70
Liabilities for taxes and contributions	18.945.941,79	1,85	7.185.493,91	0,64	37,93	-11.760.447,88
Liabilities due to share in result	21.000,00	0,00	26.400,00	0,00	125,71	5.400,00
Other short term liabilities	962.150,58	0,09	1.150.919,73	0,10	119,62	188.769,15
DEFERRED SETTLEMENTS OF COSTS AND REVENUE DEFERRED TO FUTURE PERIOD	**16.916.583,97**	**1,65**	**22.633.543,84**	**2,02**	**133,80**	**5.716.959,87**

The growth in total assets by about 9% over the prior period is the most affected by the increase in tangible assets on long-term assets in the context of the ongoing investment activities associated with the Pharma Valley project within the parent company.

Short-term assets recorded a slight decline compared to the previous period, due to reduced customer receivables because to the decision of parent company to reduce supply to Russia and Ukraine at the end of 2014. Such a decision was made due to the extremely unfavorable political and economic situation in these markets, to avoid losses caused by the weakening of the currency. The decision is also reflected in the increase in inventories of finished products compared to the previous period.

As part of the short-term assets, we also notice a significant increase in short-term financial assets. These are claims on the basis of the Forward contract concluded in the parent company for the purpose of hedging the currency risk. On 31.12.2014 JGL had receivables for forward contracts in the amount of HRK 20.886.106,30.

In the capital and reserves, the most significant item is the increase in share capital from HRK 58,3 million to HRK 117,9 million. The reason for this is the recapitalization of the parent company from retained earnings in June 2014.

The increase in long-term liabilities of 12% compared to the previous period was due to the increase of long-term loans from banks from HRK 177 million to HRK 195 million and the increase of long-term leasing liabilities from HRK 10 million to HRK 26 million. This growth is mainly related to parent company loans, more precisely to HBOR's loan and financing of investment equipment Svilno 2.

Part of the withdrawn amount of this loan was used to close the loan financing the purchase of land, which is visible in the reduction of short-term liabilities (financial liabilities decrease from HRK 129 million to HRK 117 million).

Group short-term liabilities grew by 18%, mostly affected by parent company credit growth. Significant part of short-term liabilities to credit institutions is the liability for long-term debt maturing in 2015. Due to somewhat longer contractual payment terms compared to 2013, liabilities to suppliers increased by 13% while liabilities to employees and liabilities for taxes and contributions decreased due to the reduction in salaries in the Group, and because of the decision not to pay bonuses for 2014.

OVERVIEW OF FINANCIAL RESULTS PER PRODUCTION PROGRAMME

The company JGL offers a wide portfolio of branded generic and OTC products, in almost all technological forms, which are classified into various categories, from fundamental and most demanding drugs and medical products to natural remedies, supplements and dermo-cosmetics for children and adults. The portfolio comprises almost 100 brands, 540 products and 1,100 variations that are sorted in the program units - Prescription Program, OTC program and Aqua Maris Programme. In the last few years these brands became strongest - Aqua Maris, Meralys, Pigrel, Ranix, Escontral, Latanox, Drama's, Pantexol, Lactogyn, Normie, Vitalia and Holyplant.

To maintain optimum adaptability to market needs and to shorten the release of its products on the market, JGL's strategy is to further develop Contractual production, especially in the production of sterile solutions and sprays.

In 2014 JGL realized net sales of approximately HRK 520.271.912,17, a decrease of 20% when compared to the previous period mostly because of the geopolitical situation in Region CIS (decrease in sales 25%).

The second most important market after the Russian market, with a share of 22% in total sales for JGL is a Croatian market. Croatian market sales increased in quantity, but due to the fact that there are primarily prescription drugs and the fact that prices for prescription drugs decreased during the year 2014, the amount sold is lower than in 2013.

Among drug manufacturers (either original, or generic) on the Croatian market, JGL is in 14th place, and in the 5th place among manufacturers of generic drugs (behind Pliva, Belupo, Krka and Sandoz). Share of JGL in the total Croatian pharmaceutical market in 2014 was 2,2%.

PRESCRIPTION DRUG PROGRAMME

Prescription drugs market in 2014 suffered a financial decline of about 2%, and a natural growth of 3%. The natural growth of the market and JGL is visible through the pharmacy chain, while the financial growth is still in decline.

The prescription program in 2014 realized net sales of approximately HRK 145,9 million, which is an decrease of approximately 5% when compared to the previous year. Prescription Drug Programme is mostly realized on Croatian market (54%).

The market SEE realized approximately HRK 88,3 million, which is a decrease compared to the realization of the previous year (approximately 17%).

This program has realization on the CIS markets, where there was an increase of 18% compared to the previous year. The plan was also exceeded at the same percentage.

These groups have had most success in 2013:

- **Medications for the treatment of systemic infections - growth of 60%**
- **Medications which affect the skin - growth of 31%**
- **Preparations which affect the genitourinary system and sex hormones - growth of 33%**

ANALYSIS	MARKET		JGL			
	Trend 2014/2013		Trend 2014/2013		MS 2014	
	NAT	FIN	NAT	FIN	NAT	FIN
Manufacturers 12 mths 2014 – natural and financial – total	2%	-2%	-2,31%	-13%	3,57%	2,20%
Manufacturers 12 mths 2014 – natural and financial – perscription drugs all chanels	3%	-4%	-3%	-21%	3,15%	1,69%
Manufacturers 12 mths 2014 – natural and financial – prescription drugs pharmacy channel	4%	-7%	-3%	-20%	3,31%	2,39%
Manufacturers 12 mths 2014 – natural and financial – drugs without prescription	-2%	4%	2%	9%	3,92%	3,86%
Manufacturers 12 mths 2014 – natural and financial – dietetics	-4%	-3%	1%	2%	8,96%	6,19%

NON-PRESCRIPTION PROGRAMME (OTC PROGRAMME)

Sales of products from the OTC program in 2014 were approximately HRK 141,7 million which is a decrease of 9% when compared to the 2013 and a decrease of 17% when compared to the plan.

Sales on the CIS Region and the Global Market Region are lower than planned.

Export activities of OTC products on the Global Market Region are at an early stage, so the 74% plan realization and 78% lower realization compared to the previous year is actually a minimal impact on the overall result. The greatest impact on OTC product sales is from the CIS region, where the sales are 24% below lower than planned, and 15% lower than the sales in the previous year. The reason for such results CIS regions are due to unstable geopolitical and macroeconomic situation in the area.

In the domestic market OTC product sales had a positive trend, 5% above planned, and 3% increase compared to 2013. In the whole region of South Eastern Europe, the results were 4% lower than planned, but in comparison to 2013, there is a 2% increase in sales.

If we analyze the program structure, best results were in the segment of OTC drugs with a positive trend of 3% compared to 2013. Within the OTC products, excellent result was by the brand Dramina with growth of 16% compared to 2013. On the SEE market, the biggest growth of 10% when compared to the previous year realized the JGL probiotics and new product Vizol S whose realization increased 99% compared to 2013 and 30% above planned. Also, in the domestic market Vizol S shows success, realizing 50% above plan and financial growth of 91% relative to 2013.

AQUA MARIS PROGRAMME

Program Aqua Maris realized HRK 255,5 million sales in 2014, 90% of which is sales from Aqua Maris brand (240,3 million HRK), while the much younger brand Meralys achieved 15,2 million HRK. Regionally, total sales in the CIS region amounted to HRK 243,3 million, while the SEE region in the same period made 14,9 million HRK. In Global Region market, through contractual cooperation with local partners, this program achieved sales of HRK 6,3 mil and 9% growth.

In 2014, Aqua Maris Programme had a 36% decrease in sales when compared to 2013, which is due to two factors: political and economic situation in Russia and Ukraine and the decision to reduce supplies in order to minimize credit and currency risk. At the same time, key brand Aqua Maris in Russia (a key market) had an increase in 8%, according to sales data from wholesalers. All other markets (a total of ten), grew significantly, with an average growth rate of 205%. The fastest growing market is Belarus, which is growing at a rate of 655%.

LICENSING OUT AND CONTRACTUAL PRODUCTION

The contractual production program generated HRK 33,87 which is a decrease of 6,5% in comparison to the previous year. One of the main reasons for decreased revenues is the decline in sales of latanoprost by our partner Siegfried and his customers (HRK 20,8 million, compared to sales plan for 2014 of HRK 42,6 million - 49,8% decrease). In line with the previous year, the largest share of sales was in Global Market Region.

INVESTMENTS AND INCENTIVES

INVESTMENTS

Investments in long term assets in 2014 amount to HRK 146.653.865,05.

Investments in non-tangible assets were HRK 6.593.102,90 of which HRK 3.049.391,78 are investments in computer programs, HRK 726.603,76 for licenses and HRK 2.817.107,36 investment in development projects mostly involving Incentive program from Ministry of science, education and sports.

Investments in tangible assets were HRK 134.833.749,11 of which HRK 115.672.377,41 are investments in land, buildings and equipment for the new production facility Svilno 2. HRK 4.900.631,08 was invested in improvement of functions of other buildings in the property, while the acquisition of manufacturing, IT and transport equipment and furniture amounted to HRK 14.260.740,62.

Investment in long term financial assets in amount of HRK 5.227.043,04 was a capital increase for affiliate company JGL d.o.o. Beograd-Sopot in amount of HRK 379.487,76, while the remaining amount of HRK 4.847.555,28 was a capital increase for affiliate company Jadran Galenski Laboratorij d.o.o. Beograd. This does not include the recapitalization of the company JGL d.o.o. Beograd-Sopot in assets and rights that are invested in the previous year (the amount of HRK 5.069.351,23).

Stated investments do not include advances for long-term assets in amount of HRK 8.284.756,28, of which HRK 8.066.810,22 is for project Svilno 2.

INCENTIVES

In 2009 the parent company was the recipient of incentive measures based on the Investment Promotion Act (Official Gazette 138/06, 61/11) for investment projects under the general title "The development of the production of semi-solid forms, raw materials for the cosmetic and pharmaceutical products and the development of production and dosing solution of Aqua Maris", and earned the right to use state incentives in maximum amount of HRK 29.740.758. In 2014 total amount of this incentive was used.

On 26.02.2014 the company was the recipient of incentive measures based on the Law on promotion of investment and improvement of investment environment (Official Gazette 111/12, 28/13) for project Svilno 2. JGL in 2013 reported investment in a new production facility in the amount of HRK 35,772,038, which will ensure the capacity for future global growth in existing and new markets. Ministry issued a decision on the maximum intensity of incentives in amount of 40% of investment amounting to HRK 103,098,382, which can be used for a period of 10 years in terms of reduced income tax rates, which is 0%. When calculating income tax for the year 2014 used the tax incentive on that account in the amount of HRK 2.729.344.

PURCHASE OF OWN SHARES

At the beginning of the period, the parent company owned 4.138 of its own shares. By the time of profit reinvestment, the Company gained 970 shares. In July 2014 profit reinvestment increased the shared capital and for every owned share one new one was assigned. By the end of the period the Company gained 14.612 of own shares. On 31.12.2014 the Company had 24.848 own shares in its portfolio.

EMPLOYEES

The strategy of human resource management in JGL is part of BSC (Balanced Score Card) strategy map. In order to secure that the strategic directions within the company are in place, JGL has to strengthen the perspective of learning and growth. This is a perspective which ensures that internal resources, especially human, but also informational and organizational, are in balance and have the ability to achieve set goals.

JGL develops encouraging and cooperative culture focused on success in a way that is targeted to develop leadership and management skills and ensures accountability and independence for all employees.

In all that is done, there is constant awareness of the importance of the dimensions of excellence and quality. The goal is to develop and keep motivated and effective employees through constant development of the system of rewards and performance management systems, as well as through efficient communication - cascading strategy to every employee understand their role in achieving strategic goals.

In 2013, the goal was the strategic alignment of human capital in order to provide more focused support to the implementation strategy of the company. Objectives are:

- develop leadership and culture based on traditional values of JGL,
- strategically align systems of performance management and rewards system,
- develop strategic competencies of employees.

Total number of employees in JGL on 31 December 2014 was 733.

396 employees worked in Croatia (HR), 218 in Russia (RU), 51 in Ukraine (UA), 41 in Kazakhstan (KZ), 9 in Belarus and 18 in the region of Southeast Europe (Bosnia and Herzegovina, Serbia, Macedonia, Kosovo).

The number of employees based on the realized working hours on 31 December 2014 was 720.

Total number of employees in JGL Group on 31 December 2014 was 946, and number of employees based on the realized work hours was 933.

The two biggest markets are Croatia and Russia. Intensive employment trend of the previous years continued during the 2014. Compared to last year, a total of 73 new people were employed, which is an increase of 11,06%.

75% of employees are women, while 25% are men. The percentage of highly educated in JGL is 73%, while the average age of employees is 37 years old.

Number of employees by country in 2013 and 2014

	HR	BiH	SRB	MK	RKS	RU	KZ	BEL	UA	TOTAL
2013	383	7	4	5	1	161	39	0	60	**660**
2014	396	7	5	5	1	218	41	9	51	**733**

Number of employees by gender and education in 2013 and 2014

	2013	2013	2014	2014
	WOMEN	MEN	WOMEN	MEN
MR.SC.	5	2	5	1
MR.SPEC.	9	2	9	2
DR.SC.	4	0	3	0
VSS	315	119	393	112
MR	4	1	4	1
VŠS	14	6	15	9
SSS	95	56	102	54
VKV	2	2	1	1
KV	4	3	4	2
NSS	14	0	12	0
PK	1	0	1	0
NK	1	1	1	1
TOTAL	**468**	**192**	**550**	**183**

Number of employees by age in 2013 and 2014

	2013	2013	2014	2014
	WOMEN	MEN	WOMEN	MEN
0-24	11	13	12	13
25-29	83	42	102	36
30-34	102	41	123	47
35-39	93	42	118	37
40-44	79	24	84	26
45-49	51	13	54	11
50-54	24	7	30	4
55>	25	10	27	9
TOTAL	**468**	**192**	**550**	**183**

AWARDS AND RECOGNITIONS

"Golden Key" for the best exporter to the Russian Federation

On the ninth convention of Croatian exporters under the auspices of the Croatian Government JGL won the "Golden Key" for the best exporter to the Russian Federation.

JGL among the Top 5 Employer Partners in Croatia

In April 2014, JGL has entered the Top 5 Employer Partners in Croatia at the discretion of the authorized certifier. According to the certifier, the companies in the Top 5 Employer Partners apply world's best practices in human resource management.

DOP Index in the category of large companies

During 2014, JGL received two awards DOP Index in the category of large enterprises. First prize was for the results and activities in 2012, while the second, which was received in December was for the results achieved in 2013. The award was given by the Croatian Chamber of Economy and Croatian Business Council for Sustainable Development. The purpose of this award (and valuation) provide reliable annual comparative assessment of the most successful Croatian companies with respect to their responsibility and apply the principles of sustainable business. JGL in 2014 made donations in amount of HRK 1.023,363 and sponsored sporting and cultural events in amount of HRK 536.695. Team spirit and a lot of heart JGL has shown many times, particularly by helping the victims of the disastrous and unprecedented floods that in May 2015, overtook Croatia, Bosnia and Herzegovina and Serbia.

ENVIRONMENT PROTECTION

In 2014 JGL invested significant funds and efforts in environmental protection. As in previous years, we fulfilled all our obligations required by the regulations in force. By increasing engagement, consumption of funds and by making new investments, the company continued to reinforce the state of environment protection.

In 2014, JGL continued with the selection and installation of highly environmentally friendly materials in the new production facility - Svilno 2. A particular concern was the setting up of isolation, which meets the highest level of preventing energy waste heat or undesirable energy loss.

Another important area where JGL made an important first step towards the application of the principle of preventive environmental protection is the procedure of checking the workability of waste at an early stage of development and adoption of new products, starting from the theoretical evaluation of products to the phases of the pilot and validation series. In this way, JGL is prepared for the possible negative ecological potential and has prepared a "recipe" for the treatment of waste generated in the production process.

Introduced system - a software solution (WasteControl) 2013 for waste management represents the foundation and backbone Company's waste management. Earlier this year, JGL signed new contracts with authorized service providers in the environmental and waste management and with selection of the most competent partner JGL wants to maintain a high level of quality in waste management and environmental protection.

JGL received an award from our electricity supplier (HEP) for being the first purchaser of ecological program ZelEn in region - West. In order to encourage sustainable economic growth in the region, JGL started using the HEP's ecological program ZelEn, and since then uses energy exclusively generated from renewable sources in all locations in Croatia. JGL is one of twenty Croatian companies that in this way demonstrated social responsibility and care for the environment, and therefore JGL is proud to be called "ZelEn – nature's friend".

The costs of waste disposal in 2014 were more than HRK 200.000,00. The total amount of investments in environmental protection in 2014 amounted to approximately HRK 150.000,00 HRK, not counting the value of uncompleted work on the construction of environmental infrastructure of the new plant Svilno 2.

All above stated, as well as other environmental indicators are recorded and all the relevant reports are submitted to the authorities of public administration and thereby are public and available to all interested parties. Absence of any complaint, complaints, fines or sanctions against JGL in the reporting period is proof of a successful application and compliance with laws and regulations on environmental protection.

In the next period JGL's priority is further resolving of the environmental dimension in the construction of the new production facility Svilno 2, as well as maintaining preventive approach in waste management.

WORK SAFETY

Protecting the health and safety of employees in the workplace is an important priority for JGL. Everyone's obligation is to promote every effort of the company in the implementation of operations in a safe manner. Responsibility towards employees requires the application of the best possible measures to prevent accidents, and refers to: technical planning of workplaces, equipment and processes; security management and personal behavior in the workplace. All are required to continually take account of safety at work.

Our Work Safety Department (*Zaštita na radu* - ZNR) and our Fire Protection Department (*Zaštita od požara* - ZOP) operate in accordance with JGL's mission "to improve the quality of life through taking care of health." As safe work is the prerequisite to achieving that goal, just as safe environment is in 2013 numerous measures were taken and the pre-existing state of work safety was implemented.

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

Through regular annual reports to the competent bodies (Croatian Work Safety Inspectorate, Environmental Protection Agency), JGL presented its real state of affairs which shows progress in comparison to the year 2013.

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

- <u>Work safety training</u>

Work safety related knowledge of all employees is constantly being evaluated. In 2014, in JGL 38 employees were educated in the theory and practice of how to work safely and 46 of them was educated on the fire protection. Additional education is established for managers in order to convey how important health protection and work safety are to employees and to contribute to the business success of the company.

Firstly, new employees are educated in occupational safety through GMP program. Secondly, employees learn about the potential hazards and work safely as part of GMP 1 education. The final part of the training in the field of occupational safety and health is education based on the program approved by the Ministry of Economy, Labour and Entrepreneurship, which consists of theoretical and practical part and is carried out by a professional. For managers an additional training is organized with a goal to implement consideration and sense of importance of work health and safety for the satisfaction of employees and to additionally contribute to the success of the company.

The activities of work safety in 2014 were, among other things, focused on the extension of the autonomous acts in the field of occupational safety and health, participation in working groups during the construction of new and reconstruction of existing facilities and the purchase of new machinery and equipment.

- Constant health surveillance

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

- Taking care of work tools

In 2014, all necessary tastings of dangerous machinery and devices were performed, electric installations were tested, work environment was tested (noise, vibrations, lighting, microclimatic conditions), and all tastings related to fire protection were performed.

- Internal and external surveillance

Regular internal surveillance was used to monitor the work safety conditions and to eliminate all irregularities in order to prevent unwanted events. In 2013, a number of targeted and complete surveillances were performed and where failures were noticed, instructions were given and deadlines established for their elimination.

As for the external oversight exercised by the State Inspectorate of work safety, two oversights were in 2014 with an emphasis implementation of basic and special measures for safety. The controls were detailed and without objections.

- Fire and explosions protection

In addition to regular (quarter) and periodic (annual) surveillances of fire protection equipment, in 2014 JGL organized a fire drill in accordance with to the existing SOP, and the education of newly employed on the fire protection.

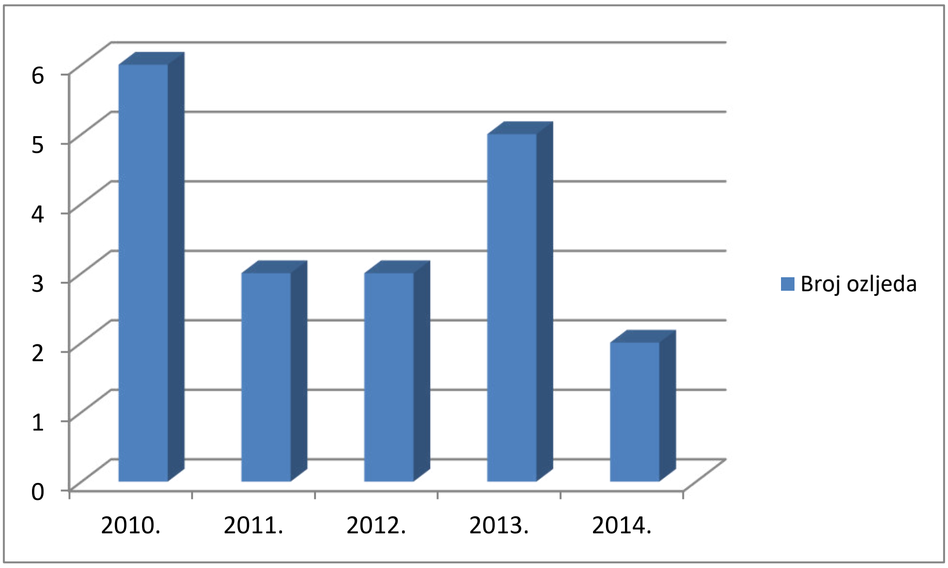
During the last five years (2010 - 2014) there were a total of 19 accidents at work. In this period there were no cases of occupational disease.

Number of injuries according to the place in the past five years (2010 – 2014)

Year	Work place	On the way to or from the work place	Total
2010	5	1	6
2011	3	0	3
2012	2	1	3
2013	3	2	5
2014	2	0	2

The number of injuries is reduced compared to the number of employees. In 2014, 2 accidents at work were recorded of which 2 in the workplace. All injuries were classified as minor.

Number of accidents in period 2010 - 2014



RESEARCH AND DEVELOPMENT

In 2014, business function of the Research and Development was organizationally changed when compared to 2013. The processes of research and preformulation and technological development are linked in order to increase their efficiency and R & D organization is divided into:

- Development of formulations and technology process
- Development of analytical processes
- Stability and R & D documentation
- R & D Office

R & D in 2014 consisted of 45 employees, of which, due to the large number of maternity leave, continuously active are approximately 40 employees.

Activities based on work hours

- non-portfolio activities - 39%
- work on improvement of products from the existing portfolio - 16%
- work on new products - 45%.

Activities based on programme:

• Prescription programme - 42%
• Programme Aqua Maris - 28%
• Non-prescription programme - 24%.

Total, activities were on 60 different brands / products. Within technological forms, all pharmaceutical forms which JGL has in its portfolio were present with an emphasis on products in segment of sterile solutions (own development projects), dry-oral medications (co-development projects and transfer of knowledge in JGL) and semi-solid forms (activity upgrade).

In accordance with the operating plan, the focus of R & D-and was on:
1. New product development projects (NPD)
2. Technology Transfer projects (TT)
3. Activities to improve products in the existing portfolio (TZP), which puts emphasis on the following processes:

   1. preformulation research
   2. development of new formulations and analytical methods
   3. process optimization of the entire process areas of R & D and shortening of deadlines for new products release.

Consequently, the R & D has been active on 19 development projects:

- 10 projects of own development
- 9 projects of technology transfer / collaborative development.

Of this, at the end of the year status was:

- completed projects (product market) - 3
- projects in final stage of completion (getting MA / marketing authorization) - 3
- at the stage of registration of the product - 6
- in progress, with an extension in 2015 - 7 projects / products.

In addition to these projects, activities on another 5-7 projects started at the end of 2014. As part of activities to improve the existing portfolio (Team for improvement), a total of 34 themes / 29 products were covered in order to improve the product, as well as its technological form / production department to which they belong (Table below).

Activities to improve the existing product portfolio in 2014 .:

Technological form / production department	Number of products / cases
Sterile solutions / SS	10
Dry oral form / DOF	8
Semisolid forms / SSF	8
Non-sterile solutions / NSS	3
Total improvements	**29 / 34**
Closed	**12 / 16**
In progress	**10 / 12**
New	**5 / 6**

New / old portfolio ratio still has not significantly increased compared to 2011 because of the large number of changes and improvements to the existing portfolio / manufacturing facilities that have to be monitored by R & D.

During 2014, R&D continued with the activities of intensive cooperation in the field of knowledge transfer, particularly in cooperation with the University of Rijeka and the study of biotechnology and drug research.

Strategic goal of R&D in the following period is to focus on new products and to launch a significant number of development projects, whether they are own development projects, technology transfer projects or collaborative development projects.

Given the current construction of a new plant for aerosols, which is of strategic importance for JGL as a whole, R&D continues to intensify activities in that area.

QUALITY

We are dedicated to improving the quality of life by taking care of your health. Understandably, the quality of all our products, but also our services, is a key priority for us to reach our customers in the shortest possible time. JGL's quality and environmental management policy is elaborated in the Quality Manual.

With the growth and development of the JGL Group, the trend of the number of regulatory inspections, supervision of certification bodies and auditing partners has also increased. So in 2014, a record number of inspections has been carried out so far, a total of 17 which is 21% more than in the previous year.

During 2014, JGL was inspected by:

- Bureau Veritas Certification, ISO 9001: 2008,
- Bureau Veritas Certification, ISO 22000: 2005,
- Bureau Veritas Certification, DS / EN ISO 13485: 2012,
- Ukraine's Competent Body for Medical Products,
- Pharmathen, Greece,
- SIQ - the Competent Body for Medical Products, Slovenia,
- Sanitary Inspection of the Republic of Croatia - production of dietary supplements,
- Topit Sanita - Competent Body for Medical Products, Italy,
- JAZMP The Public Agency of the Republic of Slovenia for Health and Medical Care,
- Teva / Pliva for Ratiopharm, Croatia,
- GOST R, Medicines Authority, Russia,
- HALMED Agency for Medicinal Products and Medical Products, Croatia - Pharmacovigilance Inspection,
- Ministry of Health, Croatia - good distribution practice,
- Actavis, United Kingdom,
- Abbott, Ireland,
- Pharmascience, Canada.

The results of all the audits were positive, resulting in enhanced cooperation with partners, opening up opportunities for faster penetration into new markets, achieving the first PIC / S GMP certificate for the nonsterile solution department, wholesale drug licensing requirements in compliance with Directive 2001/83, medical product certificates. The general conclusion of the auditor is that JGL has good facilities, physico-chemical laboratory, well-maintained location, documentation and highly competent employees. The new Approach to Cleansing Validation, introduced mid-year, has largely endorsed all inspections of regulatory bodies and partners. Prior to the statutory deadline, we have embarked on the implementation of the demanding PDE principle of calculating the allowed backlog of the previous product on the equipment. The Permitted Daily Exposure (PDE) calculation includes a comprehensive evaluation of preclinical and clinical data on the drug.

FUTURE DEVELOPMENT

JGLs focus is on the health and it is defined by its mission: "We improve the quality of life through taking care of your health" and a vision of the company to which JGL sees itself as "an international pharmaceutical company oriented to the development and production of drugs in targeted therapeutic areas with a focus on the senses, which wants be a global leader in the use of the benefits of sea water to health."

JGL will focus on strategy of development and launch of new products, as well as the strategy of expanding into new markets. A great contribution to the growth and development of the company will be a new corporate structure and process organization, as well as the realization of key corporate projects: Svilno 2, Pharma Valley, Adrialab and JGL Belgrade-Sopot.

Pharma Valley is certainly a key resource for the realization of the strategic vision of sustainable and profitable growth for the next ten years.

The largest investment in the company's history, which largely determines the future of JGL is worth HRK 361 million. Pharma Valley has two key objectives - to provide conditions and capacities in the production, development and implementation of storage for long-term development plan of the company, and consolidate all production and technological sites in one place.

An important corporate project for the future of the company is certainly Adrialab, a spin-off company owned by JGL. It was founded in order to support restructuring of JGL and the traditional part of the portfolio was transferred to Adrialab ensure the continuation of its further development. Group JGL got another independent pharmaceutical company which wants to expand the business in the domestic and regional markets.

JGL made an acquisition of BG Pharma, a company in bankruptcy, and further investments of 2 million euros for business expansion, production start and portfolio expansion of Rx and OTC products in Serbia. JGL will have a competitive advantage and considerable tax savings to the markets with which the Republic of Serbia has no customs or has signed free trade agreements, such as Russia, Kazakhstan, Belarus, Turkey and CEFTA countries.

In accordance with the adopted corporate vision and mission of the company, long-term development objectives are established, all based on strategic portfolio analysis and growth projections based on new product development and new market expansion.

JADRAN - GALENSKI LABORATORIJ
joint stock comapny
R I J E K A
Svilno 20
MANAGEMENT BOARD
1. Convocation

EXCERPT FROM THE MINUTES

From the working session of the Management Board of Jadran - Galenski laboratorij, joint stock company from Rijeka, 1. convocation, held on 28th April 2015 with a beginning at 9:00 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 of Jadran - Galenski laboratorij, joint stock company for 2014”, and this decision was made:

DECISION

I
The Management Board of Jadran - Galenski laboratorij, joint stock company confirms the validity of consolidated financial reports of Jadran - Galenski laboratorij, joint stock company for 2014 as composed by the Management Board of the Company that was active up to 30.12.2014.

It is determined that the Management Board of Jadran - Galenski laboratorij, joint stock company and the Executive directors were named on 31.12.2014, and that there was no business activity that would affect the consolidated financial reports composed by the Management Board that was active up to 30.12.2014.

II
Management Board of Jadran - Galenski laboratorij, joint stock company determined the consolidated financial reports of Jadran - Galenski laboratorij, joint stock company for 2014.

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

All present Members of the Management Board voted for this Decision

PRESIDENT OF THE MANAGEMENT BOARD
IVO USMIANI,mag.pharm. ,spec.