

Attachment 1.

Period:

1.1.2015

to

31.12.2015

Yearly financial report GFI-PODRegistration number (MB): **03715957**Registration number (MBS): **040004561**Personal identification number (OIB): **20950636972**Company: **JGL d.d.**Postal code and city: **51000****Rijeka**Address: **Svilno 20**e-mail: jgl@jgl.hrInternet address: www.jgl.hrCode and name of city: **373** **Rijeka**Code and name of county: **8** **Primorsko-goranska**Number of employees **962**
(at the end of the period)Consolidated report: **YES**NKD code: **2120**

Companies in consolidation (in acc. with IFRS):

Headquarters:

MB:

Farmis d.o.o.**Sarajevo, BIH****Jadran-Galenski laboratorij Ljubljana d.o.o.****Ljubljana, Slovenija****JGL d.o.o. Beograd-Sopot****Beograd, Srbija****JGL North America LLC****Raleigh, SAD****Pablo d.o.o.****Zagreb****1162772****Pablo zdravstvena ustanova za ljekarničku****Rijeka****1487434****Poliklinika Pablo****Solin****2311313****Adrialab d.o.o.****Rijeka****4071417**

Accounting:

Contact: **Crnković Verica**

(enter surname and name of the contact person)

Phone: **051 660 710**Fax: **051 660 711**e-mail: verica.crnkovic@jgl.hrSurname and name: **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 2015

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	510.826.541	630.360.921
I. INTANGIBLE ASSETS (004 - 009)	003	88.416.354	86.846.244
1. Expenditure for research and development	004	7.078.095	11.561.779
2. Patents, licences, concessions, trademarks, software and other rights	005	34.475.651	34.083.188
3. Goodwill	006	24.293.857	23.449.375
4. Advances on intangible assets	007		
5. Intangible assets-construction in progress	008	15.735.622	11.024.161
6. Other intangible assets	009	6.833.129	6.727.741
II. TANGIBLE ASSETS (011 - 019)	010	420.015.361	541.581.465
1. Land	011	6.991.821	42.006.478
2. Buildings	012	88.173.038	265.686.579
3. Equipment and machinery	013	108.263.118	190.908.849
4. Tools, power stock and transportation means	014	15.504.766	21.344.794
5. Biological assets	015		
6. Advances on tangible assets	016	8.252.606	261.428
7. Tangible assets-construction in progress	017	187.995.969	3.628.449
8. Other tangible assets	018	608.920	758.462
9. Investments in real estate	019	4.225.123	16.986.426
III. LONG TERM FINANCIAL ASSETS (021 - 028)	020	1.512.437	1.734.358
1. Shares in affiliated companies	021	312.290	49.000
2. Loans to affiliated companies	022		
3. Participating interest	023	1.200.147	1.523.865
4. Loans to companies with participating interest	024		
5. Securities investments	025		
6. Given loans, deposits	026	0	161.493
7. Other long term financial assets	027		
8. Investments (equity method)	028		
IV. RECEIVABLES (030 - 032)	029	36.881	37.568
1. Receivables from affiliated companies	030		
2. Receivables from sales on credit	031		
3. Other receivables	032	36.881	37.568
V. DEFERRED TAX ASSETS	033	845.508	161.286
C) SHORT TERM ASSETS (035+043+050+058)	034	605.510.008	582.284.311
I. INVENTORIES (036 - 042)	035	204.628.316	163.223.381
1. Raw and other material	036	51.110.167	41.647.557
2. Production in progress	037	228.095	0
3. Finished products	038	100.558.468	70.591.764
4. Trade goods	039	23.468.072	24.930.745
5. Advances on inventories	040	0	26.018
6. Long term assets for sale	041	29.263.514	26.027.297
7. Biological assets	042		
II. RECEIVABLES (044 - 049)	043	354.549.452	357.694.367
1. Receivables from affiliated companies	044		
2. Receivables from buyers	045	317.729.290	339.900.592
3. Receivables from participating companies	046	0	148
4. Receivables from employees and subsidiaries	047	41.987	41.580
5. Receivables from government and other institutions	048	22.820.460	13.611.119
6. Other receivables	049	13.957.715	4.140.928
III. SHORT TERM FINANCIAL ASSETS (051 - 057)	050	22.677.112	42.695.541
1. Shares in affiliated companies	051		
2. Loans to affiliated companies	052	98.000	0
3. Participating interest	053		
4. Loans given to companies with participating interest	054	0	100.000
5. Securities investment	055	1.006.678	3.439
6. Given loans, deposits	056	686.328	20.027.828
7. Other short term financial assets	057	20.886.106	22.564.274
IV. CASH AT BANKS AND IN HAND	058	23.655.128	18.671.022
D) PREPAYMENTS AND ACCRUED INCOME	059	2.780.410	3.917.628
E) TOTAL ASSETS (001+002+034+059)	060	1.119.116.959	1.216.562.860
F) OFF BALANCE SHEET ITEMS	061	352.302.753	424.873.305

LIABILITIES			
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	383.704.449	388.358.037
I. CALLED UP CAPITAL	063	117.908.000	118.472.000
II. CAPITAL RESERVES	064	7.776.478	6.152.309
III. INCOME RESERVES (066+067-068+069+070)	065	13.768.790	16.683.052
1. Compulsory reserves	066	6.000.000	6.000.000
2. Reserves for treasury shares	067	8.110.811	12.276.873
3. Treasury shares (deductible)	068	2.482.800	3.734.600
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	233.772.609	239.957.055
1. Retained profit	073	233.772.609	239.957.055
2. Loss for current year	074		
VI. PROFIT/LOSS FOR CURRENT YEAR (076-077)	075	10.478.572	7.093.621
1. Profit for current year	076	10.478.572	7.093.621
2. Loss for current year	077		
VII. MINORITY INTEREST	078		
B) PROVISIONS (080 - 082)	079	940.947	806.428
1. Provisions for retirement and similar expenditures	080	940.947	806.428
2. Provisions for taxes and contributions	081		
3. Other provisions	082		
C) LONG TERM LIABILITES (084 - 092)	083	365.717.428	569.318.166
1. Liabilities for affiliated companies	084		
2. Liabilities for loans, deposits	085		
3. Liabilities for bank loans and other financial institutions	086	221.437.161	365.172.059
4. Liabilities for advances	087		
5. Accounts payables	088		
6. Securities payables	089	139.780.667	199.646.507
7. Liabilities for companies with participating interest	090		
8. Other long-term liabilities	091		
9. Deferred tax liability	092	4.499.600	4.499.600
D) SHORT-TERM LIABILITIES (094 - 105)	093	346.120.591	236.680.695
1. Liabilities for affiliated companies	094		
2. Liabilities for loans, deposits	095		
3. Liabilities for bank loans and other financial institutions	096	175.461.905	84.730.864
4. Liabilities for advances	097	367.059	706.495
5. Accounts payables	098	155.705.237	109.981.957
6. Securities payables	099	1.900.000	30.580.183
7. Liabilities for companies with participating interest	100	127.037	316.442
8. Liabilities for employees	101	4.563.598	5.061.479
9. Liabilities for taxes, contributions and other	102	7.185.494	4.682.242
10. Liabilities for shares in result	103	26.400	21.318
11. Liabilities for short term assets intended for sale	104		
12. Other short term liabilities	105	783.861	599.715
E) ACCRUALS AND DEFERRED INCOME	106	22.633.544	21.399.534
F) TOTAL LIABILITIES (062+079+083+093+106)	107	1.119.116.959	1.216.562.860
G) OFF BALANCE SHEET ITEMS	108	352.302.753	424.873.305
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	383.704.449	388.358.037
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 2015 and 31st December 2015

GROUP JGL

Position	ADP mark	Previous period	Current period
1	2	3	4
I. BUSINESS REVENUE (112+113)	111	732.579.473	709.083.932
1. Sales revenue	112	687.823.011	682.988.104
2. Other operational revenue	113	44.756.462	26.095.828
II. BUSINESS EXPENSE (115+116+120+124+125+126+129+130)	114	674.923.208	675.918.449
1. Change in value of inventories for production and goods	115	-40.008.174	30.194.799
2. Operating expense(117 - 119)	116	484.808.224	424.220.840
a) Cost of raw material	117	187.468.095	164.432.104
b) Costs of goods sold	118	139.383.511	132.087.107
c) Other external costs	119	157.956.618	127.701.629
3. Expense for employees (121 - 123)	120	155.606.434	142.820.624
a) Net salaries and wages	121	96.717.900	89.365.897
b) Taxes, social and pension funds	122	36.210.395	31.809.679
c) Contributions for salaries	123	22.678.139	21.645.048
4. Depreciation	124	34.545.015	36.027.901
5. Other expense	125	27.480.312	29.835.138
6. Revalorisation (127+128)	126	995.881	3.201.775
a) of long term assets (excluding financial assets)	127	5.893	0
b) of short term assets (excluding financial assets)	128	989.988	3.201.775
7. Provisions	129		
8. Other operational expenses	130	11.495.516	9.617.372
III. FINANCIAL REVENUE (132 - 136)	131	47.745.748	93.244.995
1. Interests, exchange rate differentials, dividends and similar	132		
2. Interests, exchange rate differentials, dividends and similar	133	25.667.435	27.845.238
3. Revenue from participating interest and subsidiaries	134	37.945	24.656
4. Non-realized revenue	135	21.290.738	27.052.220
5. Other financial revenue	136	749.630	38.322.881
IV. FINANCIAL EXPENSE (138 - 141)	137	89.954.881	118.009.371
1. Interests, exchange rate differentials, dividends and similar	138		
2. Interests, exchange rate differentials, dividends and similar	139	89.270.023	82.911.581
4. Non-realized loss from financial assets	140	602.228	0
5. Other financial expenses	141	82.630	35.097.790
V. SHARE IN PROFIT FROM AFFILIATED COMPANIES	142	76.485	77.999
VI. SHARE IN LOSS FROM AFFILIATED COMPANIES	143		
VII. EXTRAORDINARY REVENUE	144		
VIII. EXTRAORDINARY EXPENSE	145		
IX. TOTAL REVENUE (111+131+142 + 144)	146	780.401.706	802.406.926
X. TOTAL EXPENSES (114+137+143 + 145)	147	764.878.089	793.927.820
XI. PROFIT OR LOSS BEFORE TAX (146-147)	148	15.523.617	8.479.106
1. Profit before tax (146-147)	149	15.523.617	8.479.106
2. Loss before tax (147-146)	150	0	0
XII. INCOME TAX	151	5.045.045	1.385.485
XIII. PROFIT OR LOSS OF THE PERIOD (148-151)	152	10.478.572	7.093.621
1. Profit of the period (149-151)	153	10.478.572	7.093.621
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	10.478.572	7.093.621
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	10.478.572	7.093.621
II. OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (159 do	158	0	0
1. Exchange rate differentials from foreign business calculations	159		
2. Changes in revalorisation reserves for long term tangible and	160		
3. Profit or loss from revalorisation of financial assets intended	161		
4. Profit or loss from efficient cash flow protection	162		
5. Profit or loss from efficient investment protection	163		
6. Share in comprehensive profit/loss of affiliated companies	164		
7. Actuarial profit/loss according to planed income	165		
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	10.478.572	7.093.621
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	10.478.572	7.093.621
2. Assigned to minority interest	170	0	0

CASH FLOW STATEMENT - Indirect method
For the period from 1st January 2015 till 31st December 2015

Position	ADP mark	Previous period	Current period
1	2	3	4
CASH FLOW FROM BUSINESS ACTIVITIES			
1. Profit before tax	001	15.523.617	8.479.106
2. Depreciation	002	34.545.015	36.027.901
3. Increase in short term liabilities	003		
4. Decrease in short term liabilities	004	28.936.891	
5. Decrease in inventories	005		27.490.171
6. Other increase of cash flow	006	107.116.751	30.558.256
I. Total increase of cash flow from business activities (001 do 006)	007	186.122.274	102.555.434
1. Decrease in short term liabilities	008	70.098.153	19.754.670
2. Increase in short term liabilities	009		32.948.558
3. Increase in inventories	010	40.602.308	
4. Other decrease in cash flow	011	9.587.738	51.825.799
II. Total decrease of cash flow from operating activities (008 - 011)	012	120.288.199	104.529.027
A1) NET INCREASE OF CASH FLOW FROM BUSINESS ACTIVITIES (007-012)	013	65.834.075	0
A2) NET DECREASE OF CASH FLOW FROM BUSINESS ACTIVITIES (012-007)	014	0	1.973.593
CASH FLOW FROM INVESTING ACTIVITIES			
1. Cash proceeds from sale of long terms intangible and tangible assets	015	1.114.847	1.423.649
2. Cash proceeds from sale of equity and debt security instruments	016		
3. Cash proceeds from interest payment	017	40.235	
4. Cash proceeds of dividend payment	018		
5. Other cash proceeds from investing activities	019	3.680.000	98.000
III. Total cash inflow from investing activities (015 - 019)	020	4.835.082	1.521.649
1. Cash outflow for acquisition of long term tangible and intangible assets	021	88.885.520	80.722.260
2. Cash outflow for acquisition of equity and debt security instruments	022		
3. Other cash outflows from investing activities	023	0	21.975.619
IV. Total cash outflow from investing activities (021 - 023)	024	88.885.520	102.697.879
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (020-024)	025	0	0
B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES (024-020)	026	84.050.438	101.176.230
CASH FLOW FROM FINANCE ACTIVITIES			
1. Cash inflow from issuing equity and debt financial instruments	027	3.496.920	201.854.094
2. Cash inflow from loan principals, debentures, credits and other borrowings	028	195.941.685	329.248.979
3. Other cash inflows from finance activities	029	772.797	20.719.255
V. Total cash inflow from finance activities (027 - 029)	030	200.211.402	551.822.328
1. Cash outflow for repayment of loan principal and bonds	031	127.491.637	446.865.598
2. Cash outflow for dividend payment	032	10.514.376	2.624.950
3. Cash outflow for finance lease	033	31.705.619	
4. Cash outflow for buyback of own shares	034	5.330.259	4.166.063
5. Other cash outflow from finance activities	035	140.779	
VI. Total cash outflow for finance activities (031 - 035)	036	175.182.670	453.656.611
C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES (030-036)	037	25.028.732	98.165.717
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	6.812.369	0
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	040	0	4.984.106
Cash and cash equivalents at the beginning of the period	041	16.842.759	23.655.128
Increase of cash and cash equivalents	042	391.168.758	655.899.411
Decrease of cash and cash equivalents	043	384.356.389	660.883.517
Cash and cash equivalents at the end of the period	044	23.655.128	18.671.022

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		
2. Cash proceeds from royalties, fees, commissions, etc	002		
3. Cash proceeds from insurance claims	003		
4. Cash proceeds from tax return	004		
5. Other cash proceeds	005		
I. Total increase of cash flow from operating activities (001 - 005)	006		
1. Cash outflow for liabilities	007		
2. Cash outflow for employees	008		
3. Cash outflow to insurance for indemnification of damage	009		
4. Cash outflow for interests	010		
5. Cash outflow for taxes	011		
6. Other cash outflow	012		
II. Total cash outflow from business activities (007 do 012)	013		
A1) NET INCREASE OF CASH FLOW FROM OPERATING ACTIVITIES (006-013)	014		
A2) NET DECREASE OF CASH FLOW FROM OPERATING ACTIVITIES (013-006)	015		
CASH FLOW FROM INVESTMENT ACTIVITIES			
1. Cash proceeds from sale of long terms intangible and tangible assets	016		
2. Cash proceeds from sale of equity and debt security instruments	017		
3. Cash proceeds from interest payment	018		
4. Cash proceeds of dividend payment	019		
5. Other cash proceeds from investing activities	020		
III. Total cash inflow from investing activities (015 - 019)	021		
1. Cash outflow for acquisition of long term tangible and intangible assets	022		
2. Cash outflow for acquisition of equity and debt security instruments	023		
3. Other cash outflows from investing activities	024		
IV. Total cash outflow from investing activities (021 - 023)	025		
B1) NET CASH FLOW FROM INVESTING ACTIVITIES (020-024)	026		
B2) NET CASH OUTFLOW FROM INVESTING ACTIVITIES (024-020)	027		
CASH FLOW FROM FINANCE ACTIVITIES			
1. Cash inflow from issuing equity and debt financial instruments	028		
2. Cash inflow from loan principals, debentures, credits and other borrowings	029		
3. Other cash inflows from finance activities	030		
V. Total cash inflow from finance activities (027 - 029)	031		
1. Cash outflow for repayment of loan principal and bonds	032		
2. Cash outflow for dividend payment	033		
3. Cash outflow for finance lease	034		
4. Cash outflow for buyback of own shares	035		
5. Other cash outflow from finance activities	036		
VI. Total cash outflow for finance activities (031 - 035)	037		
C1) NET CASH FLOW INCREASE FROM FINANCE ACTIVITIES (030-036)	038		
C2) NET CASH FLOW DECREASE FROM FINANCE ACTIVITIES (036-030)	039		
Total increase of cash flow (013 – 014 + 025 – 026 + 037 – 038)	040		
Total decrease of cash flow (014 – 013 + 026 – 025 + 038 – 037)	041		
Cash and cash equivalents at the beginning of the period	042		
Increase of cash and cash equivalents	043		
Decrease of cash and cash equivalents	044		
Cash and cash equivalents at the end of the period	045		

CHANGES IN EQUITY
for the period from 1.1.2015 to 31.12.2015

Position	ADP mark	Previous period	Current period
1	2	3	4
1. Called up capital	001	117.908.000	118.472.000
2. Capital reserves	002	7.776.477	6.152.309
3. Reserves from equity	003	13.768.790	16.683.052
4. Retained profit or transferred loss	004		
5. Profit or loss of the period	005	233.772.610	239.957.055
6. Revalorisation of long term tangible assets	006	10.478.572	7.093.621
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	383.704.449	388.358.037
11. Exchange rate differentials from foreign net investments	011		
12. Current and deffered tax	012	-5.045.045	-1.385.485
13. Cash flow protection	013		
14. Changes in accounting policies	014		
15. Correction of errors from past periods	015		
16. Other changes in equity	016	832.904	6.039.073
17. Total increase or decrease of equity (ADP 011 - 016)	017	-4.212.141	4.653.588
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17.a Assigned to holders of the capital of the parent company	018		
17. b Assigned to minority interest	019		

Positions that reduce capital are entered with a negative sign

Information from ADP 001 - 009 are situations on the date of the balance sheet

Notes

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

JGL d.d.
Consolidated Annual Financial Statements
31st December 2015

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DECLARATION OF RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL REPORTS BY EXECUTIVE DIRECTORS BOARD

Pursuant to the Accounting Act of the Republic of Croatia, the Executive Directors are responsible for ensuring that financial statements are a true and fair representation of the financial position and result of the Group, all in accordance with the applicable accounting standards, and for the maintenance of proper accounting records, which enable the preparation of such financial statements at any time. Executive Directors have general responsibility for taking such steps that would in a reasonable measure protect the assets of the Group and detect and prevent fraud or other irregularities.

The Executive Directors are responsible for selecting suitable accounting policies that are in accordance with applicable accounting standards and insuring that these policies are consistently applied, for making reasonable and prudent judgments and estimates and for preparing consolidated financial statements in accordance with the going concern assumption, unless it is inappropriate to presume that the Group will continue to operate in the foreseeable future.

Executive Directors reasonably expect that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Executive Directors are responsible for the submission of consolidated annual financial statements to the Management Board of the Company immediately upon their receipt.

These report consolidated statements of the Company.

The consolidated financial statements were approved by the Executive Directors on 25 April 2016 for submission to the Management Board of the Company at their acceptance, which is confirmed by signature.

For JGL d.d.

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JGL d.d.
Svilno 20 Rijeka



Jasmin Hulja, Glavni izvršni direktor



Dražen Jakšić, Izvršni direktor

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF JGL d.d.

We have performed an audit of the enclosed financial statements of the public limited company JGL, Rijeka (Company) and its subsidiaries (the Group) which include Consolidated Balance Sheet dated 31 December 2015, Consolidated Profit and Loss Account with the report on other comprehensive income, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the year ending with the said date, as well as the summary of significant accounting policies and notes to financial statements.

Responsibility of the Executive Directors for financial statements

The 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 for those internal controls the 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.

Opinion

In our opinion, the financial statements provide a true and objective image of the financial position of JGL Group, Rijeka on 31 December 2015, its financial performance and its cash flows for the year ending with the said date all according to the International Financial Reporting Standards applicable in the European Union.

Other issues

The consolidated financial statements of joint stock company JGL and its subsidiaries for the year ended 31 December 2014 were audited by another auditor who on April 23, 2015 expressed a positive opinion.

Report on other legal requirements

Opinion on compliance of the annual consolidated report with the consolidated financial statements

The Executive Directors, pursuant to the provisions of the Accounting Act, are responsible for preparing the annual consolidated report. Our responsibility is to express an opinion on the compliance of the annual consolidated report with the annual consolidated financial statements.

In our opinion, the financial information contained in the Annual consolidated report for the year 2015 are in compliance, in all material respects, with the attached consolidated financial statements of the joint stock company JGL for the business year ending on 31 December 2015.

Zagreb, 25 April 2016



Ivan Pečur
Ovlašteni revizor



mr.sc. Dalibor Briški
Direktor

gmc-unitreu Croatia d.o.o.
Zagreb, Tuškanova 32

gmc-unitreu Croatia d.o.o.
Zagreb, Tuškanova 32

Report on comprehensive income

	note	2015	2014
BUSINESS REVENUE		709.083.932	732.579.473
Sales revenue	3	682.988.104	687.823.011
Other business revenue	4	26.095.828	44.756.462
BUSINESS EXPENSES		(675.918.449)	(674.923.208)
Changes in inventory	5	(30.194.799)	40.008.174
Material costs	6	(424.220.840)	(484.808.224)
Personnel costs	7	(142.820.624)	(155.606.434)
Depreciation	8	(36.027.902)	(34.545.015)
Value adjustment	9	(3.201.774)	(995.881)
Other costs	10	(39.452.510)	(38.975.828)
Financial revenue	11	93.322.994	47.822.233
Financial expenses	11	(118.009.371)	(89.954.881)
Net financial expenses	11	(24.686.377)	(42.132.648)
FINANCIAL RESULT BEFORE TAXATION		8.479.106	15.523.617
Income tax	12	1.385.485	5.045.045
FINANCIAL RESULT		7.093.621	10.478.572
Other comprehensive income		-	-
COMPREHENSIVE FINANCIAL RESULT		7.093.621	10.478.572

Balance Sheet

	note	2015	2014
IMOVINA			
Long-term assets		630.360.921	510.826.541
Intangible assets	13	86.846.244	88.416.354
Buildings, plants and equipment	14	524.595.039	415.790.238
Real-estate investment	14	16.986.426	4.225.123
Other financial assets	15	1.771.926	1.549.318
Deferred tax assets	16	161.286	845.508
Short-term assets		586.201.939	608.290.418
Inventory	17	163.223.381	204.628.316
Receivables	18	357.694.367	354.549.453
Financial assets	19	42.695.541	22.677.112
Money in bank and in hand	20	18.671.022	23.655.128
Other receivables	21	3.917.628	2.780.409
TOTAL ASSETS		1.216.562.860	1.119.116.959
CAPITAL AND LIABILITIES			
Capital and reserves		388.358.037	383.704.449
Shared capital	22	118.472.000	117.908.000
Reserves	23	22.835.361	21.545.267
Profit or loss brought forward	24	239.957.055	233.772.610
Profit or loss for the financial year	15	7.093.621	10.478.572
Long-term liabilities		570.124.594	366.658.376
Provisions	26	806.428	940.947
Liabilities towards banks and other financial institutions	27	365.172.059	221.437.162
Liabilities arising from securities	28	199.646.507	139.780.667
Deferred tax liability	29	4.499.600	4.499.600
Short-term liabilities		258.080.229	368.754.134
Liabilities towards banks and other financial institutions	30	84.730.864	175.461.906
Liabilities towards suppliers	31	110.298.399	155.832.273
Liabilities arising from securities	32	30.580.183	1.900.000
Other liabilities	33	32.470.783	35.559.955
TOTAL CAPITAL AND LIABILITIES		1.216.562.860	1.119.116.959

Statement of Changes in Equity

	Shared capital	Reserves	Profit or loss brought forward	Profit or loss for the financial year	Capital and reserves
On 31.12.2014	117.908.000	21.545.267	233.772.610	10.478.572	383.704.449
New shares	564.000	1.290.094	-	-	1.854.094
Profit brought forward	-	-	10.478.572	-	10.478.572
Profit for the financial year	-	-	-	7.093.621	7.093.621
Transactions with own shares	-	4.166.063	-	-	4.166.063
TOTAL INCREASE	564.000	5.456.157	10.478.572	7.093.621	23.592.350
Transfer to retained profit	-	-	-	(10.478.572)	(10.478.572)
Transfer to dividend liability	-	-	(2.626.318)	-	(2.626.318)
Mistake of the previous period	-	-	(16.095)	-	(16.095)
Transactions with own shares	-	(4.166.063)	(4.166.063)	-	(8.332.126)
Consolidation effect	-	-	2.514.349	-	(1.651.714)
TOTAL DECREASE	-	(4.166.063)	(4.294.127)	(10.478.572)	(18.938.762)
Net change	564.000	1.290.094	6.184.445	(3.384.951)	4.653.588
On 31.12.2015	118.472.000	22.835.361	239.957.055	7.093.621	388.358.037

Cash Flow Statement

	2015	2014
CASH FLOW FROM BUSINESS ACTIVITIES		
Profit before tax	8.479.106	15.523.617
Adjustments to financial income and expenses		
Depreciation	36.027.901	34.545.015
Value adjustment of assets	17.115.169	9.860.831
Exchange rate differentials	13.443.087	15.872.181
Other non-cash amounts	(48.601.079)	81.383.739
Profit before changes in working capital	17.985.078	141.661.766
Increase / decrease of receivables	(32.948.558)	28.936.891
Increase / decrease of inventory	27.490.171	(40.602.308)
Increase / decrease of liabilities	(19.754.670)	(70.098.153)
Paid income tax	(3.224.720)	(9.587.738)
Net cash flow from business activities	(1.973.593)	65.834.075
 CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow/outflow from sale of long terms intangible and tangible assets	(79.298.611)	(87.770.673)
Cash inflow/outflow from sale of equity and debt security instruments	0	0
Cash inflow/outflow from given loans	(21.877.619)	40.235
Other cash inflow/outflow	0	3.680.000
Net cash flow from investing activities	(101.176.230)	(84.050.438)

CASH FLOW FROM FINANCE ACTIVITIES

Cash inflow/outflow from issuing equity and debt financial instruments	90.400.117	(1.833.339)
Cash inflow/outflow from debt on which the interest is paid	(6.162.642)	(16.563.078)
Cash outflow for dividend payment	(2.624.950)	(10.514.376)
Cash outflow for buyback of own shares	(4.166.063)	(6.290.493)
Other cash inflow/outflow from finance activities	20.719.255	60.230.018
Net cash flow from finance activities	98.165.717	25.028.732
Cash and cash equivalents at the beginning of the period	23.655.128	16.842.759
Increase / decrease of cash and cash equivalents	(4.984.106)	6.812.369
Cash and cash equivalents at the end of the period	18.671.022	23.655.128

JGL joint stock company

NOTES ACCOMPANYING ANNUAL FINANCIAL STATEMENTS FOR YEAR 2015

1. General data

These consolidated financial statements for the year that ended 31 December 2015 and they comprise the statements of Jadran - Galenski Laboratory d.d. ("JGL" or the "Company") and its subsidiaries (together "the Group"). The company was founded and operates in Croatia. The Company has headquarters at Rijeka, Svilno 20.

The Group consists of Company and subsidiaries:

	2015	2014
Farmis d.o.o. Sarajevo	100%	100%
Jadran-Galenski laboratorij d.o.o.Ljubljana	100%	100%
Jadran-Galenski laboratorij d.o.o.Beograd	0%	100%
JGL d.o.o. Beograd - Sopot	100%	100%
Pablo d.o.o. Zagreb	100%	100%
- Ljekarna Pablo Rijeka	100%	100%
- Poliklinika Pablo Solin	100%	100%
JGL North America LLC	100%	100%
Adrialab d.o.o.	100%	100%

The subsidiary Jadran-Galenski laboratorij d.o.o. Beograd was merged with JGL d.o.o. Beograd – Sopot in October 2015.

1.1. History and establishment of the Company

Jadran - Galenski Laboratorij joint stock company for production and sales of pharmaceutical and cosmetic products Rijeka, Svilno 20 entered in the register of the Commercial Court in Rijeka 02.05.1991. in the register cartridge with registration number 040004561. Identification number of the Company (OIB) is 20950636972. Company changed abbreviated name changed to make it JGL d.d. on the 24.10.2011. On 10.2.2012. the Company changed the long name that to Jadran - Galenski Laboratorij d.d- The Company changed the headquarters address to Svilno 20, Rijeka on 06.11.2013.

1.2. Main activities

The most important activities for which the Company is registered are: production of pharmaceuticals, manufacture of basic pharmaceutical products, the production of other chemical products and the manufacture of perfumes and toilet preparations.

The subsidiaries of the Group main activities are distribution of pharmaceutical products in retail and wholesale, production of pharmaceuticals and specialist health care.

1.3. Ownership structure

Share capital of JGL d.d. amounts to HRK 118.472.000 and it is divided into 1.184.720 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, F series 589.540 shares and G series 5.640 shares.

On 16 June 2015, a new issue of shares was registered at the Commercial Court - G series in the amount of 5.640 shares (the payment was made on 26 May – 29 May 2015 in the amount of HRK 1.854.093,60), based on the Resolution of the General Meeting of the Company.

At the beginning of the period, the Company owned 24.828 of own shares. Until the end of the period, the Company acquired 12.518 more own shares. On 31.12.2015 Company owned 37.346 of own shares. In accordance with the provisions of the Companies Act, the Company formed reserves for own shares which amounted to HRK 12.276.873 on 31 December 2015 (HRK 8.110.811 in 2014).

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 2015 (HRK 6.000.000 in 2014). Other reserves amounted to HRK 2.140.779 on 31 December 2015 (HRK 2.140.779 in 2014).

By the resolution of the General Meeting of the Company, the total of HRK 2.626.318 (HRK 10.519.776 in 2014) was allocated for dividend from profit brought forward generated after 2005, to the holders of A, B, C, D, E, F and G series regular shares, in the amount of HRK 2,28 per share with dividend rights.

Net profit of the Group amounted to HRK 7.015.622 in 2015 (HRK 10.478.572 in 2014) and it represents the profit generated according to the Profit and Loss Account.

Dividends are recognized in the statement of changes in equity and recorded as liabilities in the period in which they are declared.

1.4 Boards of the Company

On 31.12.2014, the Company based on the Companies Act transferred from the dualistic structure, where the management function of the Company (Management Board) was separated from the supervisory function (Supervisory Board), to a monistic structure where the role of management and control is carried out by one body - Management Board.

Members of the Management Board of 31 December 2014 are:

- Ivo Usmiani - President
- Zdravko Saršon - Vice President
- Marina Pulišić - Member
- Grozdana Božić - Member
- Eva Usmiani Capobianco - Member

According to the Bylaw, the Management Board appointed the executive directors who took over the representation of the Company and the operational management of the business:

- Jasmin Huljaj – Chief Executive Officer and Executive Director for business development and customer relationship management
- Sanja Vujić Šmaguc - Deputy Chief Executive Officer and Executive Director for brand management and portfolio
- Dražen Jakšić - Executive Director of Corporate Finance
- Mate Poropat - Executive Director of production and technical operations

2. REPORTING FRAMEWORK

2.1. Base for reporting

2.1.1. Statement of compliance

Consolidated Financial statements of the Group have been prepared in accordance with the Accounting Act and International Financial Reporting Standards used in the European Union.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments and investment in real-estate that are stated at fair value.

The accounting policies have been consistently applied, unless otherwise stated. The financial statements have been prepared on an accrual basis under the going concern principle.

The financial statements are prepared in Croatian kuna as a reporting currency of the Group. On 31.12.2015 exchange rate of 1 EUR was HRK 7,635 (2014 it was 7,661).

2.1.2 Standards, amendments and interpretations issued by the International Accounting Standards Board (IASB) adopted by the European Union and in force

During 2015 the Company has adopted the following amendments to IFRSs and Interpretations and according to requirements, generated comparative data. The adoption of new standards had no impact on equity at 1 January 2015:

- IFRIC 21 - Charges - effective for annual periods beginning on or after 17.6.2014;
- The annual improvements to IFRSs 2011-2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) - applicable for periods beginning on or after 1.1.2015).

2.1.3 Standards, amendments and interpretations that have not yet entered into force in the EU

At the date of approval of the financial statements the following new or amended standards and interpretations were issued but are not yet effective for the year ended 31.12.2015:

- Amendments to IFRS 11 - Joint ventures - effective for annual periods beginning on or after 1.1.2016;
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible assets - applicable for periods beginning on or after 1.1.2016;
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture: agricultural crops (applicable for periods beginning on 1.1.2016 or later);
- Amendments to IAS 19 - Employee benefits - defined benefit plans (effective for annual periods beginning on or after 1.2.2015);
- Amendments to IAS 27 - Separate Financial Statements (effective for annual periods beginning on or after 1.1.2016);
- Amendments to IAS 1 - Presentation of Financial Statements (effective for annual periods beginning on or after 1.1.2016);
- The annual improvements to IFRSs 2010-2012 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38), adopted by the EU on 12.12.2013 (effective for annual periods beginning on or after 1.2.2015);
- The annual improvements to IFRSs 2012-2014 (IFRS 5, IFRS 7, IAS 19 and IAS 34), adopted on 15.12.2015 (effective for annual periods beginning on or after 1.1.2016).

Executive Directors predict that all the above-mentioned standards and interpretations will be applied in the consolidated financial statements for the period when they are in force, and that their adoption will not have a significant impact on the financial statements in the period of initial application.

2.2. Consolidation

Subsidiaries are all entities over which the Company has control. Control is achieved where the Company has dominance, if it is exposed, or has rights in relation to a variable yield on the basis of their participation in this subject and is capable to affect their yield. The subsidiary is consolidated, or ceases to be consolidated from the moment in which the Company acquires or loses control over it. In the Company's financial statements, these investments are stated using a cost reduction method for impairment losses, if there are any.

The purchase method is used for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, issued shares and liabilities incurred or assumed at the date of the acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date, irrespective of any minority interest. The excess cost of acquisition over the fair value of the Group's interest in the net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the comprehensive income statement.

All transactions inside the Group, balances and unrealized gains on transactions within the Group are eliminated. Also eliminated are unrealized losses, unless there is evidence of impairment of the asset transferred. When necessary, accounting policies of subsidiary are changed to ensure consistency with the policies adopted by the Group.

2.3 Business segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from the risks and benefits of other business segments related with certain assets.

2.4 Foreign currencies

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates, in the functional currency. The consolidated financial statements are presented in HRK, which is the functional currency and reporting currency of the Company.

Transactions in foreign currencies are converted into the functional currency amounts using the exchange rate on the date of the transaction. Gains or losses from exchange differences arising on the settlement of such transactions and the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement and other comprehensive income statement for the period.

2.5 Use of estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS requires executive directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making an estimate of the value of assets and liabilities, which cannot be obtained from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are subject to regular review. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period in which it was made or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by Executive Directors in the application of IFRSs that have a significant impact on the consolidated financial statements and estimates with a significant risk of causing a material adjustment in the next year are discussed in the Notes.

2.6 Revenues

Revenue comprises the fair value of the consideration or receivable received for the sale of goods and services in the ordinary course of business of the Group. Revenue is shown, net of value-added tax, returns, rebates and discounts.

The Group recognizes revenue when the amount of revenue can be reliably measured, when it is probable that the Group will have future economic benefits and when they meet specific criteria for each activity of the Group.

2.6.1 Revenues from sales of products

Sales of goods are recognized in the comprehensive income statement, after delivery, at the invoiced value when the risks and rewards of ownership are transferred to the buyer. Taxes, discounts and rebates are deducted from income.

Sales of goods shall be recognized when all of the following conditions are met:

- a) the entity transferred the risks and rewards of product ownership to the buyer,
- b) the entity does not retain managerial involvement to the degree usually associated with ownership nor effective control over the goods sold,
- c) the revenue can be measured reliably,
- d) it is probable that the economic benefits associated with the transaction will flow to the entity, and
- e) the costs incurred or to be incurred related to the transaction can be measured reliably.

Delivery is made when the goods are shipped to the location defined in the contract and when the buyer is obliged to take the delivery, in accordance with the contract regulations. Revenue from sales of products and goods are measured on the basis of the price defined in the contract, net of estimated returns and discounts.

2.6.2 Sales of services

Revenue from services is recognized in the period in which the services are provided according to the stage of completion of the transaction at the balance sheet date.

2.7. Financial income and expenses

Finance income are comprised of interest income from loans using the effective interest rate, dividend income, income from foreign exchange gains and realized and unrealized gains from the increase in fair value.

Financial expenses are comprised of interest payable on loans, loans and bonds, foreign exchange losses and realized and unrealized losses from the decline in fair value.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized during the period necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are recognized in profit or loss using the effective interest method.

2.8 Provisions

Provisions are recognized when the Group has an obligation (legal or constructive) as a result of past events, and if it is probable that the settlement of the liability would require the outflow of economic benefits and if the amount of the obligation can be estimated reliably.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If the effect of the time value of money is considerable, the amount of provision is the present value of the expenditures expected to be required to settle the obligation. In the event of discounting, the increase in provision reflecting the passage of time is recognized as a financial expense and the book value of the provision is increasing every year to reflect the passage of time.

The amount recognized as a provision is the best estimate of the compensation that will be required to settle the present obligation at the balance sheet date, taking into consideration the risks and uncertainties associated with the obligation. If a provision is measured using the cash flows estimated to settle the present obligation, the book value of the obligation is the present value of those cash flows.

When a third party is expected to repay some or all of the economic benefits required to settle the provision, related receivable is recognized as an asset, but only if it is almost completely certain that reimbursement will be received and if the amount of the receivable can be measured reliably.

2.9. Taxing

Group states taxation liabilities in accordance with the tax laws of the country of the headquarters of each subsidiary. Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date.

Deferred taxes arise from temporary differences between the value of assets and liabilities in the financial statements and the values used for the purposes of determining the profit tax base.

Deferred tax assets for deductible temporary differences, unused tax losses and unused tax credits are recognized if it is probable that future taxable profit will occur that will use up the deferred tax assets. Deferred tax assets and liabilities are calculated by applying the income tax rates applicable to the period when such asset or liability is realized.

Current and deferred tax are recognized as an expense or income in the income statement except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity.

2.10 State grants

Government grants, including non-monetary grants at fair value, are not recognized until there is reasonable assurance that the Group entities meet the requirements for which are given grants and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the period in which the company within the Group recognizes the expenditure or costs to which the grant is intended for. A government grant as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the company within the Group with no future related costs is recognized in profit or loss in the period in which the claim arose.

2.11. Intangible assets

Development costs are capitalized as internally developed intangible assets only when development costs can be reliably measured, the products or process are technically and commercially feasible, when it is probable that future economic benefits will flow to the Group, and when the Group has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes

the cost of materials, direct labor and external services that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in the income statement in the period in which they incurred.

The cost of licenses, software, registration rights, improvements on assets that are not owned by the entity, and other rights are capitalized as intangible assets on the basis of acquisition costs and costs incurred in bringing the intangible assets to a working condition.

Goodwill arises on the acquisition of a subsidiary or a jointly controlled entity and is the difference between the fair value of the acquisition cost and the fair value of the Group's share of the net identifiable assets of the entity acquired at the acquisition date.

Subsequent expenditure connected to capitalized intangible assets are recognized only when they increase the future economic benefits embodied in the asset of the Group. All other expenditure is recognized in the income statement in the period in which they incurred.

Intangible assets are depreciated on a straight-line basis over their estimated useful lifetime of each asset and included in the comprehensive income statement. Depreciation rates are:

	2015	2014
Internally developed intangible assets	6,67%	6,67%
License	6,67-undefined	6,67-undefined
Software	10-25%	10-25%
Registration rights	20-33,33%	20-33,33%
Goodwill	5-undefined	5-undefined
Other intangible assets	6,67-50%	6,67-50%

2.12. Property, plant and equipment

Property, plant and equipment are stated at procurement cost minus the accumulated depreciation and impairment losses. Properties under construction are stated at cost of construction, minus any recognized impairment losses. The cost includes compensation for professional services and qualifying assets, and borrowing costs capitalized in accordance with the applicable accounting policies of the Group.

Subsequent expenditure related to property, plant and equipment are recognized only when it increases the future economic benefits that will flow to the Group. All other expenditure is recognized in the income statement in the period in which they incurred.

Depreciation of these assets begins at the moment in which the assets are ready for their intended use. Depreciation is calculated in such a way that the cost of assets, except real estate under construction, is depreciated over their estimated useful life span, using the straight-line method at the following rates:

	2015	2014
Buildings	1,67-10%	1,67-10%
Plant and equipment	5-30%	5-30%
Tools, facility inventory and transport vehicles	5-50%	5-50%

The estimated useful life span, residual values and depreciation methods are reviewed at the end of each year, effects of any changes in estimates are prospectively accounted for.

Land property is stated at purchase cost and is not depreciated.

Profit and loss on sale or retirement of property, plant and equipment is determined as the difference between the sales proceeds and the book value of the asset and is recognized in the comprehensive income statement.

2.13. Leases

2.13.1. Finance lease

Leases are classified as finance leases if almost all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Finance leases are initially stated on the balance sheet as assets and liabilities at their fair value of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized directly in the income statement.

2.13.2. Operating lease

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

2.14. Impairment of intangible and tangible assets

The Group reviews the book value of its tangible and intangible assets on each day of the balance sheet to determine whether there is any indication that there has been any impairment loss. If any such indication exists, the recoverable amount of the asset is determined for possible impairment loss. If the recoverable amount of an asset cannot be estimated, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If it is possible to determine reasonable and consistent basis of allocation, assets are also allocated to individual cash-generating units or, if this is not possible, the smallest group of cash generating units for which it is possible to determine reasonable and consistent allocation basis.

Intangible assets with indefinite useful life span and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication of possible impairment.

When comparing the fair value minus costs to sell and value in use, the recoverable amount is the higher one. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate before tax that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a reduction from the revaluation of the asset.

In a later reversal of the impairment loss, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if there was no impairment loss for the asset in previous years.

A reversal of an impairment loss is recognized immediately as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2.15. Property investment

Property investment is held for rental income, to increase the capital value of the property, or both.

Property investment is initially measured at cost including transaction costs, subsequent measurement is performed according to the method of fair value.

The gain or loss arising from changes in fair value of property investment are recognized in the comprehensive income statement in the period in which it arises.

2.16. Investments in associates

Associates are entities in which the Group has significant influence but not control. Significant influence is the power to govern the financial and operating policies of an entity in which the investment was made, but not control or joint control over those policies. Investments in associates are accounted for using a cost model minus any impairment losses, if any.

2.17. Financial assets

2.17.1. Initial recognition of financial assets

Investments are recognized and derecognised on a trade date when the purchase or sale of a financial asset is made under a contract whose terms require delivery of the investment within the timeframe established by the market. Investments are initially measured at fair value plus transaction costs, except in the case of financial assets carried at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following categories:

- "At fair value through profit or loss" (FVTPL)

Financial assets are classified as FVTPL when trading or defined by the Company as such. These financial assets are measured at fair value, with any resultant gain or loss recognized in the income statement.

All derivative financial instruments fall into this category, unless they are designated and effective as hedges (hedging), in which case they apply hedge accounting.

- "Held to maturity"

Bills of exchange and debentures with fixed or determinable payments and fixed maturities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held to maturity investments are recorded at depreciated cost using the effective interest method minus any impairment, with revenue recognized on an effective yield basis.

- "Financial assets available for sale"

Financial assets available for sale are non-derivative financial assets that are either designated in this category or cannot be included in the above mentioned category of financial assets. These assets are measured at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income, in the investments revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method and positive and negative exchange differences on monetary assets, which are recognized directly in the comprehensive income statement.

If the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income in the revaluation reserve are now recognized in the income statement.

- "Loans and receivables"

Trade receivables, loans and other receivables with fixed or determinable payments that are not quoted

in an active market are classified as loans and receivables. Loans and receivables are measured at depreciated cost using the effective interest method, minus any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2.17.2. Impairment of financial assets

An assessment of impairment of financial assets is made at each balance sheet date, except for those assets classified as assets at fair value through profit and loss.

A financial asset is reduced if there is objective evidence of impairment of its value as a result of one or more events that occurred after the initial recognition of an asset, when the event affects the estimated future cash flows of financial assets.

Certain categories of financial assets such as trade receivables, individually evaluated assets for which there is no objective evidence of impairment are subsequently included in the group of financial assets which is separately assessed for impairment.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience in payment collection, an increase in the number of delayed payments past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

2.17.3. Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all risks and rewards of ownership to another entity.

2.18. Receivables

Receivables are initially measured at fair value. Receivables whose collection is expected in the period longer than one year, are stated at depreciated cost using the effective interest method, minus any impairment loss on each balance sheet date. Current receivables are stated at initially recognized nominal amount decreased for appropriate value adjustment for estimated uncollectible amounts and impairment.

The value of receivables is impaired and impairment losses occur only when there is objective evidence of impairment arising from one or more events that occurred after the initial recognition of an asset when the event affects the estimated future cash flows of claims that can be reliably determined. An estimate is made on each balance sheet date determining if there is objective evidence of impairment of certain receivable. If there is objective evidence of impairment of receivables, impairment loss is measured as the difference between the carrying value and estimated future cash flows. The book value of receivables will be decreased directly or by using a separate account value. The amount of the loss is recognized in the income statement for the current year.

2.19. Cash and cash equivalents

Cash and cash equivalents recognized in the balance sheet at cost method. In the cash flow statement, cash and cash equivalents consist of cash balances with banks and in hand.

2.20. Inventories

Inventories are stated at cost or net realizable value, whichever is lower. Net realizable value represents the estimated selling price in the normal course of business, minus the selling expenses.

The cost of inventories includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and in the present situation.

The cost of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subject subsequently recoverable from the tax authorities), the cost of shipping, handling inventory, and other costs that are directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted when determining the costs of purchase.

The costs of conversion of inventories include costs directly related to the units of production and systematically arranged fixed and variable portion of production costs that incurred in converting materials into finished goods. The allocation of fixed production costs to the costs of conversion is based on normal production capacity.

Consumption of inventories is measured on the weighted average basis.

Small inventory is fully written off when put in use.

2.21. Equity instruments issued by the Company

An equity instrument is any contract that evidences a share in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are stated as the difference between proceeds received and direct costs of issue.

Share capital

a) Ordinary shares

Share capital represents the nominal value of shares issued. Capital reserves include premium gained at the issuance of shares. Incremental costs directly attributable to issue of ordinary shares are recognized as a deduction from equity.

b) Share repurchase

The amount paid for the shares, including directly attributable costs, is recognized as a decrease in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

2.22. financial liabilities

2.22.1. Financial liabilities at fair value through profit and loss

Financial liabilities are classified as financial liabilities at fair value through profit and loss when they are either held for trading or are defined by the Group as such. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognized in the income statement. The net gain or loss recognized in the comprehensive income statement includes interest paid on the financial liability.

2.22.2. Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at depreciated cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the depreciated cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life span of the financial instrument or, where appropriate, a shorter period.

2.22.3. Derecognition of financial obligations

The Group derecognises financial liabilities only when the obligations are discharged, canceled or expired.

2.23. Contingent assets and liabilities

Contingent assets are not recognized in the financial statements, but disclosed in the moment when the inflow of economic benefits occurs.

Contingent liabilities are not recognized in the financial statements, but only disclosed in the notes to the financial statements.

2.24. Key estimates and judgments in the preparation of financial statements

In preparing financial statements, Executive Directors have used certain estimates and assumptions that affect the carrying value of assets and liabilities, disclosure of contingent items at the balance sheet date and income and expenses for that period.

Estimates are used for, but not limited to: the calculation of the depreciable period and residual values of property, plant and equipment and intangible assets, impairment assessments, allowances for inventories and doubtful receivables, provisions for employee benefits and legal claims.

More details on the accounting policies for these estimations are presented in other parts of this note as well as other notes to the financial statements. Future events and their effects cannot be predicted with certainty. Therefore, accounting estimates require judgment, and those used in preparing the financial statements are subject to changes from future events, additional experience, new additional information and changes in environment in which the Group operates. Actual results may differ from those estimates.

2.25. Events after the reporting date

Events after the reporting date that provide additional information about the Group's position at the balance sheet date (events resulting in adjustments) are recognized in the financial statements. Those events that don't have an adjustment effect are disclosed in the notes to the financial statements if they are material.

3. Sales revenue

Sales revenues include revenues from sales of products, goods and services.

	2015		2014	
Domestic sales	305.118.560	45%	307.949.411	45%
Sales abroad	377.869.544	55%	379.873.600	55%
Total	<u>682.988.104</u>	100%	<u>687.823.011</u>	100%

4. Other revenue

	2015		2014	
Revenue from grants and subsidies	2.953.726	11%	1.363.869	3%
Profit from sale of property, plant and equipment	1.054.356	4%	1.964.425	4%
Other revenue	22.087.746	85%	41.428.168	93%
Total	<u>26.095.828</u>	100%	<u>44.756.462</u>	100%

Revenue from grants and subsidies are related to revenue from preferential interest, revenue from employment subsidies, revenue from state grants and subsidies and revenue arising from free disposals of

assets.

Other revenue includes revenue from the write-off of liabilities, surplus, subsequently collected adjustments of receivables, revenue from refund of claims and other miscellaneous income.

5. Change in inventories

The value of stocks of the Group, at the end of the year, decreased by HRK 30.194.799 when compared to the beginning of the year (in 2014 it increased by HRK 40.008.174).

6. Material costs

	2015	2014
Cost of materials, energy and small inventory	164.432.104	187.468.095
Cost of goods sold	132.087.107	139.383.511
Other costs of services	127.701.629	157.956.618
Total	424.220.840	484.808.224

7. Personnel costs

On 31.12.2015. the Group had 926 employees (in 2014 946 employees).

	2015	2014
Net salaries	89.365.897	96.717.900
Taxes, surtaxes and contributions from salaries	31.809.679	36.210.395
Contributions on salaries	21.645.048	22.678.139
Total	142.820.624	155.606.434

In the normal course of business, through salary deductions on behalf of the employees, regular payments of contributions are performed in accordance to the law. Mandatory pension funds are recorded as salary expense when incurred.

Other employee costs are:

	2015	2014
Severance	1.032.493	108.000
Transportation fee	1.856.466	1.848.020
Other fees	8.551.610	10.402.373
Total	11.440.569	12.358.393

Other staff compensations are included in note 10, and contain the expenses on business trips as well as non-taxable grants and awards that are recognized in the period when they happened.

8. Depreciation

	2015	2014
Depreciation of nontangible assets	12.630.279	9.983.455
Depreciation of tangible assets	23.397.623	24.561.560

Total	<u>36.027.902</u>	<u>34.545.015</u>
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9. Value adjustment

In 2015 revaluation of trade receivables was performed in the amount of HRK 3.201.774 (in 2014 the total value adjustment amounted to HRK 995.881 of which customer related HRK 989.988, and fixed assets related HRK 5.893).

10. Other business expenses

	2015	2014
Other employee costs	11.440.569	12.358.393
Compensation for members of the Supervisory / Management Board	3.492.484	747.733
Entertainment expenses	724.447	390.294
Insurance costs	5.311.239	6.431.646
Bank costs	3.818.002	2.915.461
Professional education costs	964.941	1.389.521
Literature costs	895.413	856.112
Donation costs	361.895	614.682
The cost of raw materials write-off	4.969.629	6.408.940
Other operating expenses	7.473.891	6.863.046
Total	<u>39.452.510</u>	<u>38.975.828</u>

11. Financial income - net

	2015	2014
Interest revenue	41.762	95.010
Foreign exchange gains	27.805.178	25.587.505
Income from dividends	22.954	22.865
Other financial revenue	38.322.881	749.630
Share in profits of associates	77.999	76.485
Unrealized revenue from the increase in fair value of the property under IAS 40 and financial derivatives	27.052.220	21.290.738
Total financial income	<u>93.322.994</u>	<u>47.822.233</u>
Interest expense	(21.084.470)	(18.025.374)
Expenses from foreign exchange differences	(61.827.110)	(71.244.649)
Other financial expenses	(35.097.791)	(82.630)
Unrealized expense from the decrease in fair value of the property under IAS 40 and financial derivatives	0	(602.228)
Total financial expenses	<u>(118.009.371)</u>	<u>(89.954.881)</u>
Net financial expenses	<u>(24.686.377)</u>	<u>(42.132.648)</u>

Other financial revenue includes realized revenue from financial derivatives - forwards in the amount of HRK 38.322.881 (in 2014 HRK 749.630).

Other financial expenses expressed the amount of HRK 35.097.791 of which the realized expenses from financial derivatives - forwards concerns the amount of HRK 35.095.691 (in 2014 HRK 82.630).

In accordance with IAS 23 the costs of ordinary and preferred interest on the loan in the amount of HRK 6.491.036 (2014 HRK 4.657.220) are capitalized on qualifying fixed assets of the Group. Interest are related to loans from HBOR which are intended for the project Svilno2.

12. Profit tax

	2015	2014
Current tax	701.263	1.126.867
Deferred taxes	684.222	3.918.178
Total	1.385.485	5.045.045

	2015	2014
Profit before tax	8.479.106	15.523.617
Increase in taxable profit	13.835.749	16.296.456
Decrease in taxable profit	6.459.371	21.526.784
Taxable profit	15.855.484	10.293.289
Tax incentives for investment	5.224.293	2.729.344
Tax liability	701.263	1.126.867
Reversal of deferred tax assets	684.222	3.918.178
Profit after tax	7.093.621	10.478.572

On 26.2.2014 the Ministry of Economic Affairs, under the Law on encouraging investment and improving the investment environment, granted the status of the incentive measures to the Company for project Svilno 2 in form of reduced income tax rates, which is now 0%.

13. Nontangible assets

Description	Internally developed nontangible assets	Patents, licenses, trademarks, registration of own products	Goodwill	Nontangible assets in preparation	Total intangible assets
	in HRK	in HRK	in HRK	in HRK	in HRK
Cost of nontangible assets					
On 1.1.2015	11.395.706	65.895.479	33.530.450	15.735.622	126.557.257
Direct increases	-	0	0	13.671.893	13.671.893
Increases from transfer of assets in preparation	6.424.795	10.653.429	0	-17.078.224	0
Other increases / decreases	-	-361.691	-161.296	0	-522.987
Write off and sale	-873.219	-1.237.893	-717.413	-1.305.130	-4.133.655
On 31.12.2015	16.947.282	74.949.324	32.651.741	11.024.161	135.572.508
Accumulated depreciation and impairment of intangible assets					
On 1.1.2015	4.317.610	24.586.700	9.236.593	0	38.140.903
Calculated depreciation for 2015	1.735.201	10.211.894	683.184	0	12.630.279
Value adjustment for assets that are sold or written off	-667.308	-660.199	-717.411	0	-2.044.918
On 31.12.2015	5.385.503	34.138.395	9.202.366	0	48.726.264
Value of nontangible assets on 31.12.2014	7.078.096	41.308.779	24.293.857	15.735.622	88.416.354
Value of nontangible assets on 31.12.2015	11.561.779	40.810.929	23.449.375	11.024.161	86.846.244

The write-off of intangible assets relates to the expense of the development costs and license in use and preparation with which the Company ceased to operate.

14. Property, plant, equipment and investment property

Description	Land	Buildings	Plant and equipment	Tools, office equip., furniture and transp. assets, devices	Other tangible assets	Tangible assets in preparation	Total tangible assets
	in HRK	in HRK	in HRK	in HRK	in HRK	in HRK	in HRK
Cost of tangible assets							
On 1.1.2015	6.991.821	117.015.957	181.449.102	46.846.785	608.920	187.995.969	540.908.554
Direct increase in 2015	0	0	0	0	0	150.485.214	150.485.214
Increases from transfer of assets in preparation	36.847.000	188.152.797	96.504.580	12.680.378	223.502	-	0
Other increases / decreases	-1.832.343	-6.441.013	221.355	0	0	0	-8.052.001
Write off and sale	0	0	-3.228.922	-4.527.826	-73.960	-444.477	-8.275.185
On 31.12.2015	42.006.478	298.727.741	274.946.115	54.999.337	758.462	3.628.449	675.066.582
Accumulated depreciation and impairment of tangible assets							
On 1.1.2015	0	28.842.919	73.185.984	31.342.019	0	0	133.370.922
Calculated depreciation for 2015	0	4.198.243	12.998.600	6.200.780	0	0	23.397.623
Value adjustment for assets that are sold or written off	0	0	-2.147.318	-3.888.256	0	0	-6.035.574
On 31.12.2015	0	33.041.162	84.037.266	33.654.543	0	0	150.732.971
Value of tangible assets on 31.12.2014	6.991.821	88.173.038	108.263.118	15.504.766	608.920	187.995.969	407.537.632
Value of tangible assets on 31.12.2015	42.006.478	265.686.579	190.908.849	21.344.794	758.462	3.628.449	524.333.611
Real estate investment 2014	303.000	3.922.123					4.225.123
Real estate investment 2015	3.395.337	13.591.089					16.986.426
Advances 2014							8.252.606
Advances 2015							261.428
Total tangible assets 2014							420.015.361
Total tangible assets 2015							541.581.465

Increasing in value of long-term tangible assets in 2015 for HRK 150.485.214 refers mainly to investments in the completion of production facilities of the Group.

Capitalization of part of the interest also increased the value of buildings in 2015 (Note 11). Decrease in value of plant and equipment is largely related to the sale of cars and equipment, and regular write-off of physically worn out and useless equipment.

Reducing the value of buildings relates to the reclassification of buildings that are not in use for business purposes and in 2015 are no longer classified as Investment property.

On the real estate owned by the company registered a lien as security for loan repayment.

15. Other financial assets

	2015	2014
Galena d.o.o.	390.290	312.290
Kanal Ri d.o.o.	845.000	845.000
Kvarner Vienna Insurance Group d.d.	337.575	337.575
Menadžer d.o.o.	-	7.572
Ri-Novine d.o.o.	-	10.000
Deposits	161.493	-
Long-term cost allocation	37.568	36.881
Total	<u>1.771.926</u>	<u>1.549.318</u>

The decrease in value of other financial assets was influenced by the write-off of investments in companies Manager d.o.o. and Ri-Novine d.o.o. which were deleted from the register.

16. Deferred tax assets

	2015	2014
Provision for jubilee and retirement benefits	161.286	188.189
Temporary unrecognized value adjustment of trade receivables	-	657.319
Total	<u>161.286</u>	<u>845.508</u>

17. Inventory

	2015	2014
Raw materials and supplies	41.647.557	51.110.167
Work in progress	-	228.095
Final products	70.591.764	100.558.468
Goods	24.956.763	23.468.072
Long-term assets intended for sale	26.027.297	29.263.514
Total	<u>163.223.381</u>	<u>204.628.316</u>

The amount of inventory of finished products, which is recognized as a write-off during 2015 amounted to HRK 227.528.440 (in 2014 HRK 188.156.535). The amount of write-offs of inventory of finished products during 2015 amounted to HRK 9.262.392 (in 2014 HRK 2.834.630).

18. Receivables

	2015	2014
Receivables from customers and associates	339.900.592	317.729.290
Receivables from employees	41.580	41.987
Receivables from government	13.611.119	22.820.461
Other short-term receivables	4.141.076	13.957.715
Total	357.694.367	354.549.453

18.1. Receivables from customers and associates

	2015	2014
Domestic customers	86.388.584	92.251.615
Customers abroad	253.512.008	225.477.675
Total	339.900.592	317.729.290

Structure of receivables from customers by currency (stated in HRK)

	2015	2014
HRK	70.173.862	78.340.371
EUR	54.522.675	63.885.748
RUB	199.926.486	163.785.915
USD	35.268	54.511
Other currencies	15.242.301	11.662.745
Total	339.900.592	317.729.290

Structure of receivables from customers that are due (value adjusted receivables are not included):

	2015	2014
0 - 90 days	66.301.009	61.281.857
91 - 180 days	18.362.460	28.276.153
181 - 360 days	7.473.625	6.823.814
over 360 days	3.781.402	398.819
Total	95.918.496	96.780.643

18.2. Other short-term receivables

	2015	2014
Receivables for advances	2.692.336	13.219.412
Receivables for assignments	1.292.128	631.875
Receivables for damages	51.544	27.036
Other receivables	105.068	79.392
Total	4.141.076	13.957.715

19. Short-term financial assets

	2015	2014
Given loans and deposits	20.027.828	686.328
Loans to companies with participating interests and associates	100.000	98.000
Receivables from forward	22.564.274	20.886.106
Securities (checks, cards and bills)	3.439	1.006.678
Total	42.695.541	22.677.112

20. Cash in bank and in hand

	2015	2014
Bank account	14.518.295	17.165.702
Cash register	215.748	290.772
Foreign currency account and non-resident accounts	3.912.907	6.165.032
Foreign cash register	24.072	33.622
Total	18.671.022	23.655.128

The structure of cash and cash equivalents by currency expressed in HRK:

	2015	2014
HRK	10.199.680	12.922.900
EUR	3.590.654	3.354.306
RUB	2.557.332	4.730.460
USD	103.011	39.453
Other	2.220.345	2.608.009
Total	18.671.022	23.655.128

21. Other receivables

Other receivables relate to prepaid expenses and on 31.12.2015 they amount to HRK 3.917.628 (in 2014 HRK 2.780.409).

22. Shared capital

The share capital of the Company on 31.12.2015 amounts to HRK 118.472.000 (in 2014 HRK 117.908.000) and is divided into 1.184.720 shares with a nominal value of HRK 100.

During 2015, the Company's issued a new series of shares to increase the share capital in the amount of HRK 564.000 (issue of shares series "G", 5.640 pieces with a nominal value of HRK 100).

On 29.06.2015 the General Assembly accepted the proposal of the Management Board on dividend payment in the amount of 2,28 per share, the total amount of HRK 2.626.318. The dividend was paid at the expense of retained earnings for 2006 and 2007.

23. Reserves

Group on 31.12.2015 has reserves totaling HRK 22.835.361 (in 2014 HRK 21.545.267). The change is a result of the purchase of own shares of the Company which resulted in the formation of reserves for own shares from retained earnings.

The amount of premium earned in the issue of shares of the Company in 2015 is HRK 1.290.094 (in 2014 HRK 2.852.920).

24. Retained earnings or accumulated loss

At the end of 2015, total retained earnings of the Group amounts to HRK 239.957.055 (in 2014 HRK 233.772.610).

In Accordance with the Decision of the General Assembly dated 29.06.2015 overall profits in 2014 in the amount of HRK 17.957.249 were transferred to retained earnings. The General Assembly also decided to pay out dividends at the expense of retained profits of previous years totaling HRK 2.626.318.

From retained earnings reserves were formed for the repurchase of own shares in the amount of HRK 4.166.063.

25. The result of the business year

In 2015, the Group recorded a net profit of HRK 7.093.621 (in 2014 HRK 10.478.572).

26. Provisions

The Group carried out the reversal of part of the provisions for jubilee awards and severance payments, and on the day of 31.12.2015 the provisions amounted to HRK 806.428 (in 2014 HRK 940.947). Reversal of provision is the result of downsizing.

27. Long-term liabilities towards banks and other financial institutions

	2015	2014
Liabilities towards banks	303.328.705	194.903.431
Liabilities towards other financial institutions	61.843.354	26.533.730
Total	<u>365.172.059</u>	<u>221.437.162</u>

Liabilities towards banks	2015	2014
Erste & Steiermarkische Bank	-	18.661.688
SocieteGenerale-Splitska banka	-	149.189.474
HBOR	225.430.190	4.619.961
Privredna banka Zagreb	-	12.432.308
Raiffeisen bank	-	10.000.000
EBRD	77.898.515	-
Total	<u>303.328.705</u>	<u>194.903.431</u>

For loan repayment insurance, there is a lien registered on real estate owned by the Company.

Liabilities towards banks	On 01.01.2015	New loans	Repayment	Transfer to short-term liability	On 31.12.2015
Erste & Steiermarkische Bank	18.661.688	0	18.661.688	0	0
HBOR	149.189.474	76.240.716		0	225.430.190
Privredna banka d.d.	4.619.961	0	3.153.295	1.466.666	0
SocieteGenerale-Splitska banka	12.432.308	0	12.432.308	0	0
Raiffeisen bank	10.000.000	0	5.000.000	5.000.000	0
EBRD		90.987.154	0	13.088.639	77.898.515
Total	<u>194.903.431</u>	<u>167.227.870</u>	<u>39.247.291</u>	<u>19.555.305</u>	<u>303.328.705</u>

Maturity of long-term debt:

Liabilities towards banks	Due in 2016	2017 - 2020	2021 - onward
HBOR	2.057.822	50.126.415	175.303.775
Privredna banka d.d.	1.466.666	-	-
Raiffeisen banka d.d.	5.004.841	-	-
EBRD	12.858.299	77.898.515	-
Podravska banka	20.000.000	-	-
Primorska banka	5.039.131	-	-
Kent banka	10.077.813	-	-
Slatinska banka	10.000.000	-	-
Kartične kuće i ostale naknade prema bankama	188.575	-	-
Total	<u>66.693.147</u>	<u>128.024.930</u>	<u>175.303.775</u>

Liabilities for leases	2015	2014
Hypo leasing	5.836.884	8.019.922
SG leasing	8.213.367	2.022.936
OTP leasing	943.540	640.526
PBZ leasing	1.094.748	3.622.078
Erste & Steiermarkische S-leasing	24.944.517	3.858.653
Unicredit leasing	2.767.338	1.485.961
Raiffeisen leasing	16.951.278	6.712.523
VB leasing	960.748	-
Porsche leasing	130.934	171.132
Total	<u>61.843.354</u>	<u>26.533.731</u>

Liabilities for leases	On 01.01.2015	New leases	Repayment	Transfer to short-term liability	On 31.12.2015
Hypo leasing	8.019.922			2.183.038	5.836.884
SG leasing	2.022.936	12.046.912		5.856.481	8.213.367
OTP leasing	640.526	906.186		603.172	943.540
PBZ leasing	3.622.078		41.006	2.486.324	1.094.748
Erste & Steiermarkische leasing	3.858.653	39.278.353	9.577	18.182.912	24.944.517
Unicredit leasing	1.485.961	3.493.809	60.383	2.152.049	2.767.338
Raiffeisen leasing	6.712.523	22.887.022	709.864	11.938.403	16.951.278
VB leasing		1.660.000		699.252	960.748
Porsche leasing	171.132,00	158.045	139.700,00	58.543	130.934
Total	26.533.731	80.430.327	960.530	44.160.174	61.843.354

Maturity of long-term lease:

Liabilities for leases	Due in 2016	2017 - 2020
Hypo leasing	2.152.827	5.836.884
SG leasing	1.970.941	8.213.367
OTP leasing	316.624	943.540
PBZ leasing	2.474.071	1.094.748
Erste & Steiermarkische leasing	5.977.042	24.944.517
Unicredit leasing	1.022.374	2.784.284
Raiffeisen leasing	3.719.293	16.963.888
VB leasing	316.442	960.748
Porsche leasing	88.103	101.378
Total	18.037.717	61.843.354

28. Long-term liabilities for securities

Long-term liabilities for securities on the 31.12.2015 amount to HRK 199.646.507, and relate to liabilities for issued long-term bonds of the Company (in 2014 HRK 139.780.667).

JGL on 20.4.2011 issued bonds worth HRK 140 million on the basis of the Information Memorandum, which was not subject to the approval of HANFA because it was exempted from publication pursuant to Article 351, paragraph 1, item 3 of the Capital Market Law, and because the offer addressed to investors who have bought at least EUR 50.000 worth of bonds.

On 03.11.2011, HANFA has adopted the Decision number: UP / I-451-04 / 11-12 / 5 Reg: 326-111 / 11-8, approving the unique prospectus for the issuance of bonds in amount of HRK 140.000.000, marking JDGL-O-

166A, to name, in dematerialized form, in the denomination of HRK 1, with variable interest rate, that mature on 10.6.2016, on the regulated market.

For the period from 09 June 2013 to 10 June 2014 the interest rate was determined at 4,80%. From 10 June 2014 to 09 June 2015 the interest rate was 4,25%, and from 10 June 2015 to 9 June 2016 - 3.75%. On 21.12.2015 the Company issued new bonds in amount of HRK 200.000.000 with a fixed annual interest rate of 5.8125% and maturity on 21.12.2020.

On 19.02.2016, HANFA has adopted the Decision number: UP / I-976-02 / 16-01 / 01 Reg 326-01-770-772-16-7, approving the unique prospectus for the issuance of bonds in amount of HRK 200.000.000, marking JDGL-O-20CA, to name, in dematerialized form, in the denomination of HRK 1, with fixed annual interest rate of 5.8125%, that mature on 21.12.2020, on the regulated market.

Funds raised by issuance of bonds, the Company partly used to refinance the obligations on bonds maturing 10.06.2016 (HRK 113.035.000), marking JDGL - O - 166A, ISIN: HRJDGLO166A1.

29. Deferred tax liability

Deferred tax liabilities amounting to HRK 4.499.600 (in 2014 the same amount), were formed for pharmacy licenses and recognition of profit tax connected to these licenses (20%).

30. Short-term liabilities towards banks and other financial institutions

	2015	2014
Liabilities towards banks	66.693.147	165.894.082
Liabilities towards other financial institutions	18.037.717	9.567.824
Total	84.730.864	175.461.906

	2015	2014
Liabilities towards banks		
Erste & Steiermarkische Bank	0	34.991.645
HBOR	2.057.822	1.162.472
Hypo Alpe - Adria bank d.d.	0	7.669.101
Privredna banka d.d.	1.466.666	44.744.032
Raiffeisen banka d.d.	5.004.841	29.710.979
Sber banka	0	22.984.413
Splitska banka	0	9.172.056
EBRD	12.858.299	0
Podravska banka	20.000.000	10.000.000
Primorska banka	5.039.131	5.056.570
Kent banka	10.077.813	0
Slatinska banka	10.000.000	0
Credit card companies and other fees to banks	188.575	402.814
Total	66.693.147	165.894.082

Liabilities towards banks	On 01.01.2015	New loans	Repayment	On 31.12.2015
Erste & Steiermarkische Bank	34.991.645	2.535.532	37.527.177	0
HBOR	1.162.472	7.405.442	6.510.092	2.057.822
Hypo Alpe - Adria bank d.d.	7.669.101	22.856.328	30.525.429	0
Privredna banka d.d.	44.744.032	0	43.277.366	1.466.666
Raiffeisen banka d.d.	29.710.979	43.208.774	67.914.912	5.004.841
Sber banka	22.984.413	15.186.470	38.170.883	0
Splitska banka	9.172.056	14.500.000	23.672.056	0
EBRD	0	12.858.299	0	12.858.299
Podravska banka	10.000.000	20.000.000	10.000.000	20.000.000
Primorska banka	5.056.570	10.013.712	10.031.151	5.039.131
Kent banka	0	10.077.813	0	10.077.813
Slatinska banka	0	20.000.000	10.000.000	10.000.000
Credit card companies and other fees to banks	402.814	716.081	930.320	188.575
Total	165.894.082	179.358.451	278.559.386	66.693.147

Liabilities for leases	2015	2014
Hypo leasing	2.152.827	2.053.748
SG leasing	1.970.941	374.898
OTP leasing	316.624	144.233
PBZ leasing	2.474.071	3.161.306
Erste & Steiermarkische S-leasing	5.977.042	1.967.344
Unicredit leasing	1.022.378	536.686
Raiffeisen leasing	3.748.849	1.329.609
VB leasing	316.442	0
Porsche leasing	58.543	0
Total	18.037.717	9.567.824

Liabilities for leases	On 01.01.2015	New leases	Repayment	On 31.12.2015
Hypo leasing	2.053.748	2.183.038	2.083.959	2.152.827
SG leasing	374.898	5.856.481	4.260.438	1.970.941
OTP leasing	144.233	603.172	430.781	316.624
PBZ leasing	3.161.306	2.486.324	3.173.559	2.474.071
Erste & Steiermarkische leasing	1.967.344	18.182.912	14.173.214	5.977.042
Unicredit leasing	536.686	2.134.639	1.648.947	1.022.378
Raiffeisen leasing	1.329.609	11.961.932	9.542.692	3.748.849
VB leasing	0	699.252	382.810	316.442
Porsche leasing	0	58.543	0	58.543
Total	9.567.824	44.166.293	35.696.400	18.037.717

31. Accounts payables

	2015	2014
Domestic suppliers	71.169.497	95.710.590
Suppliers abroad	39.128.902	60.121.683
Total	110.298.399	155.832.273

Accounts payables by currency:

	2015	2014
HRK	69.085.663	90.713.012
EUR	36.946.886	62.343.887
RUB	130.510	-
USD	317.001	401.608
BAM	3.596.386	2.281.546
Other currencies	221.953	92.220
Total	110.298.399	155.832.273

32. Short-term liabilities for securities

Liabilities for securities on 31.12.2015 amount to HRK 30.580.183 (in 2014 HRK 1.900.000). The amount of HRK 3,6 million relates to the issued bills to suppliers (in 2014 HRK 1.900.000).

The remaining HRK 26.980.183 relate to the bonds series JDGL-O-166A that mature on 10.6.2016

22. Other liabilities

	2015	2014
Liabilities for advances received	706.495	367.059
Liabilities to employees	5.061.479	4.563.598
Liabilities for taxes, contributions and other	4.682.242	7.185.494
Liabilities for accrued costs	21.399.534	22.633.544
Other current liabilities	621.033	810.260
Total	32.470.783	35.559.955

34. Financial risk management

34.1. Financial risk factors

In its ordinary course of business, the Group is exposed to various financial risks associated with currency, interest rate, credit and liquidity risk. The Group monitors these risks and minimizes their potential impact on the Group's financial exposure.

The significant risks, together with the methods used to manage these risks are described below. The Group has used derivatives in 2015 with the intention of managing floating exchange rate of the Russian ruble. The Group does not use derivative instruments for speculative purposes.

34.2. Currency risk

The Group is exposed to currency 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 revenue of the Group result in a currency risk exposure in a way that foreign currency assets exceed the amount of foreign currency liabilities. The current policy of the Group's risk management is active hedging.

Foreign currency exposure is continuously monitored and, if necessary, hedging instruments are used. The decision on whether or not to hedge the claim depends on the currency in which the claim is stated, type of hedging instrument and its price.

Within the Group, the Company JGL has the major exposure to currency risk. In 2015 the Company used forward contracts (EUR, RUB) as protection against fluctuations in the Russian ruble. On 31.12.2015 the positive fair value of these contracts amounted to HRK 22.564.274 and is included in the balance sheet position - other receivables.

The nominal value of forward contracts on 31.12.2015 amounted to HRK 255.774.075 (in 2014 HRK 130.245.007).

Gains and losses are recognized as changes in the market value of forward contracts on 31.12.2015. These gains and losses are recognized in the Income statement as Other financial income, Unrealized gains on financial assets, and Other financial expenses and unrealized losses on financial property.

34.3. Interest rate risk

On 31.12.2015 the Group is exposed to interest rate risk on a small scale because most of the interest bearing debt is contracted at fixed interest rates.

34.4. Credit and liquidity risk

The assets that potentially expose the Group to credit risk consist of short-term financial assets, cash and trade receivables. Credit risk on trade receivables is limited due to the distribution among various geographical areas and customers. The Group protects against these risks by obtaining collateral for payments and by selection of customers based on the assessment of their solvency. Within the Group, the Company JGL is the company most exposed to this risk, and manages these risks in a way that the larger customers on the territory of Russia have insurance policies issued by HBOR while significant buyers of other countries are 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 current financial assets, as well as money in the bank. The Group protects itself from these risks by holding funds in commercial banks in which other business is conducted and which are among the leading banks in Croatia with satisfactory level of capital adequacy.

Liquidity risk is observed as a risk that the Group will not be able to meet its obligations to creditors. Group protects itself from the liquidity risk through credit lines that allow it to easily and quickly overcome the current need for liquidity with the pre-agreed and known conditions.

34.5. Market risk

The pharmaceutical industry is characterized by significant investments in research and development, which are an important generator of future growth and development of the Group. The success of the research and development of new products is by its nature uncertain. Research and development in the pharmaceutical industry in the field of drugs is perennial, and it is possible to alter market conditions with respect to predictions before the start of the project.

Another important aspect of the pharmaceutical industry are regulations. Pharmaceutical companies are exposed to the possibility that national regulatory authorities don't approve, or withdraw the approval for pharmaceutical products and processes. In some markets there are often changes of regulations making it difficult to predict the progress and the timeframe for obtaining approval for pharmaceutical products and processes. The inability of the Group to obtain approval for its pharmaceutical products and processes or the withdrawal of any such approval, could have an adverse effect on the business, financial condition, results of operations and prospects of the Group.

In addition to investment and regulation, price policy in the pharmaceutical industry has a strong impact on business. Pricing of products in the pharmaceutical industry is, in almost all countries, subject to some form of government intervention, such as price controls, government budget control, reimbursement list, mandatory participation of patients, and other forms of limitations and restrictions. In some markets, there is regulation of prices and OTC drugs. Such interventions affect, and may further negatively impact on sales and profitability of the Group.

JGL manages market risk through a diversified portfolio of products, sophisticated technology and production processes, as well as through investments in highly educated personnel and research and development.

34.6. Capital management

Liquidity risk management implies maintaining sufficient cash and working capital, and availability of funding in the form of credit lines.

The Group manages the credit indebtedness through the regulation of the share of own funds in relation to the external funds. The external funds financing is based on long-term assets with very favorable interest rates, which does not constitute a burden on the liquidity of the Group.

Within the Group, JGL is the company most exposed to this risk. Given the type of debt JGL has long-term liabilities to loans, leasing and bonds, and short-term liabilities to loans from credit lines. In addition to loans, JGL has obligations to the holders of the bonds series HRJDGLO20CA4 in the amount of HRK 200.000.000,00 that mature in 2020, and commitments for existing bonds series HRJDGLO166A1 in the amount of HRK 26.965.000,00 that mature 10.06.2016. New bonds were issued to refinance the existing ones.

Liabilities for long-term loans of the Parent company come down to two creditors - HBOR and EBRD. Liabilities for long-term loan from HBOR was to finance investment in a new manufacturing facility Svilno 2 and it amounts to HRK 239.298.070,80. This loan has very favorable terms, with a grace period of 5 years (the first installment of principal is due on 30.09.2019). Long-term loan from the EBRD amounts EUR 12.000.000,00 and the first installment of principal is due on 12.3.2016. It is a five-year loan with semi-annual payment of principal, in the first 7 installments 50% of the loan will be repaid, while in the last installment the rest will be repaid (due on 12.09.2019).

In addition to JGL, ZU Pablo has liabilities for loans to. These are short-term loans from commercial banks for working capital totaling HRK 51.740.935 maturing in 2016. ZU Pablo has agreed credit lines and favorable financing conditions in the commercial banks.

For financing equipment Group uses financial lease from 4 to 6 years long, depending on the type of equipment. Within the Group, the Company JGL has the most equipment financed through leasing. In order to minimize the risk, the Company has 8 leasing companies with very favorable conditions. In addition to JGL, ZU Pablo, Adrialab d.o.o. and Farmis d.o.o. Sarajevo have liabilities towards leasing companies all maturing by 2020.

For short-term loans, the Group uses funds from the approved limits of commercial banks.

	2015	2014
Debt		
Short-term and long-term financial debt	676.516.446	536.681.748
Cash and cash equivalent and given loans	18.671.022	23.655.128
Net debt	657.845.424	513.026.620
Capital and reserves	388.358.037	383.704.449
Net debt / capital	1,69	1,34

35. Fair values

According to estimates made by Executive Directors, fair value of financial assets and liabilities is equal to their carrying values in the balance sheet.

36. Contingencies

Several legal proceedings against the Group are in process. The Executive Directors believe that liability that may be generated by these disputes and appeals will not have a significant impact on the financial position and results or future operations of the Group.

In 2015, not calculated the annual awards and bonuses to key protection management nor were awarded free shares (in 2014 \$ 0 0 pieces of bonuses and free shares).

37. Key management compensation

	2015	2014
Net salaries	3.164.645	4.282.212
Taxes and contributions from salaries	2.467.414	3.034.491
Contributions on salary	924.661	1.183.741
Compensation for members of the Management Board / Supervisory Board	3.574.699	916.560
Total	10.131.419	9.417.004

38. Events after the reporting date

On 26.1.2016 the Company became 100% owner of the company Jadran LLC Moscow. On 27.1.2016 the Company made an investment of HRK 3,5 million in capital reserves of subsidiary Adrialab d.o.o Rijeka.

39. Reclassification of positions of financial statements for 2014

In 2015 the Group left the use of the GFI-POD form of financial statements: balance sheet, comprehensive income statement and cash flow statement. All positions for 2014 have been reclassified to new forms of reports.

In addition to these changes, in the balance sheet and comprehensive income statement for 2014 certain positions have been reclassified in order to be comparable with the data in 2015, and to change the presentation of certain items.

39.1. Use of registration rights

In the original balance sheet of the Group for 2014, acquisition of the registration rights is recorded in the amount of HRK 2.979.939 in position Prepaid expenses. This amount was reclassified and shown in position intangible assets.

In the original comprehensive income statement of the Group for 2014, accrued expenses of use of registration rights is stated in the amount of HRK 5.449.012 in position Other expenses. This amount is reclassified and shown in position Depreciation.

39.2. Revenues and costs of own products

In the original comprehensive income statement for 2014 revenue from use of own products is stated in the amount of HRK 5.628.850 at the position Other business revenue. This amount has been reclassified in the comprehensive income statement and is no longer netted with the cost of the use of its products on other operating expenses. Use of own products involves representation, donation and write-off of own products.

39.3. Exchange rate differences

By amending the calculation of foreign exchange losses in 2015, the accumulation of monthly unrealized financial revenue and expense is revoked from exchange rate differences. The new calculation was applied to 2014 which resulted in a reduction of revenue and expense for the amount of HRK 24.295.318. The net effect of exchange rate differences did not change.

Reclassification of these positions has had an effect on the amount of total assets shown on the balance sheet.

Reclassification of positions in comprehensive income statement has caused changes in the accompanying summary positions, but has had no effect on the result in 2014.

	2014 after reclassification	2014 before reclassification	Effect of reclassification
Business revenue	732.579.473	738.208.323	-5.628.850
Financial revenue	47.822.233	72.117.551	-24.295.318
Total	780.401.706	810.325.874	-29.924.168
			0
Business expense	674.923.208	680.552.058	-5.628.850
Financial expense	89.954.881	114.250.199	-24.295.318
Total	764.878.089	794.802.257	-29.924.168
Result 2014	15.523.617	15.523.617	0

40. Approval of financial statements

The financial statements on pages above are compiled and approved for issue by the Executive Directors of the Company on 25 April 2015.

For JGL d.d.

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JGL d.d.
Svilno 20 Rijeka



Jasmin Hulja, Glavni izvršni direktor



Dražen Jakšić, Izvršni direktor



CONSOLIDATED ANNUAL REPORT ON THE STATUS AND
RESULTS OF OPERATIONS FOR 2015

JGL GROUP

RIJEKA, APRIL 2016

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 2014 till December 2014, while Current period refers to a period from January 2015 till December 2015.



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INTRODUCTION

After a challenging 2014, we ended up with considerably reduced profitability due to the geopolitical situation in our key markets, Russia and Ukraine. An additional impact on profitability was the reduction of drug prices on our most important domestic market, so 2015 prompted us to further re-evaluate, faster decide, and change faster. Doing business in the middle of global crisis, which during 2015 escalated and spread to new territories, was not easy. Economic and political turmoil required a constant adjustment and intervention, better focus and greater operational efficiency, in order to maintain stability, protect the financial results, and ensure long-term business.

Total revenues of JGL Group amounted to HRK 802.406.925,96, which is an increase of 3% when compared to the previous period. Business revenue decreased by 3%, while financial revenue and expenses increased significantly when compared to 2014. Revenue from export has a 55,33% share in sales revenue, which is an increase when comparing to last year, and a sign of strengthening of Company's strategic export orientation. Russia with market share of 41% in sales revenue continues to be the largest export market of JGL Group. The second largest market is Kazakhstan with 4,54%, and Switzerland with a 3,10% share. Further, the market that generates the Group's highest revenue is Croatian, with 44,67% of its sales revenue. Net profit for the current period, in the amount of HRK 7.093.620,70, is 32% less than the profit of the previous period.

The parent company, JGL d.d. in 2015 had HRK 624.464.326,87 of total revenue, which is 3,27% more than in the previous year. As a result, sales from abroad increased by 0,26% to HRK 408.709.582,82. On the Russian market, JGL last year recorded a growth in sales revenue of nearly 4% to HRK 281,058,342.00. It is important that our leader position in nasal saline segment in Russia is strengthened, from 40th we moved to 38th place on the list of Russian pharma market which contains more than two thousand pharmaceutical companies. Profit of the parent company JGL d.d. is HRK 19.749.095,72, which is 10% more than in 2014.

It is worth pointing out that at the beginning of 2015 the daughter company Adrialab d.o.o. began to produce and sell products independently, and a great effort was invested in reregistration and aligning the documentation for products that required a new registration category. All followed by a series of sales and marketing activities. In 2015, income of HRK 13.276.709,63 and profit of HRK 306.338,50 were realized.

Also, we are proud that in 2015, as the crown of all efforts, JGL d.o.o Beograd started the production of its first medicines. In the reporting period, 80.000 pieces of Folacin were produced, and preparations for achieving the national GMP certificate continued. Production is mostly oriented to the Serbian market, but also to the export markets of Russia, Kazakhstan and Belarus as well as CEFTA countries. It was the last in a series of small steps to realize one of the most important goals of this young company.

- *Opening of "Pharma Valley" complex*

The year 2015 was marked by the opening of the most important investment project of the company, which occurred on July 10, 2015. Pharma Valley is the largest investment in the history of JGL and one of the biggest investments in Croatia during the reporting period. Most of the funds were provided by HBOR (Croatian Bank for Reconstruction and Development), which has supported JGL in investments and export for many years now. Thanks to well structured arrangement, in terms of interest rates, foreign currency position and repayment period, JGL was possible to implement the project as a whole. Production and other equipment was mainly financed in cooperation with leasing companies operating in the territory of Croatia. Also, pursuant to the Act on the promotion of investment and improvement of investment environment, the Ministry of Economy of the Republic of Croatia granted JGL incentive measures for the project. Based on the status of the company, through tax incentives, JGL will be able to take advantage of the amount equal to 40 percent of the investment, which is a significant benefit and a real statement of support for investors in the Republic of Croatia. Indirect support to the investment was provided by the European Bank for Reconstruction and Development, with financing of working capital used for export activities, primarily in the markets of the CIS.

The project had two key objectives - to ensure the prerequisites and capacities of development, production and storage for the realization of long-term plans for the company's growth and consolidate all production and technological sites in one place. Investment are included in both locations of the company - existing, Svilno 1, at which 14,000 square meters are production plants, laboratories, storage containers and other facilities, and Svilno 2, the new location of 85,000 square meters. We are particularly proud that the project reached a high level of efficiency in the use of storage and production capacities, as well as supporting facilities necessary for the implementation of product delivery, while satisfying very strict pharmaceutical standards.

We accepted and installed the latest postulates in organization flow of materials and people in pharmaceutical production, through installation of new technology. To sort out the production of microbiologically pure product in the Bag on Valve form, we replaced conventional batch production with continuous production, installed automated robotic high-bay warehouse which allows us to have access to twice as many pallet places in the same area. We also introduced flexible finalization that allows cost-efficient packaging process, depending on the size orders. New technology and new facility allows us to spread the existing portfolio with new products of our own development, in, for us new pharmaceutical forms.

Capacities in production increased to 104 million units, as many as 45 million more than the previous capacity, and with investing in advanced, unconventional solutions in the area of energy efficiency, there has been a significant reduction in operating costs, increase in productivity, and ultimately, increase in the quality delivery of products and services to customers and consumers, as it has always been and always will be our top priority!

- *New products, new markets, new cooperation*

It is important to emphasize that during 2015 a strategy was defined for all of our B2B (Business to Business) relations. Direction of business development is defined through focus on key territorial clusters, while the regions of SEE and CIS are mainly defined through B2C (Business to Customer). On the Global market region, for grouping geographical criteria was considered, with the corresponding characteristics - registration regulations, the feasibility of operations, input market barriers, structure, size and growth segments, which resulted in forming of following clusters: EU / Turkey, NA (USA, Canada, Mexico) , MENA / Africa, ASEAN, Brazil / Latino, India / China. After analyzing the input requirements, key clusters in which the focus and priority for 2015 and 2016 the EU / Turkey, Middle East and Africa region and South-East Asian Nations (ASEAN). The total value of contracts signed during 2015 was estimated at 30 million euros in the first five years of cooperation.

During 2015, 17 regulatory inspections were conducted, mostly monitoring and certification bodies and partner companies audits. The year was marked by the inspection of new production plants and warehouses in the "Pharma Valley" complex, based on which work permits were obtained. Most important inspections were conducted by HALMED, the Ministry of Health and the Istituto Superiore di Sanita (the competent authority for medicinal products). It is important to emphasize that JGL is declared as GMP compatible manufacturer of sterile solution of institutions Health Canada, opening the doors to the Canadian market. The year was marked by a number of new product launches in the category of prescription and non-prescription drugs, dietary supplements and medical devices. In the period from 1 January to 31 December 2015, 12 new brands were successfully launched on the Croatian market and 4 more were distributed.

The financial revenue and financial expenses of the JGL Group in 2015 have increased significantly compared to 2014. The net effect of exchange rate differences is more favorable in 2015 compared to 2014, if we take into account the forward contracts. The increase in financial expense is largely due to the increase in interest expense caused by the growth of the general debt level related to the completion of the investment in Svilno 2.

During 2015 there was a change in the structure of liabilities, the Company has replaced the short-term financing sources with quality long-term sources. In early 2015, JGL signed a Loan Agreement with the EBRD for a loan of 20 million euros. The loan is to be realized in two tranches, a long-term loan of 12 million euros and a revolving loan of 8.000.000 euros. The funds from the first tranche were used to close long-term loans to commercial banks and to increase the liquidity of the company. New edition of bond in amount of HRK 200.000.000 refinanced the old bond in amount of HRK 113.035.000, that was due in June 2016. With the remaining funds, short-term loans from commercial banks were repaid.

JADRAN - GALENSKI LABORATORIJ d.d. (JGL d.d.)

Jasmin Huljaj, mr. pharm., Chief Executive Officer

Dražen Jakšić, dipl. oec., Chief Financial Officer

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 defined through 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.

MEMBERS OF JGL GROUP AND STRUCTURE

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:

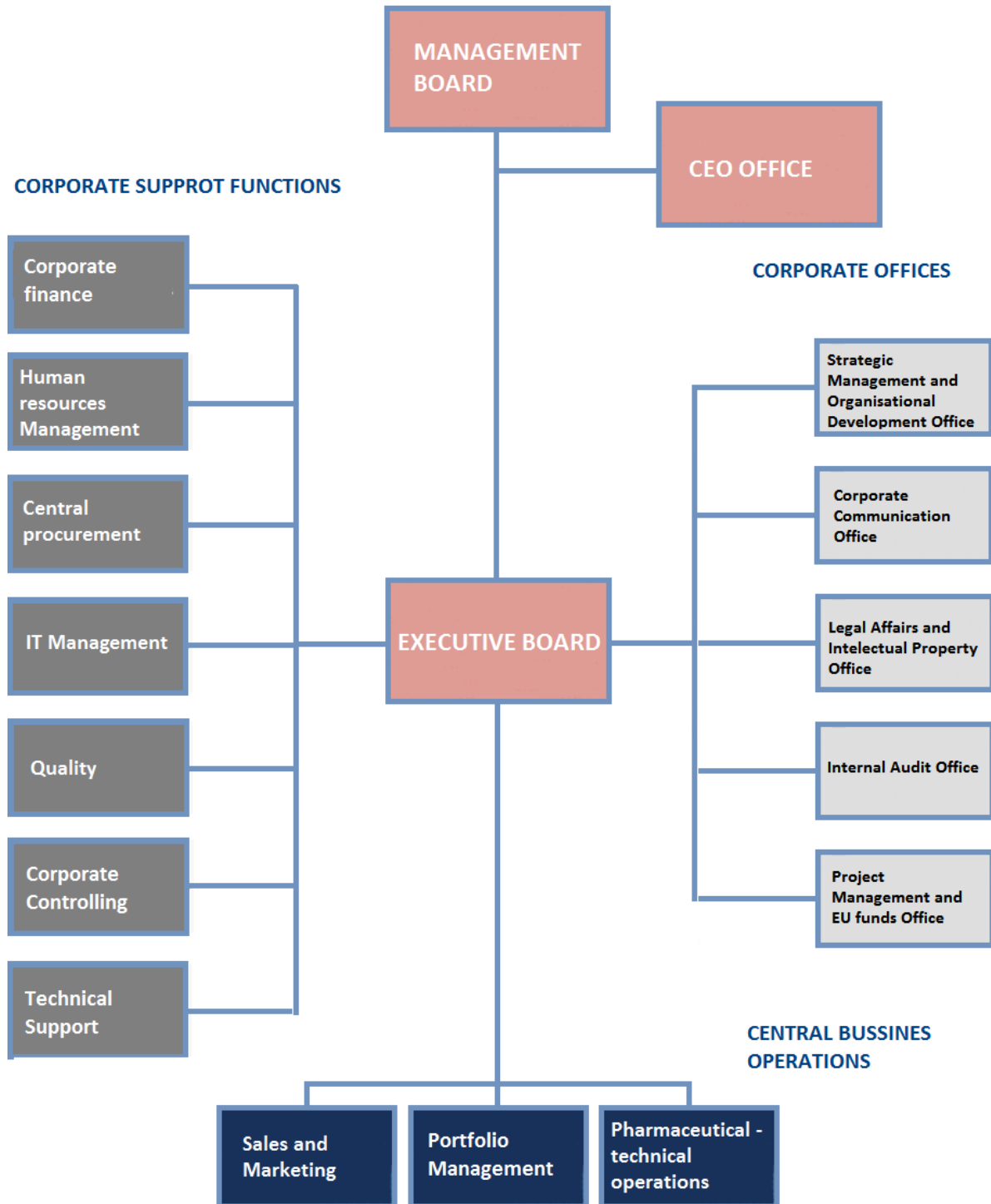
- Farmis d.o.o. Sarajevo,
- JGL d.o.o Beograd,
- Jadran - Galenski laboratorij d.o.o. Ljubljana,
- Pablo d.o.o. Zagreb,
- JGL North America LLC New York USA,
- Adrialab d.o.o. Rijeka.

Second tier subsidiaries:

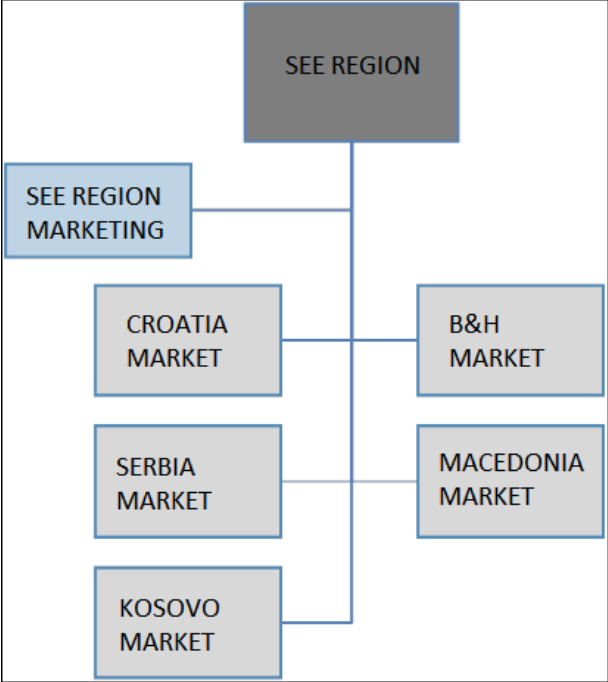
- ZU Pablo Rijeka,
- Poliklinika Pablo Solin.

Shown below is the organizational structure in 2015, as well as structure of the SEE region (South East Europe) and CIS region (The Commonwealth of Independent States).

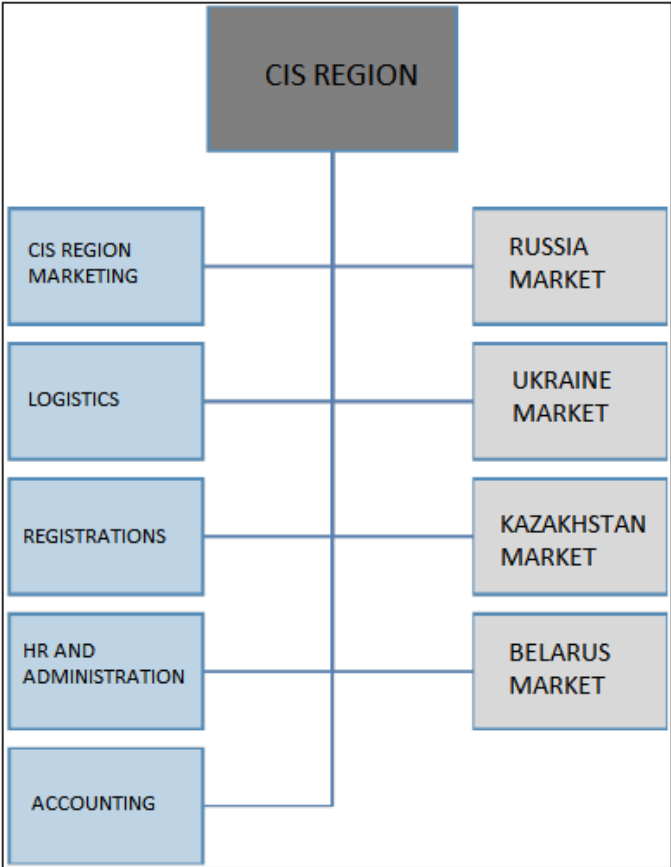
Organizational structure of company JGL in 2015



Organizational structure of SEE Region in 2015



Organizational structure of CIS Region in 2015



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

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

Business address of all members of the Management Board and Executive Directors is Svilno 20, Rijeka. There are no conflict in interest between the Management Board members and Executive Directors in terms of functions and activities they are involved in in the Company and personal interest, i.e. their functions and activities outside the Company.

PRACTICE OF THE MANAGEMENT BOARD

The parent company JGL d.d., in accordance with applicable regulations, has an established Audit Committee. According to the Bylaws, the Management Board establishes an Audit Committee consisting of members of the Management Board and two members appointed by the Management Board.

The members of the Audit Committee are:

- Zdravko Saršon, President of the Audit Committee,
- Eva Usmiani Capobianco, Deputy President of the Audit Committee,
- Ivo Usmiani, Audit Committee member,
- Marina Pulišić, Audit Committee member,
- Grozdana Božić, Audit Committee member,
- Jelena Siminiati, Head of Legal Affairs and Intellectual Property at JGL d.d.,
- Vesna Sen, Head of Internal Audit at JGL d.d.

The Audit Committee performs the following tasks:

- follows the financial reporting process;
- monitors the effectiveness of the internal control, audit and risk management system;
- supervises the implementation of annual financial and consolidated reports;
- monitors the independence of an independent auditor or audit firm, and in particular contracts for additional services;
- gives recommendations to the competent body on the selection of an independent auditor or audit firm;
- discusses plans and annual internal audit report as well as important issues pertaining to this area.

The mandate of the members of the Audit Committee is aligned with the mandate of the Management Board. On its activities, the Audit Committee is obliged to report regularly to the Management Board. If a person who carries out internal audit duties is appointed for a member of the Audit Committee, there is no right to vote when deciding.

Corporate Governance Code

JGL d.d. did not adopt the Code of Corporate Governance, but accepted its application (http://www.zse.hr/UserDocsImages/docs/Kodeks_HR.pdf), i.e. the principles of the corporate governance code were adopted within internal policies and, when deciding the Company, takes into account the interests of all shareholders. So, JGL is operating in accordance with the principles of legality, transparency and publicity of business, segregation (clearly elaborated procedures for the work of the board of directors and executive directors), prevention of conflicts of interest, effective internal control, personal responsibility and socially responsible conduct.

THE REPORTING YEAR OF JGL GROUP MEMBERS

ADRIALAB d.o.o. RIJEKA

At the end of 2013, spin off company Adrialab d.o.o. was founded, and it is 100% owned by JGL. During the year 2014, Adrialab was present on the Croatian market and realized revenue through the promotion of JGL products. At the same time, Adrialab was extremely committed to completing the construction and equipping of manufacturing plants at location Pulac and obtaining all the necessary licenses to start production in order to start manufacturing and sell products from the traditional Portfolio for which Adrialab's parent company sold the license.

During 2015, activities related to the adjustment and optimization of production processes and regulations and the improvement of the quality system continued. A great deal of effort has also been invested in the reregistration and harmonization, supplementation and drafting of documentation for those products that demanded a new registration category. All listed are followed by a series of sales and marketing activities.

Market conditions, especially in the trading network, are unfavorable to a pharmaceutical company like Adrialab, primarily because of the conditions that are run by major retailers. Financial power that allows global companies and companies with less demanding production (cosmetic standards) to provide additional rebates, discounts through various actions, and lower price formation, create an adverse environment for Adrialab. An additional problem creates unreasonable and unreliable collection of claims. However, earnings in 2015 were 53% higher than planned.

The company's business results, due to the different nature of the business, are not comparable with the previous year. In 2015, revenue of HRK 13.276.709,63 was realized and profit of HRK 306.338,50, with profit 53% higher than planned. The trading network dominates in total sales with 55% share, the wholesale market has 25% share, while contract manufacturing has 19% share in total sales.

JGL d.o.o. BEOGRAD

After starting a business expansion and investing in new production facilities in Serbia, the company JGL, in early 2014, through its newly established daughter company in 2015, started to produce medicines. In the reporting period, the first 80,000 pieces of Folacin were produced and preparations were made for the receiving of the national GMP certificate by the competent regulatory body to verify the conformity of the production process with the guidelines of good manufacturing practice in accordance to the national regulations aligned with European regulations. It was the last in a series of small steps to realize one of the most important goals of this young company. Production is largely oriented to the Serbian market, but also to the export markets of Russia, Kazakhstan and Belarus, as well as CEFTA countries, primarily because of the free trade agreement that the Republic of Serbia has with the countries of the environment.

After sales and marketing, after defects and problems with regulatory procedures, we are proud that in the third quarter of the year we have received decision for all Aqua Maris products, Lactogyn vaginalete, as well as products within Vizol S. The company currently has a total of 50 registered medicines in Serbia, and further expansion of the portfolio is planned. During 2015, 296.193 pieces of products were sold, total revenues were HRK 5.276.248,29 kn, while expenditures amounted to HRK 8.934.569,71.

During the reporting period, the company Jadran - Galenski laboratorij d.o.o. Beograd merged with the company Jadran - Galenski laboratorij d.o.o. Beograd Sopot in one company that has 0,3% market share.

ZU PABLO RIJEKA, POLIKLINIKA PABLO SOLIN, PABLO d.o.o ZAGREB

The ZU Pablo was established in 1999. Today, ZU Pablo has 34 pharmacy units with 149 employees. It is an recognizable chain of pharmacies in which professionals, with their professional work, proactively, flexibly and with a lot of compassion try to provide the best pharmacy care to customers. The institution is recognizable as a reference point for health education, health prevention and treatment in the Republic of Croatia. ZU Pablo provides a holistic and personalized access to health in each of its pharmacies and provides holistic counseling approaches to preventing and addressing the health and life problems of its end users.

The year 2015 marked the beginning of the redeployment and relocation of the pharmacy Pablo from location in Šarengradska 6, Zagreb to Šarengradska 1, Zagreb. The result is a pharmacy of a modern architectural design with the aim of closer access to the end user, and the revenue of the pharmacy should be increased. Also, as a fundamental step of a significant part of the business strategy focused on the development of market image, a comprehensive work project on a new visual identity continued. Following the development of the brand architecture, taking into account the current activities and development plans of the company, the project has emerged a new logo combining the letter "P", the cross as a sign of pharmacy and heart, accompanied by the slogan "Pharmacy for Me".

Pabla's official website also offers a wealth of information on pharmacies, actions, novelties, and benefits from Pablo shelves, as well as advice from pharmacy experts, whether it's a health problem, how to use a medicine or a dietary supplement. A printed media joined the digital one - The first issue of a free magazine for patients "Pharmacy for Me" was recently issued in 20.000 copies.

The operating income of ZU Pablo in 2015 amounted to HRK 155.653.303,29 with realized pre-tax profit of HRK 1.070.327,59. Profit after tax is HRK 700.951,32.

The company's income from Pablo d.o.o Zagreb with two employees amounts to HRK 379.092,08 while profit after tax amounted to HRK 5.968,58, while the result of the period for Poliklinika Pablo Solin was HRK 289.639,83.

FARMIS d.o.o. SARAJEVO

Farmis d.o.o. was founded in 2000 in Sarajevo, Bosnia and Herzegovina, as a daughter company of JGL and in 2015 had 15 employees. High standards of business and quality orientation have resulted in the construction of a recognizable company in Bosnia and Herzegovina and beyond, 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, Farmis product portfolio includes numerous products from Croatia, Slovenia, Germany, Italy, UK, as well as domestic partners.

The year 2015, as in most markets, is characterized by instability, but despite the difficulties we can say that it was very successful. Sales revenue increased by 14,67% and profit by 83%. The result of the period is HRK 592.939,34. In the course of 2015, Farmis has increased the number of customers across the Bosnia and Herzegovina, as well as the total number of items, so there are over 2.750 different products in the portfolio, within different regulatory categories. The year was marked by moving into new business premises, renovation of the fleet, as well as work permits and new ISO standards.

JADRAN - GALERY LABORATORY d.o.o. LJUBLJANA

JGL d.o.o. Ljubljana was founded in Ljubljana 1992, as a daughter company of JGL and in 2015 had six employees. The reporting year was a year of constant market changes. During all the 12 months we have been intensively involved in promotion, education, relationships and communication with partners and clients that we have been trying to integrate into many activities under our own or the organization of the ICE Region. Despite challenging times, result of the period is HRK 310.074,74.

OVERVIEW OF THE BUSINESS RESULTS

INCOME STATEMENT FOR JGL

Income statement of Group JGL for periods of 2014 and 2015

Position	Previous period	Current period
OPERATING REVENUE	732.579.472,94	709.083.931,84
Revenue from domestic sales	307.949.410,66	305.118.559,62
Revenue from foreign sales	379.873.599,81	377.869.544,12
Revenues from refunds, grants, subventions and free receipts	1.363.868,81	2.953.725,92
Other business revenues	43.392.593,66	23.142.102,18
OPERATING EXPENSES	674.923.207,71	675.918.448,75
Change of stock value	-40.008.174,28	30.194.798,76
Material costs and services	484.808.224,05	424.220.840,02
Cost of raw material	187.468.094,91	164.432.103,52
Costs of sold goods	139.383.511,37	132.087.107,36
Costs of services	157.956.617,77	127.701.629,14
Staff costs	155.606.434,18	142.820.624,33
Net salaries	96.717.900,62	89.365.896,80
Taxes, surtaxes and contribution from salaries	58.888.533,56	53.454.727,53
Depreciation	34.545.015,00	36.027.901,46
Other costs	27.480.311,98	29.835.137,83
Value adjustment of assets	995.881,21	3.201.774,41
Provisions for risks and costs	0,00	0,00
Other operating expenses	11.495.515,57	9.617.371,94
FINANCIAL REVENUES	47.745.747,62	93.244.995,12
FINANCIAL EXPENSES	89.954.881,34	118.009.371,30
SHARE IN PROFIT FROM AFFILIATED COMPANIES	76.485,08	77.999,00
OTHER REVENUES	0,00	0,00
OTHER EXPENSES	0,00	0,00
TOTAL REVENUES	780.401.705,64	802.406.925,96
TOTAL EXPENSES	764.878.089,05	793.927.820,05
RESULT BEFORE TAXATION	15.523.616,59	8.479.105,91
Income tax and deferred tax assets	5.045.044,54	1.385.485,21
RESULT OF THE PERIOD	10.478.572,05	7.093.620,70

Last year's operating income decreased by 3,2% compared to the same period in the previous year, with foreign sales having a correction of 0,5%, and domestic sales of about 1%.

The share of export in 2015 is 55,33%, which is an increase compared to the previous period. Sales on the Russian market make 41% in revenue from sales, and they continue to be the largest export market of JGL Group. The second largest export market is Kazakhstan with almost 4,54%, and Switzerland with a 3,10% share in sales revenue. The market with the highest revenue of the Group is the Croatian market with a 44,67% share in sales revenue.

The market of Croatia, as the largest market, achieved sales at 99% on the previous year, suggesting further stagnation as well as the fact that the market is still in the recession period and is suffering from the constant pressure of price cuts in generic medicine. In addition to the recession, sales of three unprofitable pharmacies of the affiliated company ZU Pablo were affected by the drop in business income. Although the effect on business income is negative, gains have been increased (pharmacies have recorded a loss). Reduced sales on the domestic market include the Prescription and Non-prescription Program, while the Aqua Maris Program continues to grow.

Other business income in 2014 consisted mostly of receivables from subsequently charged value-added receivables from customers from Ukraine. Since they were mostly billed in 2014, other business income had a significant impact on total business revenue. This case was linked to the political situation in Ukraine, in 2015, other business revenues are returning to the usual level.

When we look at business expenses we have to consider reducing inventories that greatly affect business expenses. In 2015, stock levels declined, which negatively affected the result in 2015, while in 2014 the situation was reversed, inventories increased and impact on the result was positive.

Significant savings were made in 2015 compared to 2014 in the area of material costs (almost 13%), staff costs (about 8%) and other external service costs (almost 20%).

Financial revenues and financial expenditures in 2015 have increased significantly compared to 2014. The net effect of exchange rate differences is more favorable in 2015 compared to 2014, if we take into account forward contracts. The increase in financial expenses is largely due to the increase in interest expenses due to the growth of the general debt level associated with the completion of the investment on location Svilno 2. Profit before tax is HRK 8.479.105,91 kn which represents a decrease of 45% compared to the previous year.

The Company JGL used a tax incentive that by applying a tax rate of 0% reduces the actual tax liability to HRK 0. For the purpose of utilizing the tax paid abroad, the Company reported a current tax liability of HRK 114.182, which with the abolition of deferred tax assets in the amount of HRK 684.222 (in 2014 it was HRK 3.918.178) decreases the gross profit of the period. The mentioned abolition is largely due to the collection of receivables whose value adjustment was tax-unrecognized (Ukrainian customers - 2013).

Taking into account the above, the net profit for the period in the amount of HRK 7.093.620,70 was lower by 32% than the net profit of the previous period - HRK 10.478.572,05.

RISK MANAGEMENT

The Group is exposed to various financial risks such as currency risk, interest rate risk, credit risk and liquidity risk. Below are the financial risks to which the Group is exposed and the ways in which it is hedged.

- Risk of receivables security and non-payment

The JGL Group is exposed to the risk of receivables security and non-payment. The most important customers are wholesalers, which often run with low profit margins and require a large number of days of postponement of payment. Customers have 60 to 150 days of payment delay.

In 2015, the Croatian health care system recovered and the payments are now within 120 days in the pharmacy system, and within 200 days in the hospital and health care system (in the previous years the trend was 180 days in the pharmacy system and 360 days in the hospital and health care system). This risk is reduced by the increase of export (by reducing the share of the Croatian market in total sales) and portfolio diversification (by reducing the share of prescription drugs in the product portfolio). The risk of receivables security in Croatia is significantly reduced by the market position of the ZU Pablo Company, which supplies its pharmacies from the wholesalers based on the share of said wholesaler in revenue in parent company. Given that JGL's customers are simultaneously suppliers of ZU Pablo, nearly 90 percent of the wholesale sales in Croatia JGL is provided through the supply policy of its subsidiary.

The Company JGL, which is most exposed to the risk of non-payment of foreign receivables within the Group, is hedged by internal and external methods. Internal methods of protection are diversification of sales to different markets and different buyers within these markets, annual customer creditworthiness check and setting of credit limits.

In order to further protect its receivables, JGL insures customer receivables. Below is an overview of secured amounts by country in 2015.

	2015 (EUR)
<i>RUSSIA</i>	16.500.000
<i>KAZAKHSTAN</i>	1.000.000
<i>UKRAINE</i>	-
<i>BELARUS</i>	250.000
<i>GEORGIA</i>	350.000
<i>OTHER COUNTRIES</i>	1.080.000
TOTAL	19.180.000

Receivables from all customers with agreed postponement of payment are insured, with the exception of customers in Ukraine and some customers in the CIS and EU regions. In 2014, the insurance company ceased to insure Ukrainian customers due to a difficult political situation in the country. JGL continues to export to Ukraine, but in significantly smaller

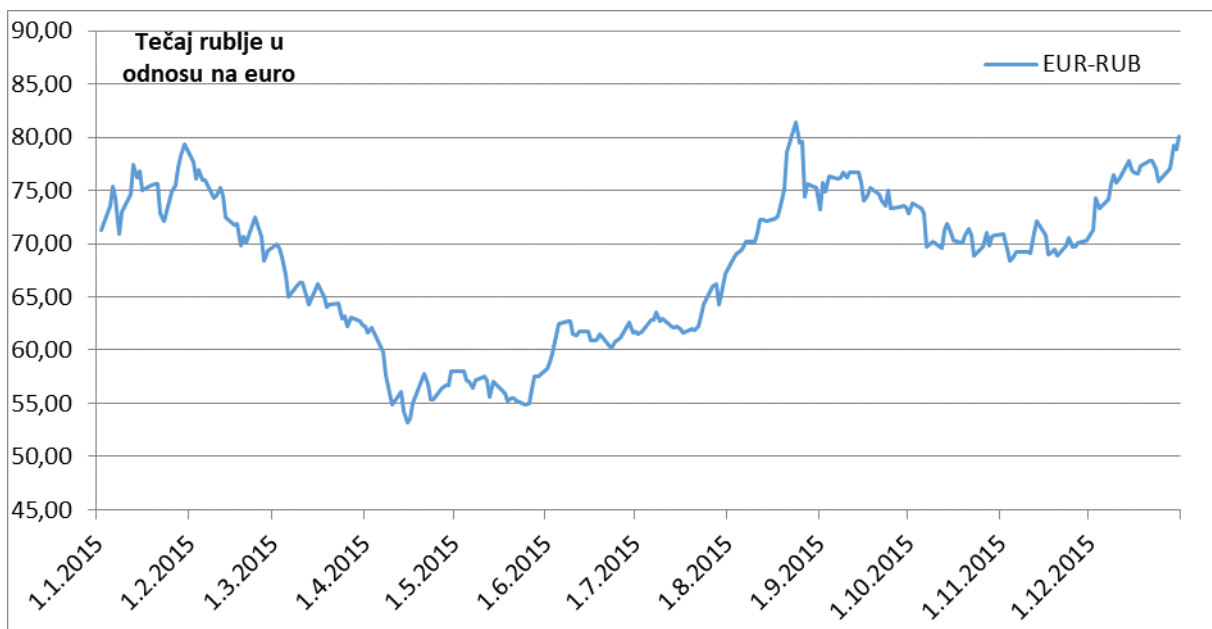
volumes, most of the turnover is diverted to the neighboring countries of Kazakhstan and Belarus. In 2015, JGL had two insurance claims, thereby reducing the negative impact of bankruptcy on the Group's operations.

- Currency risk

The Group is exposed to the risk of exchange rate fluctuations in foreign currency purchases and sales denominated in foreign currencies. Currency risk is present due to possible changes in foreign exchange rates. The dominant share of the Group's export sales results in currency risk exposure in a way that foreign currency assets exceed the amount of foreign currency liabilities. Currency risk exposure is continuously monitored and, where appropriate, hedging instruments are used. The decision on protection depends on the currency in which the claim is made, as well as the type of risk protection instrument as well as its cost.

The parent company JGL invoices the products to almost all Russian customers in Russian rubles. Towards the end of 2014, Russian rubles began to weaken, followed by the EUR-RUB exchange rate.

EUR-RUB exchange rate trend



As a hedge for currency risk, the Company uses forward contracts. Although such a hedging instrument is expensive due to the large interest rate differential, forward contracts proved to be a good business decision, which is confirmed by the fact that the fair value of the forward on 31.12.2015 amounted to HRK 22.564.273,78. JGL will continue to use currency risk protection instruments in the future in accordance with best business practice.

- Interest risk

Business activities that the Group deals expose it to interest rate risk. The Group is minimally exposed to interest rate risk, as most debt is contracted at fixed interest rates, while for short-term financing purposes it uses funds from credit lines with commercial banks that are also arranged under favourable conditions.

In addition to the loan, the parent company JGL has interest-bearing liabilities on the bonds HRJDGLO166A1 maturing on June 10, and HRJDGLO20CA4 maturing on 21.12.2020. The interest rate on the HRJDGLO166A1 bonds is variable and is determined on the basis of the average interest rate on the last 4 auctions of annual treasury bills issued by the Croatian Monetary Fund before the end of the period for calculating the interest rate of the current period, provided that the last auction taken into account ended no later than 4 business days prior to the end of the stated period, increased by 2,25% of the Issuer's Risk premium. Interest for a pre-interest period from, and including 10.06.2014. to, but not including 10.06.2015. was 4,25%, while for the period of, and including 10.06.2015. to, but not including 10.06.2016. is 3,75%. Interest on new Bonds HRJDGLO20CA4 is fixed and amounts to 5,8125%.

- Liquidity risk

The liquidity risk is manifested as a danger that the Group will not be able to fulfill its obligations to creditors. The Group manages liquidity risk by maintaining sufficient amount of money and working capital, and by negotiating favourable credit lines in different business banks, allowing rapid withdrawal of short-term assets under favourable conditions.

- Risk of indebtedness

The risk of indebtedness is a threat faced by companies, and it manifests itself through too high degree of indebtedness and loss of financial flexibility. Over-indebted companies may have problems finding new investors and are faced with the risk of bankruptcy. However, indebtedness is not necessarily bad. If the degree of indebtedness is under control and is regularly monitored over time, and the borrowed funds are used in the right way, indebtedness can result in increased returns on the invested.

The Group minimizes the risk of debt by regulating the share of financing with its own resources in relation to financing from other sources. Financing from other sources is based on long-term assets with extremely favourable interest rates, which does not represent a burden on the Group's liquidity. Group has long-term loans, leasing and bonds. The parent company JGL is most exposed to the risk of indebtedness. Liabilities for long-term loans are reduced to two lenders - HBOR and EBRD.

Liabilities for long-term loan from HBOR for financing the investment of the new production plant Svilno 2 amounting to HRK 239.298.070,80. This loan was contracted under very favourable conditions, with a four-year term (first repayment of principal is on September 30, 2019). The EBRD's long-term loan is a loan for working capital, approved in the amount of 12.000.000,00 EUR, with the first principal repayment that will be due on 12.3.2016. It is a five-year loan with semi-annual principal repayments, with the first seven repayments paying 50 percent of the loan, while the eighth repayment is the remaining 50 percent (due on September 12, 2019).

Of other companies within the Group, ZU Pablo has liabilities for short-term loans to commercial banks in the total amount of HRK 51.740.935 due in 2016.

To finance equipment, the Group uses financial leasing for four to six years, depending on the type of equipment. Within the Group, JGL has the highest leasing liabilities, and has eight leasing houses available with favourable terms. In addition to JGL, leasing liabilities have subsidiaries ZU Pablo, Adrialab d.o.o. and Farmis d.o.o. Sarajevo, all due to end by 2020.

In addition to the loan, the parent company has liabilities to the holders of the HRJDGLO20CA4 bond in the amount of HRK 200,000,000.00 due in 2020 and liabilities to the holders of the HRJDGLO166A1 bond in amount of HRK 26.965.000,00 that are due on 10.6.2016.

Balance sheet of JGL Group for periods of 2014 and 2015

Position	Previous period	Current period
TOTAL ASSETS	1.119.116.959,06	1.216.562.860,27
LONG TERM ASSETS	510.826.541,72	630.360.921,32
Intangible assets	88.416.354,01	86.846.244,48
Tangible assets	420.015.361,16	541.581.464,76
Long term financial assets	1.549.318,31	1.430.636,48
Deferred tax assets	845.508,24	161.285,60
SHORT TERM ASSETS	605.510.007,98	582.284.311,07
Stock	204.628.315,55	163.223.380,62
Receivables	354.549.452,56	357.694.366,99
Short term financial assets	22.677.112,05	42.695.541,06
Cash at banks and in hand	23.655.127,82	18.671.022,40
PREPAID COSTS AND ACCRUED REVENUES	2.780.409,36	3.917.627,88
TOTAL CAPITAL AND LIABILITIES	1.119.116.959,06	1.216.562.860,27
CAPITAL AND RESERVES	383.704.448,55	388.358.036,60
Called up capital	117.908.000,00	118.472.000,00
Reserves	21.545.267,64	22.835.361,24
Retained profit + undistributed profits of last year	233.772.608,86	239.957.054,66
RESULT OF THE PERIOD	10.478.572,05	7.093.620,70
LONG TERM PROVISIONS	940.947,00	806.428,00
LONG TERM LIABILITIES	365.717.428,26	569.318.166,42
Liabilities for bonds	139.780.666,66	199.646.507,49
Other long term liabilities	225.936.761,60	369.671.658,93
SHORT TERM LIABILITIES	346.120.591,41	236.680.695,63
Liabilities for subsidiaries	0,00	0,00
Short term financial liabilities	175.461.906,16	84.730.864,46
Liabilities for securities	1.900.000,00	30.580.183,09
Trade payables	155.832.273,80	110.298.399,16
Liabilities towards employees	4.563.597,81	5.061.479,07
Liabilities for taxes and contributions	7.185.493,91	4.682.241,88
Liabilities due to share in result	26.400,00	21.318,00
Other short term liabilities	1.150.919,73	1.306.209,97
DEFERRED SETTLEMENTS OF COSTS AND REVENUE DEFERRED TO FUTURE PERIOD	22.633.543,84	21.399.533,62

The growth of total assets by almost 9% compared to the previous period was the most influenced by the increase in long-term assets (23%) within tangible long-term assets, which grew by 29%, in the context of the continuation of investment activities of parent company on Svilno 2.

Short-term assets decreased by about 4% when compared to the previous period. The most significant decrease was in stock (20%). During 2015, there is an increase in given loans that are associated with the new business cooperation we have established with the Russian company specializing in logistics called Orfe. Orfe is a highly specialized logistics company in Russia with which JGL has established business cooperation in the course of 2015, and thanks to which JGL products come to smaller distributors and smaller pharmacy chains, thus increasing the market coverage of Russia. Pursuant to a contract with a partner, during 2015, JGL provides a short-term loan for customs purposes in the total amount of HRK 19.650.032. The second major item within short-term financial assets is the fair value of the forward exchange contracts contracted for currency risk hedging (EUR-RUB) and amounts to HRK 22.564.274.

During the year, there was a change in the structure of liabilities, the parent company JGL replaced the short-term sources of funding with better long-term funding sources. At the beginning of 2015, JGL signed a loan agreement with the European Bank amounting to EUR 20.000.000 to be realized in two tranches, a long-term loan of EUR 12.000.000 and a revolving loan of EUR 8.000.000. In October and November JGL withdraws the funds of the first tranche in the total amount of EUR 12.000.000. With these funds, long-term loans in commercial banks have been restored and the company's liquidity increased. With favorable financing conditions, the dependence on business banks decreases, making JGL more competitive and liquid.

In addition to the EBRD's credit, the impact on the structure of liabilities is also the new bond issue that was executed in December 2015. The new bond HRJDGLO20CA4 in the amount of HRK 200.000.000 is used to refinance the old bonds HRJDGLO166A1 in the amount of HRK 113.035.000 (maturity in June 2016), and for the closure of short-term loans in commercial banks.

Part of the investors decided to retain old bonds, so part of the short-term liability for securities (HRK 26.965.000) relates to the liability for the principal due on June 10. The remainder of short-term liability for securities refers to obligations on issued bills of exchange. There is a noticeable decrease in suppliers' obligations (up to 30%), which is related to the above-mentioned savings made in 2015, as well as a fall in inventories.

OVERVIEW OF FINANCIAL RESULTS PER PRODUCTION PROGRAMME OF PARENT COMPANY

In 2015, the parent company JGL realized net sales of HRK 513.504.696, representing a correction of 1.5%, which is a sign of stabilization of the market compared to the previous year.

The CIS and JIE regions show a relatively stable situation compared to 2014 while the decrease in realization when compared to 2014 is caused by less realized sales in the Global Markets Region, in the Aqua Maris Program and the Licensing Out and Contractual Production Program.

Regarding the share of sales by region, it has for years been dominated by the CIS Region, which accounted for 65% of net sales in 2015, the SEE Region accounted for 29% of net sales and the Global Markets Region for 6%.

If we look at sales on the markets, there is no change in the ranking of the market list - the largest market, as in 2014, is Russia with 55% of sales, while domestic market accounts for 21% of realized net sales.

The total market of prescription drugs, non-prescription drugs, OTC and dietetics, medical devices and enteral foods (source: IMS) in Croatia in 2015 amounted to HRK 6.490.689.593 and grew 4% compared to 2014. The leading producer was Pliva with HRK 552.615.709 and decreased by 1% compared to the previous year. JGL was 15. with HRK 118.358.884, representing a 3% decrease compared to 2014. MS corrected from 1,95 to 1,82.

Total market naturally amounted to 144.275.087 pieces and grew 2% compared to 2014. Most of the pieces sold by Belupo (19.941.282) and dropped by 2% compared to the previous year. JGL was 9. (4.556.998 pcs) and grew 5% compared to 2014. The MS grew from 3,08 to 3,17.

Manufacturers in 2015 (pieces and financial)	MARKET		JGL			
	Trend 2015/2014		Trend 2015/2014		MS 2015	
	PIECES	FINANCIAL	PIECES	FINANCIAL	PIECES	FINANCIAL
Total	2%	4%	5%	-3%	3,17 (3,08)	1,82 (1,95)
Prescription drugs (all)	-1%	-2%	6%	-8%	3,53(3,31)	2,27 (2,41)
Prescription drugs (pharmacies)	-2%	-7%	6%	-8%	5,40(4,99)	5,60 (5,65)
Non-prescription drugs and dietetics	0%	5%	3%	7%	5,14 (4,96)	4,79 (4,70)

PRESCRIPTION DRUG PROGRAMME

The parent company's Prescription Program in 2015 achieved net sales of HRK 124.469.523, a decrease of 7% compared to the previous year. The dominant cause of this correction compared to the previous year is a decrease in realization in the SEE Region and in the domicile market of Croatia, where the price pressure on the drugs on subsidized list is still present, accounting for 54% of the realized sales of the Prescription Program (unchanged structure compared to the previous year).

In the CIS region, there was also a lower sales realization than in the previous year of about 10%, dominating the decline in sales in Russia and Ukraine.

Regarding the structure of the program, the biggest achievements were achieved by groups:

- Medications for the treatment of malignant diseases and immunomodulators - 74% growth (ATK classification L),
- Medications for the treatment of systemic infections - growth of 59% (ATK classification J)

NON-PRESCRIPTION PROGRAMME (OTC PROGRAMME)

In the course of 2015, the Non-prescription Program realized net sales of HRK 111.442.697, which represents a correction of 21% over the previous year.

The exclusion of the brand segment of the Non-prescription Program to Adrialab (daughter company of JGL) influenced the realization of the program on the domestic market, accounting for 51% of net sales in the SEE Region. In all other markets of the SEE Region, the Non-prescription Program has grown compared to the previous year. Most of the impact on the cumulative realization of the Non-prescription Program comes from 30 percent lower realization in the CIS region, where the financial result is 30 percent below realization in the previous year.

Regarding the structure of the program, looking at all markets, significant growth rates in comparison with the previous are realized by a new brand - Vizol S, with a 169% increase over 2014, and probiotic brands - Normia with 14% growth and Prolife with 16% growth, watching all markets in total.

AQUA MARIS PROGRAMME

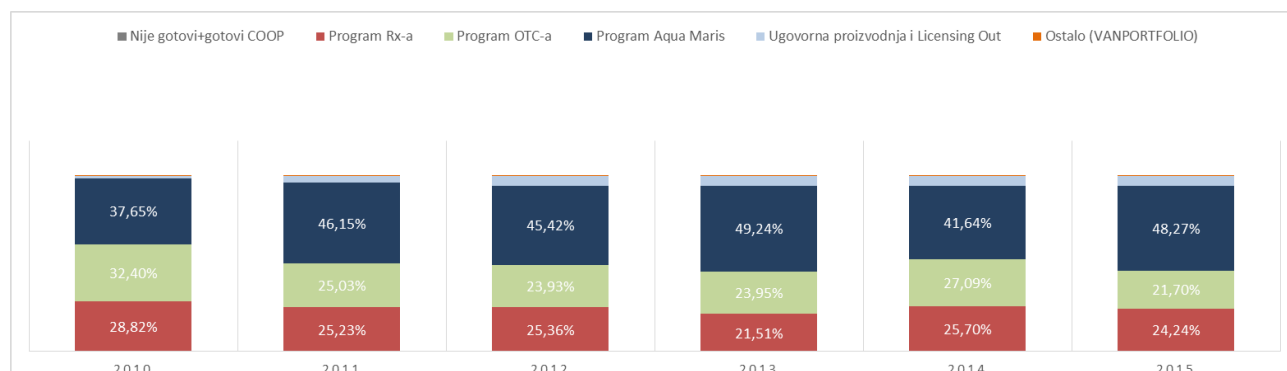
The Aqua Maris program through sales of 2 main brands realized a total of HRK 247.861.931 in 2015, representing a growth of 14,4% over the previous year, a recovery over the previous year's realization and stabilization of the exports. Viewed by structure, the brand Aqua Maris realized 93% of the sale of the Program, ie HRK 231 million, while the much younger Meralys brand earned HRK 18 million.

Regionally, total sales in the CIS region amounted to HRK 230 million, while the SEE Region recorded HRK 16 million in the same period. Compared to the previous year, CIS region recorded 16% growth and the Region of SEE 27% growth. In the Global Markets Region brands are sold through contractual co-operation with local partners. In 2015 this region realized sales of HRK 2.7 million, which is a correction in relation to the previous year.

LICENSING OUT AND CONTRACTUAL PRODUCTION

The contractual production program generated HRK 28.497.574 which is a decrease of 1% 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. In line with the previous year, the largest share of sales was in Global Market Region.

Sales by programs within the parent company JGL d.d. in the period 2010-2015. net (HRK)



POSITION ON THE LARGEST EXPORT MARKETS

The company's competitive position is ranked on the list of pharmaceutical markets in Russia, Ukraine and Kazakhstan, according to data from relevant independent sources.

- **Competitive position of JGL in Russia**

In the past three years, JGL has been listed with around 2.000 pharmaceutical companies competing in the Russian market, among the top 40 pharmaceutical manufacturers on the market. In 2014, a move up for one position has been achieved, and the same result is repeated in 2015, with JGL taking 38th place. On this list, JGL is among major Western European companies as well as the strongest domestic companies.

Corporation	2013		2014		2015	
	Sum_Euro	Rate	Sum_Euro	Rate	Sum_Euro	Rate
<i>Number of Corporations</i>	1.730		1.896		2.012	
<i>Total</i>	€ 11.743.453.009		€ 10.906.547.510		€ 8.915.065.412	
SANOFI-AVENTIS	587.666.845	1	556.104.053	1	416.210.085	1
NOVARTIS	573.660.334	2	524.944.430	2	396.310.199	2
BAYER	488.389.501	3	453.062.214	3	356.761.866	3
SERVIER	409.875.368	5	378.040.225	4	289.728.738	4
GLAXOSMITHKLINE	418.813.417	4	369.140.778	5	273.943.921	5
TAKEDA	345.591.241	6	329.494.433	6	264.224.629	6
TEVA PHARMACEUTICAL INDUSTRIES LTD	341.657.122	7	307.636.816	7	249.412.711	7
STADA ARZNEIMITTEL AG	297.471.183	10	275.797.420	10	242.126.123	8
A.MENARINI PHARMACEUTICAL INDUSTRY	340.193.862	9	299.578.604	8	240.931.247	9
ОТИСИФАРМ ОАО	340.287.419	8	292.074.046	9	235.968.767	10
GEDEON RICHTER	268.653.787	12	245.879.637	12	215.361.045	11
ABBOTT GMBH & CO.KG	269.500.327	11	251.978.076	11	200.563.385	12
KRKA	232.795.121	14	215.290.088	14	174.419.760	13
JOHNSON & JOHNSON	234.741.143	13	229.302.688	13	174.211.261	14
MERCK & CO INC	212.311.306	16	209.005.549	15	159.857.177	15
ASTELLAS PHARMA INC	210.482.821	17	186.443.357	17	154.339.454	16
ACTAVIS GROUP HF.	156.986.118	21	170.173.367	19	153.588.234	17
ФАРМСТАНДАРТ ОАО	161.867.885	20	147.198.392	22	147.860.439	18
PFIZER	222.249.839	15	205.592.102	16	145.036.045	19
BOEHRINGER INGELHEIM	200.123.944	18	180.320.194	18	128.341.837	20
ВАЛЕНТА ОАО	147.953.350	22	157.234.133	20	122.598.655	21
DR.REDDY'S LABORATORIES LTD	172.894.126	19	149.194.649	21	118.038.207	22
RECKITT BENCKISER	124.932.770	24	124.315.652	23	105.723.578	23
ASTRAZENECA UK LTD	118.324.511	25	120.900.066	24	102.339.036	24
POLPHARMA PHARMACEUTICAL WORKS S	108.255.145	27	100.187.674	26	90.589.985	25
ЭВАЛАР ЗАО	128.564.213	23	106.660.996	25	76.477.909	26
МАТЕРИА МЕДИКА	96.417.988	28	85.646.420	28	74.076.736	27
BIONORICA ARZNEIMITTEL GMBH	91.272.356	29	89.363.359	27	72.692.116	28
Rusfic group	87.603.494	30	78.861.863	30	68.623.087	29
VALEANT PHARMACEUTICALS SWITZERLAN	117.384.801	26	84.741.172	29	67.347.236	30
JADRAN CO	58.788.923	40	57.219.756	39	48.078.084	38

Source: DMS Russia, 2015

- Competitive position of JGL in Ukraine

Looking at the period of the last three years, JGL moved from 75th to 78th in the list of pharmaceutical manufacturers. In times of crisis and unstable political situation, JGL optimizes and occupies 92th place. The reasons are related to investment policy in the war-affected market, as well as the decline in purchasing power that consumers channel to cheaper products in the categories in which the company is present. In the OTC segment of the pharmaceutical market, where JGL d.d. is dominantly present in Ukraine, occupies 52nd place.

Corporation	2013		2014		2015	
	Sum_Euro	Rate	Sum_Euro	Rate	Sum_Euro	Rate
<i>Number of Corporations</i>	1700		1.842		2.021	
<i>Total</i>	€ 2.776.238.449		€ 2.386.242.049		€ 1.661.048.378	
FARMAK	103.121.888	2	93.591.320	2	70.711.987	1
GLAXOSMITHKLINE	107.420.590	1	96.094.973	1	63.009.488	2
MENARINI GROUP	92.170.025	4	85.485.460	3	54.827.175	3
SANOFI	98.164.927	3	77.837.466	4	52.609.379	4
ARTERIUM	62.171.420	10	56.926.055	8	46.554.297	5
DARNITSA	70.078.862	7	62.447.479	5	44.907.999	6
BAYER HEALTHCARE	65.442.914	9	55.865.316	9	42.038.275	7
ZDOROVJE GROUP	48.066.867	14	53.470.839	11	40.269.233	8
NOVARTIS	60.985.890	11	58.050.104	7	38.077.620	9
TAKEDA	81.300.177	5	61.750.552	6	35.667.555	10
GEDEON RICHTER	55.124.733	12	53.280.644	12	33.848.156	11
KRKA	51.767.280	13	48.408.127	14	33.168.542	12
TEVA	76.452.229	6	51.301.396	13	32.204.065	13
SERVIER GROUP	67.715.896	8	54.711.759	10	31.336.839	14
KIEV VITAMIN FACTORY	40.469.980	15	35.164.117	15	30.074.019	15
ABBOTT	37.653.541	18	34.052.028	18	23.683.602	16
ACTAVIS	38.247.878	16	34.486.776	16	23.095.474	17
KUSUM HEALTHCARE	25.377.913	26	26.965.511	20	22.936.411	18
YURIA-PHARM	25.188.093	27	25.460.614	21	22.503.795	19
BORSHCHAHIVSKY CHIMPH	34.121.313	19	28.564.636	19	20.099.005	20
STADA	31.659.577	21	24.976.396	22	19.125.545	21
PHARMASTART UKR	22.075.363	30	21.045.013	28	16.144.599	22
RECKITT BENCKISER	21.959.128	31	20.681.826	29	16.132.608	23
BOEHRINGER INGELHEIM	25.824.914	25	24.715.555	23	15.740.369	24
INTERCHEM UKR	38.074.291	17	24.669.648	24	15.347.002	25
HEEL	16.052.749	36	15.136.070	39	14.595.755	26
SOPHARMA	22.939.864	29	19.422.122	33	14.595.399	27
MERCK SHARP&DOHME	27.261.154	23	22.942.888	26	14.465.733	28
PFIZER INCORPORATED	21.858.175	32	19.839.820	32	14.038.552	29
BIONORICA	24.568.889	28	20.371.514	30	13.530.646	30
JADRAN	6.950.658	75	5.653.622	78	3.444.855	92

Source: SMD Ukraine, 2015

- Competitive position of JGL in Kazakhstan

In the period from 2013 to 2015, JGL has managed to improve its position on the list of pharmaceutical manufacturers for nine places, from 49th to 40th position. The biggest leap in sales was in 2014, while in 2015 it is in stagnation.

Corporation	2013		2014		2015	
	Sum_Euro	Rate	Sum_Euro	Rate	Sum_Euro	Rate
<i>Number of Corporations</i>	796		796		796	
<i>Total</i>	€ 791.992.699		€ 825.620.608		€ 850.785.971	
NYCOMED/TAKEDA	41.232.412	1	42.850.761	1	38.007.191	1
SANOFI-AVENTIS	32.480.080	3	33.896.377	2	33.953.993	2
AKRIKHIN-PHARMA*	25.622.810	6	26.918.829	6	30.833.437	3
GLAXOSMITHKLINE*	35.170.346	2	33.618.646	3	30.035.641	4
BAYER HEALTHCARE	28.719.614	5	28.425.319	4	29.218.844	5
TEVA*	29.189.120	4	26.664.542	7	28.208.389	6
SANDOZ GROUP	24.097.885	8	27.017.178	5	26.196.282	7
MENARINI	25.424.059	7	25.604.650	9	26.022.107	8
GEDEON RICHTER*	23.789.152	10	24.900.449	10	25.353.252	9
ABBOTT*	24.059.734	9	26.116.566	8	25.094.782	10
WORLD MEDICINE	18.695.805	13	21.147.985	11	23.728.955	11
SERVIER*	18.789.426	12	20.799.038	12	22.621.823	12
STADA*	18.937.246	11	17.799.587	14	19.385.221	13
KRKA	15.563.390	14	18.858.154	13	19.295.040	14
UNIDENTIFIED MANUF	13.256.310	16	13.851.563	18	17.784.521	15
DR REDDYS LAB	14.771.834	15	15.615.983	16	16.713.673	16
NOBEL-AFF	11.776.620	17	14.790.936	17	15.799.199	17
ASTELLAS PHARMA*	10.523.178	19	12.146.496	19	12.508.949	18
BOEHRINGER I	9.591.852	23	16.353.584	15	11.790.221	19
BORISOV.ZMP BEL	9.691.161	21	10.024.527	20	10.311.029	20
JADRAN	4.032.518	49	5.274.536	37	5.228.108	40

Source: IMS Kazakhstan, 2015

INVESTMENTS AND INCENTIVES

INVESTMENTS

Investments in long term assets in 2015 amount to HRK 164.157.107.

Investments in non-tangible assets were HRK 13.671.893 of which HRK 2.445.908 are investments in computer programs, HRK 557.968 for licenses, HRK 6.175.212 for registration of own products and HRK 4.492.805 for investment in development projects mostly involving Incentive program from Ministry of science, education and sports.

Investments in tangible assets were HRK 150.485.214 of which HRK 133.773.151 are investments in land, buildings and equipment for the new production facility Svilno 2. HRK 935.056 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 15.777.007. There are also significant amounts related to investment in new production plant in Adrialab d.o.o. in amount of HRK 4.571.941, and JGL d.o.o. Belgrade, HRK 922.017. From the amount of the investment, mutual transactions related to the purchase of used equipment within the Group have been eliminated.

Investment in non-current financial assets of HRK 3.095.639 refers to the payment of the increase of the share capital of JGL North America LLC, while the amount of HRK 6.600.000 relates to the investment in the capital reserves of ADRIALAB d.o.o.

Stated investments do not include advances for long-term assets in amount of HRK 261.428.

INCENTIVES

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 5.224.293.

PURCHASE OF OWN SHARES

At the beginning of the period, the company owned 24.828 of its own shares. By the time of profit reinvestment, the Company gained 12.518 shares. On 31.12.2015 the Company had 37.346 own shares in its portfolio.

Called up capital of JGL is divided on 1.184.720 shares, from which 1.147.374 with voting right and remaining are own shares.

- Ownership structure of JGL

Owner	Number of shares	% in capital	% in capital with voting right
Ivo Usmiani	370.834	31,30%	32,32%
Zdravko Saršon	235.196	19,85%	20,50%
Marina Pulišić	53.096	4,48%	4,63%
Trezorske dionice	37.346	3,15%	
Grozdana Božić	29.782	2,51%	2,60%
Vesna Črnjarić	26.162	2,21%	2,28%
Sanja Vujić Šmaguc	21.680	1,83%	1,89%
Đurđica Miletović Forempoher	19.800	1,67%	1,73%
Bruno Mihanović	14.646	1,24%	1,28%
Majid Hejja	14.600	1,23%	1,27%
Small shareholders	361.578	30,53%	31,50%
Total	1.184.720	100,00%	100,00%

The issuer does not have a majority shareholder and there is no possibility of abuse of control.

EMPLOYEES

The excellence of human resource management is one of the main pillars of the company, with the emphasis on continuous development and the acquisition of new knowledge and skills. Employer Partner Certificate, awarded by Selectio d.o.o., is a project that recognizes, rewards and promotes companies and organizations that have the best human resource management processes in the Croatian labor market. Since JGL is characterized by a successful continuous growth of both revenue and business as well as the number of employees, the company is ranked among the best employers in Croatia.

Particular attention is paid to career development within the company, providing professional education and training programs aimed at developing the skills, skills and abilities needed for new business cycles. Creativity and passion, openness to challenges and faith in the future of employees are the main driver of JGL development.

The year of 2015 was the year of change and reorganization in JGL. Consequently, Human Resource Management projects and activities have followed and implemented executive decisions. With the new management structure with Executive Directors Board, led by the Chief Executive Officer, and the changes in the organizational structure, we strive for a better and more uniform flow of business processes.

Total number of employees in JGL Group on 31 December 2015 was the 926.

564 employees worked in Croatia (HR), 202 in Russia (RU), 47 in Ukraine (UA), 48 in Kazakhstan (KZ), 15 in Belarus and 50 in the region of Southeast Europe (Bosnia and Herzegovina, Serbia, Macedonia, Kosovo).

The two biggest markets are Croatia and Russia. During 2015, a total of 127 persons was hired (51 in Croatia and 76 abroad). There are also 140 less persons (56 in Croatia and 84 abroad).

77% of employees are women, while 23% are men. The percentage of highly educated in JGL is 70%, while the average age of employees is 38 years old.

Number of employees in JGL Group in 2015

<i>JGL Group</i>	<i>Total number of employees</i>
JGL Hrvatska	389
JGL BiH	9
JGL Makedonija	5
JGL Kosovo	1
JGL Srbija	3
JGL Rusija	202
JGL Ukrajina	47
JGL Bjelorusija	15
JGL Kazahstan	48
Farmis d.o.o.	15
Sopot-Beograd d.o.o.	11
Ljubljana d.o.o.	6
Adrialab d.o.o.	21
Pablo d.o.o.	2
ZU Pablo	149
Poliklinika Pablo	3
Total	926

Employees in JGL Group by gender and type of contract in 2015.

	Total	Type of contract		Gender	
		Determined working hours	Indefinite working hours	Male	Female
JGL Group					
JGL Hrvatska	389	69	320	104	285
JGL BiH	9	4	5	5	4
JGL Makedonija	5	0	5	1	4
JGL Kosovo	1	0	1	0	1
JGL Srbija	3	1	2	1	2
JGL Rusija	202	12	190	46	156
JGL Ukrajina	47	43	4	11	36
JGL Bjelorusija	15	14	1	8	7
JGL Kazahstan	48	13	35	3	45
Farmis d.o.o.	15	5	10	11	4
Sopot-Beograd d.o.o.	11	2	9	3	8
Ljubljana d.o.o.	6	0	6	0	6
Adrialab d.o.o.	21	0	21	10	11
Pablo d.o.o.	2	1	1	0	2
ZU Pablo	149	14	135	8	141
Poliklinika Pablo	3	1	2	0	3
Total	926	179	747	211	715

JGL d.d., compared to companies operating in similar environment, during 2015 has not achieved deliveries that are in line with the number of employees. Following the review of the criticality of the process, processes that did not give added value and significant delivery were identified at that time. The processes coincided with workplaces and their carriers.

On 01.10.2015 a decision was made to abolish some processes and jobs, which means that the employees at these jobs were classified as a technological surplus. At the same time, some jobs are optimized in a way that reduces the number of jobholders or employees in the same workplace.

We are aware that these decisions are not easy, but are necessary. The goal of the savings we were forced to spend, alongside the turnaround in strategy, was to increase productivity and provide additional resources for further investment in our production portfolio, brands and our committed markets. We are confident that these decisions are placed in a good position to deliver the company's goals and long-term vision.

AWARDS AND RECOGNITIONS

Acknowledged public trust, which through acknowledgments and awards supported and recognized the efforts and work of JGL Group employees, further commits to perseverance in the path of sustainable and responsible business in all segments. During the reporting year, JGL Group did not receive any significant awards, below are mentioned significant awards from previous periods

- 2014. DOP index in the category of large corporate socially responsible businesses in 2013 (HGK and HR PSOR)
- 2014. The fifth place in Croatia for the quality of human resources management system (Selectio d.o.o.)
- 2014 DOP index in the category of large corporate socially responsible businesses in 2012 (HGK and HR PSOR)
- 2014. The Golden Key for Best Exporters in Russia in 2013 (Croatian Exporters Association)
- 2014. Dramina is the best-selling brand in the category of Central and Eastern Europe for 2014 (Nicholas Hall)

ENVIRONMENT PROTECTION IN JGL

In 2015 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 2015, 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.

Inside building C on the location of Svilno 1, all energy-inefficient lighting was replaced with a new, highly efficient LED lighting. Replacement was funded with 40% by the Fund for Environmental Protection and Energy Efficiency. The total investment was HRK 115.000 and in the period of 12 years it is expected to return the funds through less consumption of electricity. This substitution resulted in a reduction of CO2 emissions from the previous 16,89 t / year to 9,15 t / year.

Significant breakthroughs in this segment have also been made with the purchase of 30 bicycles for internal communication between the two production sites Svilno 1 and Svilno 2. In this way, employees are encouraged to use bicycles instead of using a car to go from one location to another. This also reduces CO2 emissions and environmental pollution. In addition, 10 hybrid vehicles were also purchased for departures to other locations or official routes.

JGL at the end of 2015, started with the introduction of the ISO 50001: 2011, energy management system, which will further stimulate savings in the consumption of all types of energy. Same implementation and certification is scheduled for mid 2016.

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".

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 year 2015, the Ministry of Environmental Protection and Nature was inspected by the Ministry of Environmental Protection and Nature where no irregularities were identified and the inspector praised the work and commitment to good environmental care.

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 IN PARENT COMPANY

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 2015 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 2014.

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:

- Work safety training

Work safety related knowledge of all employees is constantly being evaluated. In 2015, in JGL 18 employees were educated in the theory and practice of how to work safely (including fire protection), 134 persons employed in special-function jobs performed medical examinations at a specialist in occupational medicine. In addition to the professional assistance of ZNR and ZOP, employers (department heads) for the implementation of safety at work have informed the other employees about possible dangers and damages, as well as preventive measures that are eliminated or brought to a minimum.

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 2015 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 Uniqua Insurance.

- Taking care of work tools

In 2015, 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 2015, 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, one oversight was conducted in 2015 with an emphasis on implementation of basic and special measures for safety. The controls were detailed and without objections.

During the last five years (2011 - 2015) a total of 14 injuries were registered at work. No case of professional illness was registered.

Number of injuries with respect to the injury site for the past five years 2011-2015

Year	At work	On route from home to work and vice versa	Total
2011	3	0	3
2012	2	1	3
2013	3	2	5
2014	2	0	2
2015	1	0	1

The number of injuries was reduced in relation to the number of employees. In 2015, one work injury was recorded that was classified as lighter injury.

RESEARCH AND DEVELOPMENT

The research and development within the parent company in 2015 was organized by research and development activity groups, followed by microorganisation through the following business units:

- Research and Preformulation
- Formulation Development
- Development of analytical processes
- Development of Stability
- R & D Office

Planned goals for R&D in 2015:

- development of new products
- improvement of products from the existing portfolio
- process optimization
- employee competency and process expertise increase

Activities based on work hours

- work on new products – 40%.
- non-portfolio activities - 35%
- work on improvement of products from the existing portfolio - 12%

In 2015, there were about 200 different forms / doses / packs of products and raw materials grouped into more than 70 different brands, and all pharmaceutical forms of the JGL portfolio were included. As part of the activity of improving the existing portfolio, during 2015 several major topics were covered, of which part is transferred in 2016.

The development of new products was planned and accordingly, in 2015, there were 21 projects for the development of new products managed by four managers. In addition, during 2015, the activities of intensive co-operation in the knowledge transfer field continued, especially in cooperation with the Rijeka University and the Biotechnology and Drug Research University.

INVESTMENT IN R & D

Cost planned for R&D in 2015 was HRK 7.947.816, while realized cost is HRK 7.788.106, which represents 98% of the 2015 plan (for comparison, the realization in 2014 was HRK 8.888.156). Capital investments were relatively low. They relate mainly to some production equipment and amounted to EUR 40.322 or 15% of the planned EUR 264.501.

The strategic focus of R&D in the forthcoming period should continue to be on the development of new products and completion of development projects within the planned deadline, whether it is their own development, whether it is technology transfer or collaborative development. Given the very active process of introducing new BoV technology to JGL, the focus will be on the introduction of new technology, its application to existing products as well as the improvement of the existing portfolio.

FUTURE DEVELOPMENT

An integral part of JGL's business policy is reliance on self-developed products. The company is for 17 years present with the brand Aqua Maris in more than 30 world markets, holding 9 percent of the world market. The successful Aqua Maris business story continues with innovation, through a brand developed on the basis of sea water - Meralys. The strategy within Meralys is successfully achieved through its own JGL operations and registrations in EU countries, numerous contracts have been signed with strategic partners on co-operation and commercialization of products in numerous global markets.

Another strategic segment, that is a natural one in the context of the senses, but also in context of advanced technology platform, the ophthalmic portfolio, makes a wide range of CHC (Consumer Healthcare) products, where JGL first develops artificial tears (sodium hyaluronic acid) without preservatives in the multidose packaging under the brand Vizol S, and prescription drugs where JGL offers generic versions of leading antiglaucoma and antiinfectives (Moxacin, Dorzol, Glaumax, Latanox, Bimanox). In this strategic segment, JGL is working intensively on introducing new products and thus achieving its strategic goal.

With a constant guiding light - seawater, JGL has also developed a new generation formula for a prescription drug portfolio. Products are currently under development, while aimed at continuous growth and development of the company they also include the dermatological segment, in the direction of technological innovation and recognition of market opportunities.

In addition to capitalizing on products developed by the company with its own knowledge and expertise, JGL's rapid organic growth is partly based on B2B business where selected segments and cluster regions where the company can quickly earn revenue, but also strategically develop their competitive position. Differentiation versus competitors in selected segments must be such that it is interested in partners but also that it contains the potential of long-term sustainable business in the segment.

Licensing is a well-known process in the pharmaceutical industry, where large multinational organizations, as well as smaller or medium-sized companies, participate equally, and JGL uses it as a growth generator and tool for opening new segments for over twenty years.

The great importance of licensing co-operation is present in generic drug business, one of JGL's major revenue on Southeast Europe. By licensing a significant number of products from different therapeutic areas, focusing on cardiovascular drugs, digestive system drugs, CNS, antibiotics, antiinfectives and antialergics, JGL has secured the position of one of the leading generic companies in Croatia and the rest of the region.

JGL has developed a licensed collaboration to develop a reliable product quality tracking system that includes regular inspections of all licensed partners, an analysis of all licensed products being placed on the market, ensuring that the patient and the end consumer use a high quality and safe product.

Future licensing projects are based on innovative formulations and new generation medicines that show rapid financial growth. Also, JGL emphasizes the importance of OTC drugs, dietary supplements and medical products complementary to the portfolio of companies, adding value and presenting a valuable extension to the existing portfolio through licensing.

To conclude, the competitive strategy in the BD business segments is predominantly based on co-operation, because here we can be better than competitors. We will build the company's image through partnerships, successfully completed projects and established brands, and we must endeavor to keep track of the trends in targeted segments in the markets with holding price competitiveness.

We believe that we continue to have the power to independently realize the set strategic goals, while respecting the sustainability and development prospects. In the market environment in which we do business, we are constantly measuring, we see what we are better than competitors, but also we are not good at seeing what we have to change to be able to survive in the long run.

Given the significantly strengthened technology platform, obtained certificates that confirm the quality of our products as well as business processes, we are confident that we can realize different models of collaboration with partners, which is a prerequisite for successful realization in global markets.

Expected sales of product from own development from 2016 to 2020 (in EUR)

	2016.	2017.	2018.	2019.	2020.
Proizvodi vlastitog razvoja	3.928.760	6.798.701	12.726.349	21.443.887	24.810.067

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

According to article 26 paragraph 1 subparagraph 12 of the Statute of Jadran - Galenski laboratorij, joint stock company from Rijeka, on the 1. convocation, held on 05th May 2016 under the point 6 of the daily agenda was:

“Consideration of consolidated financial reports for JGL d.d. for 2015, composed by the Executive Directors for period 01.01.-31.12.2015 and determination of consolidated financial reports of the Company for period of 01.01.-31.12.2015”, 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 period 01.01.-31.12.2015 as composed by the Executive Directors.

II

Management Board of Jadran - Galenski laboratorij, joint stock company determined the consolidated financial reports of Jadran - Galenski laboratorij, joint stock company for period 01.01.-31.12.2015.

III

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

PRESIDENT OF THE MANAGEMENT BOARD

IVO USMIANI, mag. pharm. .spec.

