

## ISSUER'S GENERAL DATA

Reporting period:

1.1.2019

to

31.12.2019

Year:

2019

## Annual financial statements

Registration number (MB):

03715957

Issuer's home Member

State code:

Entity's registration  
number (MBS):

040004561

Personal identification  
number (OIB):

20950636972

LEI:

529900NRAH6YWL3TLD24

Institution code:

2564

Name of the issuer: **JGL d.d.**

Postcode and town:

51000

Rijeka

Street and house number:

Svilno 20

E-mail address:

jgl@jgl.hr

Web address:

www.jgl.hr

Number of employees  
(end of the reporting

1002

Consolidated report:

KN

(KN-not consolidated/KD-consolidated)

Audited:

RD

(RN-not audited/RD-audited)

Names of subsidiaries (according to IFRS)

Registered office:

MB:

Farmis d.o.o. Sarajevo

Sarajevo, BIH

Jadran - Galenski laboratorij d.o.o. Ljubljana

Ljubljana, Slovenija

JGL. D.o.o. Beograd-Sopot

Beograd, Srbija

JGL North America LLC

Raleigh, SAD

JADRAN LLC Moskva

Moskva, Rusija

obdobje zdravstvena ustanova za lječničku djelatnost

Rijeka

1487434

Bookkeeping firm:  (Yes/No)

(name of the bookkeeping firm)

Contact person:   
(only name and surname of the contact person)

Telephone:

E-mail address:

Audit firm:   
(name of the audit firm)

Certified auditor:   
(name and surname)

**BALANCE SHEET**  
balance as at 31.12.2019

in HRK

<b>Submitter: GROUP JGL</b>			
Item 1	ADP code 2	Last day of the preceding business year 3	At the reporting date of the current period 4
<b>A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID</b>	<b>001</b>	0	0
<b>B) FIXED ASSETS (ADP 003+010+020+031+036)</b>	<b>002</b>	617.203.930	659.106.408
<b>I INTANGIBLE ASSETS (ADP 004 to 009)</b>	<b>003</b>	109.234.008	116.366.072
1 Research and development	<b>004</b>	14.222.040	15.267.718
2 Concessions, patents, licences, trademarks, software and other rights	<b>005</b>	36.896.699	41.371.524
3 Goodwill	<b>006</b>	21.824.660	21.824.660
4 Advance payments for purchase of intangible assets	<b>007</b>	0	0
5 Intangible assets in preparation	<b>008</b>	25.500.372	29.818.918
6 Other intangible assets	<b>009</b>	10.790.237	8.083.252
<b>II TANGIBLE ASSETS (ADP 011 to 019)</b>	<b>010</b>	493.230.704	524.552.799
1 Land	<b>011</b>	41.684.890	41.712.493
2 Buildings	<b>012</b>	245.653.842	264.826.831
3 Plant and equipment	<b>013</b>	174.832.748	177.651.603
4 Tools, working inventory and transportation assets	<b>014</b>	11.887.500	18.188.102
5 Biological assets	<b>015</b>	0	0
6 Advance payments for purchase of tangible assets	<b>016</b>	359.591	3.294.880
7 Tangible assets in preparation	<b>017</b>	761.672	1.559.154
8 Other tangible assets	<b>018</b>	832.480	832.480
9 Investment property	<b>019</b>	17.217.981	16.487.256
<b>III FIXED FINANCIAL ASSETS (ADP 021 to 030)</b>	<b>020</b>	1.732.335	1.782.036
1 Investments in holdings (shares) of undertakings within the group	<b>021</b>	0	0
2 Investments in other securities of undertakings within the group	<b>022</b>	0	0
3 Loans, deposits, etc. to undertakings within the group	<b>023</b>	0	0
4 Investments in holdings (shares) of companies linked by virtue of participating interest	<b>024</b>	517.011	566.136
5 Investment in other securities of companies linked by virtue of participating interest	<b>025</b>	0	0
6 Loans, deposits etc. given to companies linked by virtue of participating interest	<b>026</b>	0	0
7 Investments in securities	<b>027</b>	1.182.575	1.182.575
8 Loans, deposits, etc. given	<b>028</b>	32.749	33.325
9 Other investments accounted for using the equity method	<b>029</b>	0	0
10 Other fixed financial assets	<b>030</b>	0	0
<b>IV RECEIVABLES (ADP 032 to 035)</b>	<b>031</b>	11.333	4.051
1 Receivables from undertakings within the group	<b>032</b>	0	0
2 Receivables from companies linked by virtue of participating interests	<b>033</b>	0	0
3 Customer receivables	<b>034</b>	0	0
4 Other receivables	<b>035</b>	11.333	4.051
<b>V. Deferred tax assets</b>	<b>036</b>	12.995.550	16.401.450
<b>C) CURRENT ASSETS (ADP 038+046+053+063)</b>	<b>037</b>	497.865.627	603.191.696
<b>I INVENTORIES (ADP 039 to 045)</b>	<b>038</b>	188.884.737	206.232.958
1 Raw materials	<b>039</b>	64.406.041	83.180.641
2 Work in progress	<b>040</b>	183.689	207.216

3 Finished goods	041	58.043.454	47.174.289
4 Merchandise	042	44.749.340	66.334.780
5 Advance payments for inventories	043	9.101.573	125.008
6 Fixed assets held for sale	044	12.400.640	9.211.024
7 Biological assets	045	0	0
<b>II RECEIVABLES (ADP 047 to 052)</b>	<b>046</b>	<b>279.576.019</b>	<b>311.563.490</b>
1 Receivables from undertakings within the group	047	0	0
2 Receivables from companies linked by virtue of participating interest	048	0	0
3 Customer receivables	049	262.369.164	293.238.337
4 Receivables from employees and members of the undertaking	050	33.040	123.601
5 Receivables from government and other institutions	051	10.617.308	14.515.372
6 Other receivables	052	6.556.507	3.686.180
<b>III SHORT-TERM FINANCIAL ASSETS (ADP 054 to 062)</b>	<b>053</b>	<b>521.212</b>	<b>201.792</b>
1 Investments in holdings (shares) of undertakings within the group	054	0	0
2 Investments in other securities of undertakings within the group	055	0	0
3 Loans, deposits, etc. to undertakings within the group	056	0	0
4 Investments in holdings (shares) of companies linked by virtue of participating interest	057	0	0
5 Investment in other securities of companies linked by virtue of participating interest	058	0	0
6 Loans, deposits etc. given to companies linked by virtue of participating interest	059	0	0
7 Investments in securities	060	0	0
8 Loans, deposits, etc. given	061	521.212	201.792
9 Other financial assets	062	0	0
<b>IV CASH AT BANK AND IN HAND</b>	<b>063</b>	<b>28.883.659</b>	<b>85.193.456</b>
<b>D ) PREPAID EXPENSES AND ACCRUED INCOME</b>	<b>064</b>	<b>3.209.301</b>	<b>3.546.706</b>
<b>E) TOTAL ASSETS (ADP 001+002+037+064)</b>	<b>065</b>	<b>1.118.278.858</b>	<b>1.265.844.810</b>
<b>OFF-BALANCE SHEET ITEMS</b>	<b>066</b>	<b>86.164.950</b>	<b>86.666.791</b>
<b>LIABILITIES</b>			
<b>A) CAPITAL AND RESERVES (ADP 068 to</b>	<b>067</b>	<b>545.543.482</b>	<b>624.963.119</b>
<b>I. INITIAL (SUBSCRIBED) CAPITAL</b>	<b>068</b>	<b>118.472.000</b>	<b>119.255.000</b>
<b>II CAPITAL RESERVES</b>	<b>069</b>	<b>13.651.334</b>	<b>16.720.695</b>
<b>III RESERVES FROM PROFIT (ADP 071+072-073+074+075)</b>	<b>070</b>	<b>39.057.837</b>	<b>45.291.675</b>
1 Legal reserves	071	35.873.810	42.107.648
2 Reserves for treasury shares	072	8.728.548	8.316.948
3 Treasury shares and holdings (deductible item)	073	-7.685.300	-7.273.700
4 Statutory reserves	074	0	0
5 Other reserves	075	2.140.779	2.140.779
<b>IV REVALUATION RESERVES</b>	<b>076</b>	<b>0</b>	<b>482.336</b>
<b>V FAIR VALUE RESERVES (ADP 078 to 080)</b>	<b>077</b>	<b>0</b>	<b>0</b>
1 Fair value of financial assets available for sale	078	0	0
2 Cash flow hedge - effective portion	079	0	0
3 Hedge of a net investment in a foreign operation - effective portion	080	0	0
<b>VI RETAINED PROFIT OR LOSS BROUGHT FORWARD (ADP 082-083)</b>	<b>081</b>	<b>357.329.264</b>	<b>364.771.073</b>
1 Retained profit	082	357.329.264	364.771.073
2 Loss brought forward	083	0	0
<b>VII PROFIT OR LOSS FOR THE BUSINESS YEAR (ADP 085-086)</b>	<b>084</b>	<b>17.033.047</b>	<b>78.442.340</b>
1 Profit for the business year	085	17.033.047	78.442.340
2 Loss for the business year	086	0	0
<b>VIII MINORITY (NON-CONTROLLING) INTEREST</b>	<b>087</b>	<b>0</b>	<b>0</b>
<b>B) PROVISIONS (ADP 089 to 094)</b>	<b>088</b>	<b>1.730.908</b>	<b>3.150.555</b>

1 Provisions for pensions, termination benefits and similar obligations	<b>089</b>	1.432.157	2.062.091
2 Provisions for tax liabilities	<b>090</b>	0	0
3 Provisions for ongoing legal cases	<b>091</b>	298.751	1.088.464
4 Provisions for renewal of natural resources	<b>092</b>	0	0
5 Provisions for warranty obligations	<b>093</b>	0	0
6 Other provisions	<b>094</b>	0	0
<b>C) LONG-TERM LIABILITIES (ADP 096 to 106)</b>	<b>095</b>	<b>359.471.142</b>	<b>350.040.248</b>
1 Liabilities towards undertakings within the group	<b>096</b>	0	0
2 Liabilities for loans, deposits, etc. to companies within the group	<b>097</b>	0	0
3 Liabilities towards companies linked by virtue of participating interest	<b>098</b>	0	0
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	<b>099</b>	0	0
5 Liabilities for loans, deposits etc.	<b>100</b>	0	0
6 Liabilities towards banks and other financial institutions	<b>101</b>	228.809.863	218.558.925
7 Liabilities for advance payments	<b>102</b>	0	0
8 Liabilities towards suppliers	<b>103</b>	0	0
9 Liabilities for securities	<b>104</b>	127.032.106	127.835.906
10 Other long-term liabilities	<b>105</b>	0	0
11 Deferred tax liability	<b>106</b>	3.629.173	3.645.417
<b>D) SHORT-TERM LIABILITIES (ADP 108 to 121)</b>	<b>107</b>	<b>201.056.671</b>	<b>268.867.875</b>
1 Liabilities towards undertakings within the group	<b>108</b>	0	0
2 Liabilities for loans, deposits, etc. to companies within the group	<b>109</b>	0	0
3 Liabilities towards companies linked by virtue of participating interest	<b>110</b>	0	0
4 Liabilities for loans, deposits etc. of companies linked by virtue of participating interest	<b>111</b>	0	0
5 Liabilities for loans, deposits etc.	<b>112</b>	400.000	0
6 Liabilities towards banks and other financial institutions	<b>113</b>	52.460.834	61.362.389
7 Liabilities for advance payments	<b>114</b>	737.373	137.249
8 Liabilities towards suppliers	<b>115</b>	119.567.867	120.365.638
9 Liabilities for securities	<b>116</b>	4.800.000	53.094.414
10 Liabilities towards employees	<b>117</b>	9.951.067	15.037.948
11 Taxes, contributions and similar liabilities	<b>118</b>	11.637.425	16.538.873
12 Liabilities arising from the share in the result	<b>119</b>	25.068	21.468
13 Liabilities arising from fixed assets held for sale	<b>120</b>	0	0
14 Other short-term liabilities	<b>121</b>	1.477.037	2.309.896
<b>E) ACCRUALS AND DEFERRED INCOME</b>	<b>122</b>	<b>10.476.655</b>	<b>18.823.013</b>
<b>F) TOTAL – LIABILITIES (ADP 067+088+095+107+122)</b>	<b>123</b>	<b>1.118.278.858</b>	<b>1.265.844.810</b>
<b>G) OFF-BALANCE SHEET ITEMS</b>	<b>124</b>	<b>86.164.950</b>	<b>86.666.791</b>

**STATEMENT OF PROFIT OR LOSS**  
for the period 01.01.2019 to 31.12.2019

in HRK

<b>Submitter: GROUP JGL</b>			
<b>Item</b>	<b>ADP code</b>	<b>Same period of the previous year</b>	<b>Current period</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
<b>I OPERATING INCOME (ADP 126 to 130)</b>	<b>125</b>	<b>796.442.539</b>	<b>909.204.509</b>
1 Income from sales with undertakings within the group	126	774.110.875	0
2 Income from sales (outside group)	127	0	884.715.500
3 Income from the use of own products, goods and services	128	0	0
4 Other operating income with undertakings within the group	129	22.331.664	0
5 Other operating income (outside the group)	130	0	24.489.009
<b>II OPERATING EXPENSES (ADP 132+133+137+141+142+143+146+153)</b>	<b>131</b>	<b>732.615.582</b>	<b>820.610.546</b>
1 Changes in inventories of work in progress and finished goods	132	-8.917.918	6.046.899
2 Material costs (ADP 134 to 136)	133	506.949.474	534.652.768
a) Costs of raw material	134	175.827.873	155.993.710
b) Costs of goods sold	135	171.381.761	206.280.452
c) Other external costs	136	159.739.840	172.378.606
3 Staff costs (ADP 138 to 140)	137	155.800.099	172.631.334
a) Net salaries and wages	138	97.332.381	108.323.273
b) Tax and contributions from salaries expenses	139	35.301.774	39.306.630
c) Contributions on salaries	140	23.165.944	25.001.431
4 Depreciation	141	35.771.490	47.025.115
5 Other expenses	142	33.534.614	39.548.753
6 Value adjustments (ADP 144+145)	143	1.117.960	767.362
a) fixed assets other than financial assets	144	0	48.520
b) current assets other than financial assets	145	1.117.960	718.842
7 Provisions (ADP 147 to 152)	146	1.672.812	3.628.869
a) Provisions for pensions, termination benefits and similar obligations	147	1.600.061	2.498.223
b) Provisions for tax liabilities	148	0	0
c) Provisions for ongoing legal cases	149	72.751	840.700
d) Provisions for renewal of natural resources	150	0	0
e) Provisions for warranty obligations	151	0	0
f) Other provisions	152	0	289.946
8 Other operating expenses	153	6.687.051	16.309.446
<b>III FINANCIAL INCOME (ADP 155 to 164)</b>	<b>154</b>	<b>3.485.616</b>	<b>23.394.244</b>
1 Income from investments in holdings (shares) of undertakings within the group	155	0	0
2 Income from investments in holdings (shares) of companies linked by virtue of participating interest	156	0	0
3 Income from other long-term financial investment and loans granted to undertakings within the group	157	0	0
4 Other interest income from operations with undertakings within the group	158	0	0
5 Exchange rate differences and other financial income from operations with undertakings within the group	159	0	0
6 Income from other long-term financial investments and loans	160	26.037	44.507
7 Other interest income	161	299.839	148.137
8 Exchange rate differences and other financial income	162	3.158.634	23.197.057
9 Unrealised gains (income) from financial assets	163	0	0
10 Other financial income	164	1.106	4.543
<b>IV FINANCIAL EXPENDITURE (ADP 166 to 172)</b>	<b>165</b>	<b>47.219.686</b>	<b>30.530.549</b>
1 Interest expenses and similar expenses with undertakings within the group	166	0	0
2 Exchange rate differences and other expenses from operations with undertakings within the group	167	0	0
3 Interest expenses and similar expenses	168	19.717.522	19.548.495
4 Exchange rate differences and other expenses	169	27.493.239	5.228.622
5 Unrealised losses (expenses) from financial assets	170	0	0
6 Value adjustments of financial assets (net)	171	0	3.406.519

7 Other financial expenses	172	8.925	2.346.913
<b>V SHARE IN PROFIT FROM COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST</b>	<b>173</b>	<b>0</b>	<b>49.125</b>
<b>VI SHARE IN PROFIT FROM JOINT VENTURES</b>	<b>174</b>	<b>0</b>	<b>0</b>
<b>VII SHARE IN LOSS OF COMPANIES LINKED BY VIRTUE OF PARTICIPATING INTEREST</b>	<b>175</b>	<b>45.161</b>	<b>0</b>
<b>VIII SHARE IN LOSS OF JOINT VENTURES</b>	<b>176</b>	<b>0</b>	<b>0</b>
<b>IX TOTAL INCOME (ADP 125+154+173 + 174)</b>	<b>177</b>	<b>799.928.155</b>	<b>932.647.878</b>
<b>X TOTAL EXPENDITURE (ADP 131+165+175 + 176)</b>	<b>178</b>	<b>779.880.429</b>	<b>851.141.095</b>
<b>XI PRE-TAX PROFIT OR LOSS (ADP 177-178)</b>	<b>179</b>	<b>20.047.726</b>	<b>81.506.783</b>
1 Pre-tax profit (ADP 177-178)	180	20.047.726	81.506.783
2 Pre-tax loss (ADP 178-177)	181	0	0
<b>XII INCOME TAX</b>	<b>182</b>	<b>3.014.679</b>	<b>3.064.443</b>
<b>XIII PROFIT OR LOSS FOR THE PERIOD (ADP 179-182)</b>	<b>183</b>	<b>17.033.047</b>	<b>78.442.340</b>
1 Profit for the period (ADP 179-182)	184	17.033.047	78.442.340
2 Loss for the period (ADP 182-179)	185	0	0
<b>DISCONTINUED OPERATIONS (to be filled in by undertakings subject to IFRS only with discontinued operations)</b>			
<b>XIV PRE-TAX PROFIT OR LOSS OF DISCONTINUED OPERATIONS (ADP 187-188)</b>	<b>186</b>	<b>0</b>	<b>0</b>
1 Pre-tax profit from discontinued operations	187	0	0
2 Pre-tax loss on discontinued operations	188	0	0
<b>XV INCOME TAX OF DISCONTINUED OPERATIONS</b>	<b>189</b>	<b>0</b>	<b>0</b>
1 Discontinued operations profit for the period (ADP 186-189)	190	0	0
2 Discontinued operations loss for the period (ADP 189-186)	191	0	0
<b>TOTAL OPERATIONS (to be filled in only by undertakings subject to IFRS with discontinued operations)</b>			
<b>XVI PRE-TAX PROFIT OR LOSS (ADP 179+186)</b>	<b>192</b>	<b>0</b>	<b>0</b>
1 Pre-tax profit (ADP 192)	193	0	0
2 Pre-tax loss (ADP 192)	194	0	0
<b>XVII INCOME TAX (ADP 182+189)</b>	<b>195</b>	<b>0</b>	<b>0</b>
<b>XVIII PROFIT OR LOSS FOR THE PERIOD (ADP 192-195)</b>	<b>196</b>	<b>0</b>	<b>0</b>
1 Profit for the period (ADP 192-195)	197	0	0
2 Loss for the period (ADP 195-192)	198	0	0
<b>APPENDIX to the P&amp;L (to be filled in by undertakings that draw up consolidated annual financial statements)</b>			
<b>XIX PROFIT OR LOSS FOR THE PERIOD (ADP 200+201)</b>	<b>199</b>	<b>17.033.047</b>	<b>78.442.340</b>
1 Attributable to owners of the parent	200	17.033.047	78.442.340
2 Attributable to minority (non-controlling) interest	201	0	0
<b>STATEMENT OF OTHER COMPREHENSIVE INCOME (to be filled in by undertakings subject to IFRS)</b>			
<b>I PROFIT OR LOSS FOR THE PERIOD</b>	<b>202</b>	<b>17.033.047</b>	<b>78.442.340</b>
<b>II OTHER COMPREHENSIVE PROFIT/LOSS BEFORE TAX (ADP 204 to 211)</b>	<b>203</b>	<b>0</b>	<b>0</b>
1 Exchange rate differences from translation of foreign operations	204	0	0
2 Changes in revaluation reserves of fixed tangible and intangible assets	205	0	0
3 Profit or loss arising from re-evaluation of financial assets available for sale	206	0	0
4 Profit or loss arising from effective cash flow hedging	207	0	0
5 Profit or loss arising from effective hedge of a net investment in a foreign operation	208	0	0
6 Share in other comprehensive income/loss of companies linked by virtue of participating interest	209	0	0
7 Actuarial gains/losses on defined remuneration plans	210	0	0
8 Other changes in equity unrelated to owners	211	0	0
<b>III TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>212</b>	<b>0</b>	<b>0</b>
<b>IV NET OTHER COMPREHENSIVE INCOME OR LOSS (ADP 203-212)</b>	<b>213</b>	<b>0</b>	<b>0</b>
<b>V. COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 202+213)</b>	<b>214</b>	<b>17.033.047</b>	<b>78.442.340</b>
<b>APPENDIX to the Statement on comprehensive income (to be filled in by entrepreneurs who draw up consolidated statements)</b>			
<b>VI COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (ADP 216+217)</b>	<b>215</b>	<b>17.033.047</b>	<b>78.442.340</b>
1 Attributable to owners of the parent	216	17.033.047	78.442.340
2 Attributable to minority (non-controlling) interest	217	0	0

**STATEMENT OF CASH FLOWS - indirect method**  
for the period \_\_\_\_\_. to \_\_\_\_\_.

in HRK

Submitter: _____			
Item	ADP code	Same period of the previous year	Current period
1	2	3	4
<b>Cash flow from operating activities</b>			
1 Pre-tax profit	001	0	0
2 Adjustments (ADP 003 to 010):	002	0	0
a) Depreciation	003	0	0
b) Gains and losses from sale and value adjustment of fixed tangible and intangible assets	004	0	0
c) Gains and losses from sale and unrealised gains and losses and value adjustment of financial assets	005	0	0
d) Interest and dividend income	006	0	0
e) Interest expenses	007	0	0
f) Provisions	008	0	0
g) Exchange rate differences (unrealised)	009	0	0
h) Other adjustments for non-cash transactions and unrealised gains and losses	010	0	0
<b>I Cash flow increase or decrease before changes in the working capital (ADP 001+002)</b>	<b>011</b>	<b>0</b>	<b>0</b>
3 Changes in the working capital (ADP 013 to 016)	012	0	0
a) Increase or decrease in short-term liabilities	013	0	0
b) Increase or decrease in short-term receivables	014	0	0
c) Increase or decrease in inventories	015	0	0
d) Other increase or decrease in the working capital	016	0	0
<b>II Cash from operations (ADP 011+012)</b>	<b>017</b>	<b>0</b>	<b>0</b>
4 Interest paid	018	0	0
5 Income tax paid	019	0	0
<b>A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 017 to 019)</b>	<b>020</b>	<b>0</b>	<b>0</b>
<b>Cash flow from investment activities</b>			
1 Cash receipts from sales of fixed tangible and intangible assets	021	0	0
2 Cash receipts from sales of financial instruments	022	0	0
3 Interest received	023	0	0
4 Dividends received	024	0	0
5 Cash receipts from repayment of loans and deposits	025	0	0
6 Other cash receipts from investment activities	026	0	0
<b>III Total cash receipts from investment activities (ADP 021 to 026)</b>	<b>027</b>	<b>0</b>	<b>0</b>
1 Cash payments for the purchase of fixed tangible and intangible assets	028	0	0
2 Cash payments for the acquisition of financial instruments	029	0	0
3 Cash payments for loans and deposits for the period	030	0	0
4 Acquisition of a subsidiary, net of cash acquired	031	0	0
5 Other cash payments from investment activities	032	0	0
<b>IV Total cash payments from investment activities (ADP 028 to 032)</b>	<b>033</b>	<b>0</b>	<b>0</b>
<b>B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 027 +033)</b>	<b>034</b>	<b>0</b>	<b>0</b>
<b>Cash flow from financing activities</b>			
1 Cash receipts from the increase of initial (subscribed) capital	035	0	0
2 Cash receipts from the issue of equity financial instruments and debt financial instruments	036	0	0
3 Cash receipts from credit principals, loans and other borrowings	037	0	0
4 Other cash receipts from financing activities	038	0	0
<b>V Total cash receipts from financing activities (ADP 035 to 038)</b>	<b>039</b>	<b>0</b>	<b>0</b>



1 Cash payments for the repayment of credit principals, loans and other borrowings and debt financial instruments	040	0	0
2 Dividends paid	041	0	0
3 Cash payments for finance lease	042	0	0
4 Cash payments for the redemption of treasury shares and decrease of initial (subscribed) capital	043	0	0
5 Other cash payments from financing activities	044	0	0
<b>VI Total cash payments from financing activities (ADP 040 to 044)</b>	<b>045</b>	<b>0</b>	<b>0</b>
<b>C) NET CASH FLOW FROM FINANCING ACTIVITIES (ADP 039 +045)</b>	<b>046</b>	<b>0</b>	<b>0</b>
1 Unrealised exchange rate differences in cash and cash equivalents	047	0	0
<b>D) NET INCREASE OR DECREASE OF CASH FLOWS (ADP 020+034+046+047)</b>	<b>048</b>	<b>0</b>	<b>0</b>
<b>E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>049</b>	<b>0</b>	<b>0</b>
<b>F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD(ADP 048+049)</b>	<b>050</b>	<b>0</b>	<b>0</b>

**STATEMENT OF CASH FLOWS - direct method**  
for the period 01.01.2019 to 31.12.2019

in HRK

Submitter: GROUP JGL			
Item	ADP code	Same period of the previous year	Current period
1	2	3	4
<b>Cash flow from operating activities</b>			
1 Cash receipts from customers	001	856.715.805	943.749.574
2 Cash receipts from royalties, fees, commissions and other revenue	002	26.037	0
3 Cash receipts from insurance premiums	003	613.659	621.230
4 Cash receipts from tax refund	004	15.088.898	13.769.253
5 Cash payments to suppliers	005	-586.271.894	-628.188.282
6 Cash payments to employees	006	-118.944.722	-125.254.800
7 Cash payments for insurance premiums	007	0	0
8 Other cash receipts and payments	008	-18.842.210	-106.232.464
<b>I Cash from operations (ADP 001 to 008)</b>	<b>009</b>	<b>148.385.573</b>	<b>98.464.511</b>
9 Interest paid	010	-17.569.380	-16.957.179
10 Income tax paid	011	-67.123.327	-1.921.515
<b>A) NET CASH FLOW FROM OPERATING ACTIVITIES (ADP 009 to 011)</b>	<b>012</b>	<b>63.692.866</b>	<b>79.585.817</b>
<b>Cash flow from investment activities</b>			
1 Cash receipts from sales of fixed tangible and intangible assets	013	15.250.859	4.992.651
2 Cash receipts from sales of financial instruments	014	0	0
3 Interest received	015	5.427	11.157
4 Dividends received	016	0	44.507
5 Cash receipts from repayment of loans and deposits	017	58.346	320.115
6 Other cash receipts from investment activities	018	12.481.699	124.895.301
<b>II Total cash receipts from investment activities (ADP 013 to 018)</b>	<b>019</b>	<b>27.796.331</b>	<b>130.263.731</b>
1 Cash payments for the purchase of fixed tangible and intangible assets	020	-19.598.020	-19.617.286
2 Cash payments for the acquisition of financial instruments	021	0	0
3 Cash payments for loans and deposits	022	-146.000	0
4 Acquisition of a subsidiary, net of cash acquired	023	0	0
5 Other cash payments from investment activities	024	0	-124.751.700
<b>III Total cash payments from investment activities (ADP 020 to 024)</b>	<b>025</b>	<b>-19.744.020</b>	<b>-144.368.986</b>
<b>B) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 019 + 025)</b>	<b>026</b>	<b>8.052.311</b>	<b>-14.105.255</b>
<b>Cash flow from financing activities</b>			
1 Cash receipts from the increase of initial (subscribed) capital	027	0	783.000
2 Cash receipts from the issue of equity financial instruments and debt financial instruments	028	0	46.446.920
3 Cash receipts from credit principals, loans and other borrowings	029	0	10.000.000
4 Other cash receipts from financing activities	030	23.414.137	20.000
<b>IV Total cash receipts from financing activities (ADP 027 to 030)</b>	<b>031</b>	<b>23.414.137</b>	<b>57.249.920</b>
1 Cash payments for the repayment of credit principals, loans and other borrowings and debt financial instruments	032	-36.420.136	-34.773.114
2 Cash payments for dividends	033	-6.659.722	-6.681.498
3 Cash payments for finance lease	034	-20.717.512	-24.725.285
4 Cash payments for the redemption of treasury shares and decrease of initial (subscribed) capital	035	-4.371.380	-611.000
5 Other cash payments from financing activities	036	-22.709.600	-20.000
<b>V Total cash payments from financing activities (ADP 032 to 036)</b>	<b>037</b>	<b>-90.878.350</b>	<b>-66.810.897</b>
<b>C) NET CASH FLOW FROM INVESTMENT ACTIVITIES (ADP 031 +037)</b>	<b>038</b>	<b>-67.464.213</b>	<b>-9.560.977</b>
1 Unrealised exchange rate differences in cash and cash equivalents	039	0	390.213
<b>D) NET INCREASE OR DECREASE OF CASH FLOWS (ADP 012+026+038+039)</b>	<b>040</b>	<b>4.280.964</b>	<b>56.309.798</b>
<b>E) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD</b>	<b>041</b>	<b>24.602.695</b>	<b>28.883.659</b>
<b>F) CASH AND CASH EQUIVALENTS AT THE END OF PERIOD(ADP 040+041)</b>	<b>042</b>	<b>28.883.659</b>	<b>85.193.457</b>

**STATEMENT OF CHANGES IN EQUITY**  
for the period from 1.1.2019 to 31.12.2019

in HRK

Item	ADP code	Attributable to owners of the parent														Minority (non-controlling) interest	Total capital and reserves
		Initial (subscribed) capital	Capital reserves	Legal reserves	Reserves for treasury shares	Treasury shares and holdings (deductible item)	Statutory reserves	Other reserves	Revaluation reserves	Fair value of financial assets available for sale	Cash flow hedge - effective portion	Hedge of a net investment in a foreign operation - effective portion	Retained profit / loss brought forward	Profit/loss for the business year	Total attributable to owners of the parent		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16 (3 to 6 - 7 + 8 to 15)	17	18 (16+17)
<b>Previous period</b>																	
1 Balance on the first day of the previous business year	01	118.472.000	13.651.335	29.200.363	8.742.847	7.699.600	0	2.140.779	0	0	0	0	294.269.254	65.813.322	524.590.300	0	524.590.300
2 Changes in accounting policies	02	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3 Correction of errors	03	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4 Balance on the first day of the previous business year (restated) (ADP 01 to 03)	04	118.472.000	13.651.335	29.200.363	8.742.847	7.699.600	0	2.140.779	0	0	0	0	294.269.254	65.813.322	524.590.300	0	524.590.300
5 Profit/loss of the period	05	0	0	0	0	0	0	0	0	0	0	0	0	17.033.047	17.033.047	0	17.033.047
6 Exchange rate differences from translation of foreign operations	06	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Changes in revaluation reserves of fixed tangible and intangible assets	07	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Profit or loss arising from re-evaluation of financial assets available for sale	08	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9 Gains or losses on efficient cash flow hedging	09	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10 Gains or losses arising from effective hedge of a net investment in a foreign operation	10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Share in other comprehensive income/loss of companies linked by virtue of participating interest	11	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Actuarial gains/losses on defined benefit plans	12	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13 Other changes in equity unrelated to owners	13	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
14 Tax on transactions recognised directly in equity	14	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure)	15	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
16 Increase of initial (subscribed) capital by reinvesting profit	16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure	17	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
18 Redemption of treasury shares/holdings	18	0	0	0	-14.300	-14.300	0	0	0	0	0	0	48.620	0	48.620	0	48.620
19 Payment of share in profit/dividend	19	0	0	0	0	0	0	0	0	0	0	0	-6.665.934	0	-6.665.934	0	-6.665.934
20 Other distribution to owners	20	0	0	0	0	0	0	0	0	0	0	0	10.537.449	0	10.537.449	0	10.537.449
21 Transfer to reserves by annual schedule	21	0	0	6.673.447	0	0	0	0	0	0	0	0	59.139.875	-65.813.322	0	0	0
22 Increase in reserves arising from the pre-bankruptcy settlement procedure	22	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
23 Balance on the last day of the previous business year reporting period (ADP 04 to 22)	23	118.472.000	13.651.335	35.873.810	8.728.547	7.685.300	0	2.140.779	0	0	0	0	357.329.264	17.033.047	545.543.482	0	545.543.482
<b>APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS)</b>																	
I OTHER COMPREHENSIVE INCOME OF THE PREVIOUS PERIOD, NET OF TAX (ADP 06 to 14)	24	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
II COMPREHENSIVE INCOME OR LOSS FOR THE PREVIOUS PERIOD (ADP 05+24)	25	0	0	0	0	0	0	0	0	0	0	0	0	17.033.047	17.033.047	0	17.033.047
III TRANSACTIONS WITH OWNERS IN THE PREVIOUS PERIOD RECOGNISED DIRECTLY IN EQUITY (ADP 15 to 22)	26	0	0	6.673.447	-14.300	-14.300	0	0	0	0	0	0	63.060.010	-65.813.322	3.920.135	0	3.920.135
<b>Current period</b>																	
1 Balance on the first day of the current business year	27	118.472.000	13.651.335	35.873.810	8.728.547	7.685.300	0	2.140.779	0	0	0	0	357.329.264	17.033.047	545.543.482	0	545.543.482
2 Changes in accounting policies	28	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3 Correction of errors	29	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4 Balance on the first day of the current business year (restated) (ADP 27 to 29)	30	118.472.000	13.651.335	35.873.810	8.728.547	7.685.300	0	2.140.779	0	0	0	0	357.329.264	17.033.047	545.543.482	0	545.543.482
5 Profit/loss of the period	31	0	0	0	0	0	0	0	0	0	0	0	0	78.442.340	78.442.340	0	78.442.340
6 Exchange rate differences from translation of foreign operations	32	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Changes in revaluation reserves of fixed tangible and intangible assets	33	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8 Profit or loss arising from re-evaluation of financial assets available for sale	34	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9 Gains or losses on efficient cash flow hedging	35	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10 Gains or losses arising from effective hedge of a net investment in a foreign operation	36	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11 Share in other comprehensive income/loss of companies linked by virtue of participating interest	37	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12 Actuarial gains/losses on defined remuneration plans	38	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13 Other changes in equity unrelated to owners	39	0	0	0	0	0	0	482.336	0	0	0	0	0	0	482.336	0	482.336

14 Tax on transactions recognised directly in equity	40	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15 Increase/decrease in initial (subscribed) capital (other than from reinvesting profit and other than arising from the pre-bankruptcy settlement procedure)	41	783.000	3.069.361	0	0	0	0	0	0	0	0	0	0	0	3.852.361	0	3.852.361	0
16 Increase of initial (subscribed) capital by reinvesting profit	42	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
17 Increase of initial (subscribed) capital arising from the pre-bankruptcy settlement procedure	43	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
18 Redemption of treasury shares/holdings	44	0	0	0	-411.600	-411.600	0	0	0	0	0	0	1.247.440	0	1.247.440	0	1.247.440	0
19 Payment of share in profit/dividend	45	0	0	0	0	0	0	0	0	0	0	0	-6.677.898	0	-6.677.898	0	-6.677.898	0
20 Other distribution to owners	46	0	0	0	0	0	0	0	0	0	0	0	2.073.058	0	2.073.058	0	2.073.058	0
21 Transfer to reserves by annual schedule	47	0	0	6.233.838	0	0	0	0	0	0	0	10.799.209	-17.033.047	0	0	0	0	0
22 Increase in reserves arising from the pre-bankruptcy settlement procedure	48	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
23 Balance on the last day of the current business year reporting period (ADP 30 to 48)	49	119.255.000	16.720.696	42.107.648	8.316.947	7.273.700	0	2.623.115	0	0	0	0	364.771.073	78.442.340	624.963.119	0	624.963.119	0
<b>APPENDIX TO THE STATEMENT OF CHANGES IN EQUITY (to be filled in by undertakings that draw up financial statements in accordance with the IFRS)</b>																		
<b>I OTHER COMPREHENSIVE INCOME FOR THE CURRENT PERIOD, NET OF TAX</b> (ADP 32 to 40)	50	0	0	0	0	0	0	482.336	0	0	0	0	0	0	482.336	0	482.336	0
<b>II COMPREHENSIVE INCOME OR LOSS FOR THE CURRENT PERIOD (ADP 31+50)</b>	51	0	0	0	0	0	0	482.336	0	0	0	0	0	78.442.340	78.924.676	0	78.924.676	0
<b>III TRANSACTIONS WITH OWNERS IN THE CURRENT PERIOD RECOGNISED DIRECTLY IN EQUITY</b> (ADP 41 to 48)	52	783.000	3.069.361	6.233.838	-411.600	-411.600	0	0	0	0	0	0	7.441.809	-17.033.047	494.961	0	494.961	0

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS (GFI)

Name of issuer: JGL d.d.

OIB: 20950636972

Reporting period: 01.01.2019 - 31.12.2019

Notes to the financial statements are to be drawn up in accordance with the International Financial Reporting Standards (hereinafter: IFRS) in such a way that they:

- a) present information about the basis for the preparation of the financial statements and the specific accounting policies used in accordance with the International Accounting Standard 1 (IAS 1),
- b) disclose any information required by IFRSs that is not presented elsewhere in the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity,
- c) provide additional information that is not presented elsewhere in the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in equity, but is relevant for understanding any of them.



**Annual Management  
Report  
for JGL Group**

— 2019

*JADRAN – GALENSKI LABORATORIJ d.d. (“JGL”, “Company” or “Parent Company”) accepts responsibility for the content of this annual JGL Group Management Report.*

*Given the belief and all discoveries and information available to JGL, information in this report represents a complete and truthful presentation of assets and liabilities, losses and gains and the financial position of JGL Group, and to the best knowledge of the Company, no fact has been left out that can affect the completeness and truthfulness of this report.*

*Numbers in the report are rounded, so the numbers shown for the same type of information can differ and the sums may not be arithmetic aggregates. In this document, “EUR” stands for the euro, “USD” for the American dollar, and “HRK” or “kuna” for the Croatian kuna.*

*Reference to the “previous period” relates to the period from 1 January 2018 to 31 December 2018, while the “current period” relates to the period from 1 January 2019 to 31 December 2019.*

*Rijeka, April 2020*

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## OVERVIEW OF THE PERFORMANCE AND POSITION OF JGL GROUP, JGL PHARMA AND JGL d.d.

*In thousand HRK*

	<i>JGL GROUP</i>		<i>JGL PHARMA<sup>1</sup></i>		<i>JGL d.d.</i>	
	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019.
<b>TOTAL REVENUE</b>	<b>799,928</b>	<b>932,648</b>	<b>637,219</b>	<b>754,162</b>	<b>458,322</b>	<b>575,916</b>
BUSINESS REVENUE	796,443	909,205	633,760	730,721	450,859	551,046
<b>EBITDA</b>	<b>100,716</b>	<b>136,386</b>	<b>95,889</b>	<b>127,344</b>	<b>90,382</b>	<b>118,993</b>
<b>PROFIT BEFORE TAX</b>	<b>20,048</b>	<b>81,507</b>	<b>16,527</b>	<b>77,065</b>	<b>17,296</b>	<b>76,730</b>
EBITDA MARGIN	12.65%	15.00%	15.13%	17.43%	20.0%	21.6%
NET DEBT	379,298	369,196	381,282	352,087	360,840	338,302
NET DEBT/ EBITDA	3.77	2.71	3.98	2.76	3.99	2.84
NUMBER OF EMPLOYEES	964	1002	793	834	546	578

### SUMMARY

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<sup>1</sup> *JGL Pharma (core business JGL Grupe) excludes PABLO d.o.o. Zagreb, ZU Ljekarne Pablo Rijeka and Adrialab d.o.o. Rijeka*

In 2019, JGL Group made a total of HRK 932 million in revenue, with an operating profit (EBITDA) of HRK 136 million and the EBITDA margin rate of 15%.

The most significant success of the reporting period is the growth of sales on the key markets of Russia, Croatia, Bosnia and Herzegovina, and Ukraine, as well as the B2B (Business to Business) segment of 46% compared to 2018. Specifically, with total sales of HRK 86 million, the B2B segment leads the growth of JGL's largest brands.

The year 2019 is also a record year in terms of the total number of manufactured products – 37 million units broke the record from 2013. An additional 20 percent increase was set as the plan for 2020.

It should also be mentioned in the introduction that at the end of 2019, the parent company JGL d.d. refinanced existing bonds with a new bond issue in the amount of HRK 130 million with a fixed annual interest rate of 1.75%.

In conclusion, a positive business trend of the JGL Group is visible, profitability has increased, and the level of net debt/EBITDA has been further reduced to 2.71. By reducing the level of indebtedness and net debt, the Company has achieved financial stability, liquidity, higher profitability, a solid return on assets and capital, and improved creditworthiness.

The Group continues on good foundations the planned growth and development strategy, which includes a new investment, with the aim of further meeting the demand for products, as well as the integration of research and development processes, production and quality in one place. With a project worth more than HRK 250 million, the goal is to raise development and technological competence and global competitiveness in selected therapeutic segments to a high level.

## OVERVIEW OF THE PERFORMANCE OF JGL GROUP

Statement of profit or loss of JGL Group as at 31/12/2018 and 31/12/2019 (in HRK)<sup>2</sup>

<i>Thousand HRK</i>	<b>2018</b>	<b>2019</b>	<b>Index</b>
<b>OPERATING REVENUE</b>	<b>796,443</b>	<b>909,205</b>	<b>114.16</b>
SALES REVENUE	774,111	884,716	114.29
OTHER REVENUE	22,332	24,489	109.66
<b>OPERATING EXPENSES</b>	<b>732,616</b>	<b>820,611</b>	<b>112.01</b>
CHANGE IN INVENTORY VALUE	-8,918	6,047	-67.81
MATERIAL COSTS	175,828	155,994	88.72
EMPLOYEE COSTS	155,800	172,631	110.80
OTHER COSTS	409,906	485,939	118.55
<b>FINANCE REVENUE</b>	<b>3,485</b>	<b>23,394</b>	<b>671.28</b>
<b>FINANCE EXPENSES</b>	<b>47,219</b>	<b>30,530</b>	<b>64.66</b>
<b>SHARE IN PROFIT/LOSS FROM AFFILIATED COMPANIES</b>	<b>-45</b>	<b>49</b>	<b>-108.89</b>
<b>TOTAL REVENUE</b>	<b>799,928</b>	<b>932,648</b>	<b>116.59</b>
<b>TOTAL EXPENSES</b>	<b>779,880</b>	<b>851,141</b>	<b>109.14</b>
<b>PROFIT BEFORE TAX</b>	<b>20,048</b>	<b>81,507</b>	<b>406.56</b>
Income tax and deferred tax assets	3,015	3,065	101.66
<b>PROFIT AFTER TAX</b>	<b>17,033</b>	<b>78,442</b>	<b>460.53</b>

<sup>2</sup> The statement of profit or loss is shown according to the abridged management classification which is not identical in layout to the statement of profit or loss prescribed by IFRS standards

Balance sheet of JGL Group as at 31/12/2018 and 31/12/2019 (in HRK)<sup>3</sup>

<i>Thousand HRK</i>	<b>2018</b>	<b>2019</b>	<b>Index</b>
<b>ASSETS</b>	<b>1,118,279</b>	<b>1,265,845</b>	<b>113.20</b>
<b>NON-CURRENT ASSETS</b>	<b>617,204</b>	<b>659,106</b>	<b>106.79</b>
<b>CURRENT ASSETS</b>	<b>497,866</b>	<b>603,192</b>	<b>121.16</b>
INVENTORIES	188,885	206,233	109.18
TRADE RECEIVABLES	262,369	293,238	111.77
OTHER RECEIVABLES	17,207	18,325	106.50
CURRENT FINANCIAL ASSETS	521	202	38.77
CASH AT BANK AND IN HAND	28,884	85,194	294.95
<b>PREPAID EXPENSES AND ACCRUED REVENUE</b>	<b>3,209</b>	<b>3,547</b>	<b>110.53</b>
<b>LIABILITIES</b>	<b>1,118,279</b>	<b>1,265,845</b>	<b>113.20</b>
<b>CAPITAL AND RESERVES</b>	<b>545,543</b>	<b>624,963</b>	<b>114.56</b>
<b>NON-CURRENT PROVISIONS</b>	<b>1,731</b>	<b>3,151</b>	<b>182.03</b>
<b>NON-CURRENT LIABILITIES</b>	<b>359,471</b>	<b>350,040</b>	<b>97.38</b>
LIABILITIES FOR LEASING AND BANKS	228,810	218,559	95.52
BOND LIABILITIES	127,032	127,836	100.63
DEFERRED TAX LIABILITIES	3,629	3,645	100.44
<b>CURRENT LIABILITIES</b>	<b>201,057</b>	<b>268,868</b>	<b>133.73</b>
LIABILITIES TOWARDS LEASE	16,691	24,092	144.34
LIABILITIES TOWARDS BANKS	36,170	37,271	103.04
LIABILITIES ARISING FROM SECURITIES	4,800	53,094	1.106.13
TRADE PAYABLES	119,568	120,366	100.67
OTHER CURRENT LIABILITIES	23,828	34,045	142.88
<b>ACCRUED EXPENSES, DEFERRED REVENUE AND PROVISIONS</b>	<b>10,477</b>	<b>18,823</b>	<b>179.66</b>

<sup>3</sup> The balance sheet is shown according to the management classification and is not identical in layout to the balance sheet prescribed by IFRS standards.

## OVERVIEW OF THE PERFORMANCE OF JGL PHARMA

Statement of profit or loss of JGL Pharma as at 31/12/2018 and 31/12/2019 (in HRK)<sup>4</sup>

<i>Thousand HRK</i>	<b>2018</b>	<b>2019</b>	<b>Index</b>
<b>OPERATING REVENUE</b>	<b>633,760</b>	<b>730,721</b>	<b>115.30</b>
SALES REVENUE	623,610	720,305	115.51
OTHER REVENUE	10,150	10,416	102.62
<b>OPERATING EXPENSES</b>	<b>572,023</b>	<b>646,443</b>	<b>113.01</b>
CHANGE IN INVENTORY VALUE	-8,977	5,533	-61.64
MATERIAL COSTS	170,712	150,868	88.38
EMPLOYEE COSTS	132,859	148,696	111.92
OTHER COSTS	277,429	341,346	123.04
<b>FINANCE REVENUE</b>	<b>3,459</b>	<b>23,392</b>	<b>676.26</b>
<b>FINANCE EXPENSES</b>	<b>48,624</b>	<b>30,654</b>	<b>63.04</b>
<b>SHARE IN PROFIT/LOSS FROM AFFILIATED COMPANIES</b>	<b>-45</b>	<b>49</b>	<b>-108.89</b>
<b>TOTAL REVENUE</b>	<b>637,219</b>	<b>754,162</b>	<b>118.35</b>
<b>TOTAL EXPENSES</b>	<b>620,692</b>	<b>677,097</b>	<b>109.09</b>
<b>PROFIT BEFORE TAX</b>	<b>16,527</b>	<b>77,065</b>	<b>466.30</b>
Income tax and deferred tax assets	2,322	2,119	91.26
<b>PROFIT AFTER TAX</b>	<b>14,205</b>	<b>74,946</b>	<b>527.60</b>

<sup>4</sup> The statement of profit or loss is shown according to the abridged management classification which is not identical in layout to the statement of profit or loss prescribed by IFRS standards

Balance sheet of JGL Pharma as at 31/12/2018 and 31/12/2019 (in HRK)<sup>5</sup>

<i>Thousand HRK</i>	<b>2018</b>	<b>2019</b>	<b>Index</b>
<b>ASSETS</b>	<b>1,065,082</b>	<b>1,198,034</b>	<b>112.48</b>
<b>NON-CURRENT ASSETS</b>	<b>601,175</b>	<b>629,690</b>	<b>104.74</b>
<b>CURRENT ASSETS</b>	<b>461,999</b>	<b>565,939</b>	<b>122.50</b>
INVENTORIES	168,956	186,561	110.42
TRADE RECEIVABLES	252,281	269,959	107.01
OTHER RECEIVABLES	14,432	31,935	221.28
CURRENT FINANCIAL ASSETS	426	138	32.39
CASH AT BANK AND IN HAND	25,904	77,346	298.59
<b>PREPAID EXPENSES AND ACCRUED REVENUE</b>	<b>1,908</b>	<b>2,405</b>	<b>126.05</b>
<b>LIABILITIES</b>	<b>1,065,082</b>	<b>1,198,034</b>	<b>112.48</b>
<b>CAPITAL AND RESERVES</b>	<b>533,941</b>	<b>611,282</b>	<b>114.48</b>
<b>NON-CURRENT PROVISIONS</b>	<b>1,731</b>	<b>2,689</b>	<b>155.34</b>
<b>NON-CURRENT LIABILITIES</b>	<b>355,449</b>	<b>335,007</b>	<b>94.25</b>
LIABILITIES FOR LEASING AND BANKS	228,394	207,132	90.69
BOND LIABILITIES	127,032	127,836	100.63
DEFERRED TAX LIABILITIES	23	39	169.57
<b>CURRENT LIABILITIES</b>	<b>163,491</b>	<b>231,255</b>	<b>141.45</b>
LIABILITIES TOWARDS LEASE	16,016	20,498	127.98
LIABILITIES TOWARDS BANKS	36,170	27,271	75.40
LIABILITIES ARISING FROM SECURITIES	4,800	53,094	1.106.13
TRADE PAYABLES	85,543	99,245	116.02
OTHER CURRENT LIABILITIES	20,962	31,147	148.59
<b>ACCRUED EXPENSES, DEFERRED REVENUE AND PROVISIONS</b>	<b>10,470</b>	<b>17,801</b>	<b>170.02</b>

<sup>5</sup> The balance sheet is shown according to the management classification and is not identical in layout to the balance sheet prescribed by IFRS standards.

## OVERVIEW OF THE PERFORMANCE OF JGL d.d.

Statement of profit or loss of JGL d.d. as at 31/12/2018 and 31/12/2019 (in HRK)<sup>6</sup>

<i>Thousand HRK</i>	<b>2018</b>	<b>2019</b>	<b>Index</b>
<b>OPERATING REVENUE</b>	<b>450,859</b>	<b>551,046</b>	<b>122.22</b>
SALES REVENUE	442,278	542,790	122.73
Domestic	121,831	125,230	102.79
Foreign	320,447	417,560	130.31
OTHER REVENUE	8,581	8,256	96.21
<b>OPERATING EXPENSES</b>	<b>392,649</b>	<b>469,257</b>	<b>119.51</b>
CHANGE IN INVENTORY VALUE	-9,027	5,653	-62.62
MATERIAL COSTS	250,250	272,975	109.08
EMPLOYEE COSTS	88,882	103,133	116.03
OTHER COSTS	62,544	87,496	139.89
<b>FINANCE REVENUE</b>	<b>7,463</b>	<b>24,870</b>	<b>333.24</b>
<b>FINANCE EXPENSES</b>	<b>48,377</b>	<b>29,929</b>	<b>61.87</b>
<b>TOTAL REVENUE</b>	<b>458,322</b>	<b>575,916</b>	<b>125.66</b>
<b>TOTAL EXPENSES</b>	<b>441,026</b>	<b>499,186</b>	<b>113.19</b>
<b>PROFIT BEFORE TAX</b>	<b>17,296</b>	<b>76,730</b>	<b>443.62</b>
Income tax and deferred tax assets	-1,519	-1,147	75.52
<b>PROFIT AFTER TAX</b>	<b>18,815</b>	<b>77,877</b>	<b>413.90</b>

Source: JGL

<sup>6</sup> The statement of profit or loss is shown according to the abridged management classification which is not identical in layout to the statement of profit or loss prescribed by IFRS standards



Balance sheet of JGL d.d. as at 31/12/2018 and 31/12/2019 (in HRK)<sup>7</sup>

<i>Thousand HRK</i>	<b>2018</b>	<b>2019</b>	<b>Index</b>
<b>ASSETS</b>	<b>1,053,186</b>	<b>1,168,043</b>	<b>110.91</b>
<b>NON-CURRENT ASSETS</b>	<b>618,699</b>	<b>634,437</b>	<b>102.54</b>
<b>CURRENT ASSETS</b>	<b>433,379</b>	<b>532,224</b>	<b>122.81</b>
INVENTORIES	157,698	160,841	101.99
RECEIVABLES FROM SUBSIDIARIES	117,241	176,830	150.83
Domestic	10,858	14,845	136.73
Foreign	106,383	161,985	152.27
TRADE RECEIVABLES	106,017	106,489	100.45
Domestic	42,637	25,002	58.64
Foreign	63,380	81,487	128.57
OTHER RECEIVABLES	6,216	5,645	90.81
CURRENT FINANCIAL ASSETS	33,598	24,972	74.32
CASH AT BANK AND IN HAND	12,609	57,447	455.60
<b>PREPAID EXPENSES AND ACCRUED REVENUE</b>	<b>1,108</b>	<b>1,382</b>	<b>124.73</b>
<b>LIABILITIES</b>	<b>1,053,186</b>	<b>1,168,043</b>	<b>110.91</b>
<b>CAPITAL AND RESERVES</b>	<b>554,570</b>	<b>630,869</b>	<b>113.76</b>
<b>NON-CURRENT PROVISIONS</b>	<b>1,731</b>	<b>2,690</b>	<b>155.39</b>
<b>NON-CURRENT LIABILITIES</b>	<b>355,020</b>	<b>327,773</b>	<b>92.33</b>
LIABILITIES FOR LEASING AND BANKS	227,988	199,937	87.70
BOND LIABILITIES	127,032	127,836	100.63
<b>CURRENT LIABILITIES</b>	<b>136,351</b>	<b>199,022</b>	<b>145.96</b>
LIABILITIES TOWARDS SUBSIDIARIES	825	556	67.39
TRADE PAYABLES	62,931	72,939	115.90
Domestic	29,894	28,158	94.19
Foreign	33,037	44,781	135.54
LIABILITIES FOR LEASING AND BANKS	52,027	46,113	88.63
LIABILITIES ARISING FROM SECURITIES	4,800	53,094	1,106.13
OTHER CURRENT LIABILITIES	15,768	26,320	166.93
<b>ACCRUED EXPENSES, DEFERRED REVENUE AND PROVISIONS</b>	<b>5,514</b>	<b>7,689</b>	<b>139.45</b>

<sup>7</sup> The balance sheet is shown according to the management classification and is not identical in layout to the balance sheet prescribed by IFRS standards.

In 2019, JGL Group made a total of HRK 932,647,879 in revenue, of which HRK 909,204,509 was from its business activities, and profit before tax of HRK 81,506,783. Double-digit growth in sales revenue (14%) and double-digit EBITDA margin (15%) were recorded. Profit after tax of JGL Group, or the result for the period, amounted to HRK 78,442,340. In the conditions of increased competition, but also the decline of the macroeconomic situation, double-digit growth was achieved in all key brands, in almost all markets with their own operations.

JGL Group recorded significant changes in assets compared to 2018 in terms of increase in current assets, namely an increase in cash of 21% and trade receivables by 12% as a result of refinancing of bonds and sales growth in 2019 compared to the previous reporting period. Such revenue and profitability growth translated into an expansion of the workforce, and for the first time, the JGL Group exceeded 1,000 employees in 2019.

In terms of liabilities, the Group's balance sheet recorded an increase in short-term liabilities, and the most significant change is visible in security liabilities, bonds maturing in 2020 (HRK 47 million).

The current reporting period has been marked by an increase in sales revenue in core business, i.e. the pharmaceutical part of business (JGL Pharma), by 15.5% compared to the previous period, which was primarily influenced by the increase in sales in Croatia, and foreign markets of Russia, Bosnia and Herzegovina, and Ukraine.

There is a continuation of the growth of JGL Pharma's operational profitability, growth of EBITDA (by HRK 31.5 million) and EBITDA margin rate (17.4%), as well as a decrease in net debt (HRK 29 million less compared to 2018). In the sales structure of JGL Pharma, Russia accounts for 43% of revenue, followed by the Croatian market with 17% of revenue, and B2B sales on global markets with 12%.

The overview of indicators shows a positive business trend for the JGL Group. By reducing the level of indebtedness and net debt, the Company has achieved financial stability, liquidity, higher profitability, a solid return on assets and capital, and improved creditworthiness.

## **JGL GROUP MEMBERS**

Consolidated financial statements of the JGL Group include financial statements of the parent company JGL d.d. and entities controlled by the Parent Company and subsidiaries specified below. Control exists if the Parent Company is able to manage financial and business policies of an entity so as to benefit from its activities.

Consolidated financial statements of the JGL Group include financial statements of the following companies:

### **Parent Company**

- JGL d.d. Rijeka

### **Affiliated companies**

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

### **Entity controlled by the Parent Company**

- Galena d.o.o. Rijeka

## **MATERIAL BUSINESS EVENTS IN JGL D.D. AND IN JGL GROUP**

### **BOND REFINANCING**

At the end of 2019, JGL refinanced bonds in the amount of HRK 127,500,000, with the code JDGL-O-20CA, issued on 21 December 2015, with the annual interest rate of 5.8125% and maturity on 21 December 2020, through an early repurchase of a part of a bond issue and their exchange for a new bond issue from bondholders in the nominal amount of HRK 80,735,740, leaving in circulation bonds in the nominal amount of HRK 46,764,260.

On 21 November 2019, the Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga, HANFA) issued a Decision approving a single prospectus relating to the public offering and listing of bonds on the regulated market up to a maximum of HRK 130,000,000.

On 18 December 2019, JGL issued a new issue of corporate bonds in HRK on the domestic capital market in the amount of HRK 130,000,000, with the code JDGL-O-24XA, denominated in HRK 1, with a fixed annual interest rate of 1.75%, semi-annual payment and maturity on 18 December 2024, in registered dematerialised form.

Through refinancing the existing bonds and a new bond issue, JGL has reduced the costs of bond financing due to a significantly reduced interest rate, and has delayed bond maturity for another five years.

### **PORTFOLIO PERFORMANCE**

JGL had a successful 2019 due to the total number of products manufactured. The output of 37 million units broke the record from 2013. An additional 20 percent increase was set as the plan for 2020. During the reporting period, a total of 50 new marketing authorisations in the B2C segment were obtained, registration processes for 47 products were initiated, and 118 different products were launched in 35 global markets. The certification of all products in the medical device category was successfully finished in accordance with the applicable EU Directive (Medical Devices Directive, MDD), ensuring free movement of products on the EU market until 26 May 2024, and certification activities were started according to the new EU regulation (Medical Device Regulation, MDR) which comes into effect on 26 May 2020. In 2019, preparations for the registration of all products in the MD category in the EEU region were also started as per the new regulation, with the aim of ensuring free movement of products in EEU from 1 January 2022.

Over the course of the year, a total of 60 new products were launched in the B2C segment in 15 markets, generating just over HRK 16 million in revenue by 31 December 2019. Of the 60 launches, 42 were done in the SEE region, and 18 in CIS markets. The largest number of the products launched were in Croatia (24), and the financially most successful launches in the previous year were those on the Russian market (approx. HRK 9 million).

Special progress was made last year in optimising the management process for printed packaging, as one of the prerequisites for implementing the production plan and registration procedures.

## **RESEARCH AND DEVELOPMENT**

A total of 15 projects in various phases of technological maturity were active during 2019: 12 projects were own development of new products (4 of which were started in the current year), two were related to the improvement of products from the existing portfolio, and technology transfer projects were initiated with three partners, including several products.

Four projects included a significant innovation compared to before. This change was possible due to the increase in technology and resources of the Research and Development Department.

Other activities were related to the preparation for conducting studies and creating documentation for partners and regulatory authorities as part of registration procedures and variation procedures, the introduction of new technologies, professional training, and the preparation of a project for co-financing with EU funds.

## **AUDITS**

As in the previous years, 2019 saw a large number of inspections and audits by business partners. A total of 24 audits were performed.

With regard to the more important audits, we would like to mention the recertification in accordance with ISO 13485:2016 Quality management system for medical devices, recertification by the notified body *Istituto Superiore di Sanità* for a group of medical devices, recertification by the notified body SIQ for Vizol S 0.21% and Vizol 0.4%, and the obtained EU GMP certificate (issued by the Agency for Medicinal Products and Medical Devices (Hrvatska agencija za lijekove i medicinske proizvode, HALMED)) for the newly introduced manufacturing procedure – terminal sterilisation of semi-solid forms.

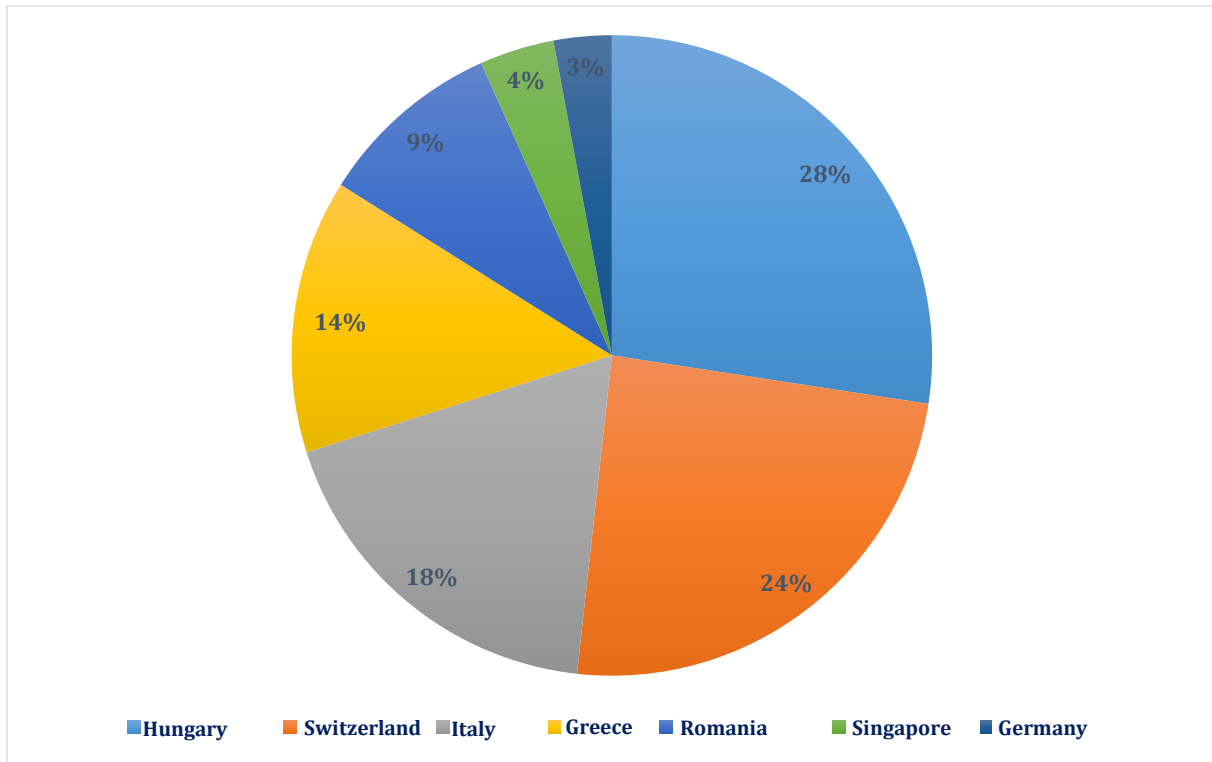
It should be noted that audits are growing in duration and complexity due to increasingly rigorous regulatory requirements, but also that auditors and inspectors, without exception, commend the infrastructure, the quality system and the expertise of employees.

## **INTERNATIONALISATION**

With the growth of 46% compared to 2018, and total sales of HRK 86,028,479, the B2B segment leads the growth of JGL's biggest brands. With regard to shares, the leading market is that of Hungary with 28% of sales, followed by Switzerland with 25%, Italy with 18% and Greece with 14%.

Over the course of the year, ten new partnership agreements were signed, 58 new SKUs were launched (seven licensing and distribution, and 51 contract manufacturing), and a total of 17 projects were active within the project portfolio (five related to co-operations with partners, one related to market development, and 11 licensing-in projects).

*Structure of net sales by the most significant B2B markets in 2019*



**INVESTMENTS IN SUBSIDIARIES**

In 2019, JGL d.d. performed a value adjustment of investments in its subsidiary JGL North America LLC from HRK 3,406,518.84 to HRK 0.00.

Write off of receivables from affiliated company JGL Beograd Sopot was made in amount of EUR 595,857 (HRK 4,439,533).

**INVESTMENTS**

In 2019, the company invested a total of HRK 44,251,026 in non-current assets.

Investments in intangible assets amounted to HRK 16,332,995, of which HRK 1,788,083 was related to investments in computer software, HRK 1,216,813 was used for purchasing licences, HRK 2,751,220 was allocated for registering own products, and HRK 10,576,879 for investments in development projects.

Investments in tangible assets amounted to HRK 27,918,031. HRK 583,414 was invested in the improvement of functions of buildings owned by the company, while another HRK 27,334,617 was invested in the purchase of production, IT and transport equipment, and furniture.

## INVESTMENT PROMOTION

On 26 February 2014, JGL was assigned the status of a recipient of incentive measures for its "Svilno 2" project by the Ministry of Economy pursuant to the Act on Investment Promotion and Development of Investment Climate, *Narodne Novine* (NN; Official Gazette of the Republic of Croatia) No 111/12, 28/13.

In 2013, JGL reported an investment into a new manufacturing plant with the aim of securing capacities for further global growth in existing and new markets. The Ministry issued a decision on the maximum level of incentives in the amount of 40% of the investment, to be used in a period of 10 years in the form of a reduced corporate income tax rate of 0%.

The tax incentive on this basis was used in the amount of HRK 15,275,391.18 in the calculation of income tax for 2019.

## TRANSACTIONS RELATING TO OWN SHARES

At the beginning of 2019, the Company had 76,853 own shares. By 31 December 2019, JGL repurchased 1,150 and allocated 5,266 own shares, so the number of own shares in the portfolio was 72,737 as at 31 December 2019. The share capital of the Company is divided into 1,192,550 shares, 1,119,813 of which are shares with voting rights, while those remaining are own shares.

*Ownership structure of JGL d.d. as at 31 December 2019*

Owner	Number of shares	% in capital	% in capital with voting rights
Ivo Usmiani	364,234	30.54%	32.53%
Small shareholders	348,668	29.24%	31.13%
Zdravko Saršon	239,496	20.08%	21.39%
Own shares	72,737	6.10%	-
Marina Pulišić	31,396	2.63%	2.80%
Eva Usmiani Capobianco	29,632	2.49%	2.65%
Grozdana Božić	28,912	2.42%	2.58%
Vesna Črnjarić	24,162	2.03%	2.16%
Đurđica Miletović Forempoher	19,800	1.66%	1.77%
Sanja Vujić Šmaguc	18,913	1.59%	1.69%
Majid Hejja	14,600	1.22%	1.30%
<b>TOTAL</b>	<b>1,192,550</b>	<b>100.00%</b>	<b>100.00%</b>

## **NEW ISSUE OF SHARES**

Based on the authorisation given by the Resolution of the General Meeting as of 24 June 2014, on 6 May 2019, the Board of Directors issued a Decision on the issue of 7,830 new H series shares, with a nominal amount of HRK 100 per share. This increased the share capital from HRK 118,472,000.00 to HRK 119,255,000.00.

The increase of the share capital was performed by entry into the court register of the Commercial Court in Rijeka, under No Tt-19/5199-2 on 25 September 2019, with the delivery of the consolidated text of the Articles of Association of JGL on 17 September 2019.

## **ENVIRONMENTAL PROTECTION**

2019 was marked by the implementation of energy efficiency measures, i.e. new solutions for better energy and resource utilisation with a focus on achieving savings. JGL achieved savings of 69% through four parts of the project titled "JGL – An Energy Efficient Company" (JGL – Energetski učinkovito društvo). In mid-2018, a grant agreement was signed for projects financed from funds in the financial period 2014–2020 with the Ministry of Environment and Energy and the Environmental Protection and Energy Efficiency Fund, for the purpose of implementing the aforementioned project.

On 17 October 2019, the final application for that period was submitted for a grant awarded for the promotion of energy efficiency and renewable energy sources in companies as a grant with the maximum intensity of the de minimis grant of 85% (HRK 807,385.93), and the maximum intensity of government grants of 45% and 60% (HRK 1,707,040.65). In this project, JGL received a grant in the total amount of HRK 2,514,426.58 based on four reimbursement applications.

The project included the reconstruction of a roof on the storage and logistics facility, increasing the insulation layer and reducing temperature oscillations. The installation of a state-of-the-art cooler system enabled us to achieve energy savings, ensure uninterrupted operations, reduce noise levels, and use a more eco-friendly coolant. The reconstruction of the DHW system in the sterile solutions department using solar collectors and a heat pump conserves energy for the heating of water which was previously heated by electric heaters. The most important part was the construction of a photovoltaic power station for own use, reducing the dependency on the energy supplied from the main power grid. In 2016, JGL introduced the ISO 50001:2011 standard for energy management systems, based on which consumption is constantly controlled and opportunities for improvement are sought. The recertification of the system was performed in 2019 without any non-compliances, and the method of managing the energy management system was commended by the recertification body.

## **NON-FINANCIAL REPORT**

The non-financial report for 2019, which covers the entire JGL Group, will be published as a separate report on the company's official website [www.jgl.hr](http://www.jgl.hr), i.e. at the link <https://www.jgl.hr/ona-nama/jgl-u-zajednici/izvjesca-o-odrzivom-razvoju> by 31 August 2020. It will be available for the next five years.



## **JGL GROUP MEMBERS' REPORTING YEAR**

### **JADRAN LLC MOSKVA**

In 2019, the second full year of operations on the Russian market through the subsidiary Jadran LLC Moskva, the main goal was to continue to grow revenue, market share and ensure planned profitability.

Operating revenues of HRK 308.4 million are a record to date. More specifically, in the conditions of stagnation of a key market segment, with 9% growth in revenues compared to 2018, the company is among the fastest growing pharmaceutical companies in Russia. Secondary sales recorded a 13% increase compared to the same period in 2018, and also achieved a record result. It is also worth mentioning that profit before tax in the reporting period increased by 21.4% compared to the planned profit, which means that proper financial management provided an exceptional result in a year in which instability prevailed in terms of product availability.

The strategy for Russia's key market was aimed primarily at strengthening the position of JGL products in pharmacy chains. The growth indicator of secondary sales is also an indicator of success in this segment, and the result of market sales in the main segments is further confirmation of a good result according to the independent agency DSM.

Satisfactory growth was recorded at the market level for key products within the Aqua Maris line. For example, Aqua Maris Ectoin recorded an increase of 30%, twice the size of the segment, and Rinomaris (Meralys) recorded growth of 17%, while in the same period the segment grew by only 3%. It is also worth mentioning the good result of Dramina (+14%), the dermatology portfolio with Zerkalin (+10%), as well as the ophthalmology segment with Optinol (Vizol), which recorded 154% revenue growth and 2% market share in the second year of launch, achieved in a market of only 2,500 pharmacies out of a total of 70,000 that exist.

In conclusion, the company Jadran LLC Moskva, with well-balanced investments in marketing and sales activities, but also sound cost management, made a significant contribution to the performance of JGL Group in a challenging year, and made a profit of HRK 3,757,134.

### **JADRAN – GALENSKI LABORATORIJ d.o.o. LJUBLJANA**

JGL d.o.o. Ljubljana was founded in 1992 in Ljubljana, and in 2019 had an average of five employees. During all 12 months of the reporting period, intensive work was done on promotion, education, relationships and communication with partners and clients, with the aim of integrating them into the many activities under our own organisation or the organisation of the SEE Region.

In several market segments, i.e. key brands, significant sales growth rates were recorded compared to the previous year. For example, Lactogyn recorded 15% growth, the Maresyl brand grew by 17%, and Normia's result was particularly pleasing, with an increase of as much as 51% compared to the previous year. Aqua Maris and Vizol S brands have strengthened their position on the highly competitive market with their growth.

In the period from 1 January to 31 December 2019, profit before tax in the amount of HRK 875 thousand and net profit in the amount of HRK 699,743 were achieved. In 2019, the market position was successfully maintained, and the plan for 2020 was ambitiously set.

## **ZU PABLO RIJEKA, PABLO d.o.o ZAGREB**

In 2019, Pablo Health Institution still has 30 pharmacies and 140 employees, with an increase in sales revenue of 8% (10% in the Rx segment, and 6% in cash revenue). Total operating revenues amount to HRK 169 million, which is 8% more than in 2018, while operating expenses are 7% higher than last year. A profit of HRK 3,270,900 was achieved.

EBITDA with a rate of 4.9% amounts to HRK 3.8 million, while profit before tax is at a rate of 2.5% or HRK 4.3 million. Excellent results were achieved this year in terms of costs by optimising certain operating costs, thus achieving greater financial independence within the JGL Group.

During the reporting period, Pablo d.o.o. achieved a result of HRK 37,774.

## **FARMIS d.o.o. SARAJEVO**

Farmis d.o.o. was founded in 2000 in Sarajevo. During 2018, the company had an average of 26 employees. High standards of business, focus and responsibility towards customers, but also towards employees and owners, have helped build a recognisable image of Farmis in the wholesale business in Bosnia and Herzegovina and the region.

The business is in line with the EN ISO 9001:2015 quality management system and the requirements of GDP standards, which guarantees the safety, quality and stability of cooperation to customers and partners. In addition to the JGL portfolio, Farmis also offers products from eleven suppliers/partners from Germany, Slovenia, Italy, Croatia, UK, Serbia and domestic partners.

The year 2019 was successful, considering that, compared to 2018, sales were higher by 26%, which is the result of the total efforts of all Farmis employees. Operating revenues for the year amounted to HRK 50.4 million, and a profit of HRK 925,467 was achieved. Good results were achieved by key brands Aqua Maris, Meralys, Vizol S, Reflustat, Rx medicinal products, such as Potassium, Folacin, Timalen, and several products from other manufacturers that Farmis has had in its portfolio.

## **ADRIALAB d.o.o.**

The business year 2019 was marked by the growth of sales revenues on the Croatian market, investments in the development of own products and continued optimisation of operating costs and raw material costs, all with the aim of increasing independence of Adrialab, as a member of the JGL Group, which positions its business dominantly in Croatia and the markets of Southeast Europe.

According to financial indicators for 2019, revenue of HRK 13.7 million was achieved, which is 1.7% less than in 2018, but it is in line with the business plan and focus on the most profitable business segment – business with pharmacies. The pharmacy segment recorded an annual growth rate of 35%. It is worth noting the positive trend of 3% growth in the retail network segment. A significant drop of 58% was recorded in revenues with the parent company JGL d.d. With an increase in sales of 14% in independent sales channels, Adrialab became largely independent as a member of the JGL Group and found a position on the Croatian market, focusing its marketing and sales activities on key brands – JGL children's ointment, Galenia topical pharmaceuticals, Vitalia dietary supplements, Holyplant cosmetics, Dr. Bezz repellents and Dermospray topical antiseptic. It is worth noting the accelerated growth of the Vitalia brand, mostly thanks to Vitalia D-mannose, at a rate of 51% compared to the previous year, the growth of the Galenia brand at a

rate of 66% and Dr. Bezz repellents with a growth of 53%. Dermospray's growth at a rate of 22% is not negligible either, and most other products also followed positive trends.

The reporting period was also marked by a policy of active monitoring of non-current inventories, and a value adjustment was made, in the amount of HRK 170,000. All of the above leads to the conclusion of another successful year for Adrialab, which ended with a positive financial result, a profit of HRK 29,503. Finally, it should be noted that in September 2019, Adrialab continued to successfully maintain the quality system according to ISO 9001:2015 and 22716:2008 standards, with the HACCP certificate of the Institute of Public Health of the Primorje-Gorski Kotar County. Compliance with these standards, with a guarantee of quality to partners and customers, allows export to key markets of JGL d.d. in the categories of medical products, cosmetics and dietary supplements and offers an additional opportunity to the JGL Group in meeting increasingly stringent, but due to the number of markets, also differentiated, regulatory requirements.

### **JGL d.o.o. BEOGRAD – SOPOT**

The business year 2019 was marked by further revenue growth and, after many years, ending the year with a profit. Total revenues amounted to HRK 14 million, of which HRK 7.4 million was revenue from the sale of JGL d.d. products, and the rest was revenue from the sale of goods and services. Revenue from the sale of goods and products in the country amounts to HRK 8.6 million, while the rest relates to revenue from the sale of products and services abroad. A profit of HRK 1,036,121 was achieved.

In the field of marketing and sales, the company is still focused on working in the segments of pharmacies, consumers, paediatricians, gynaecologists, ENT and ophthalmologists, and in the field of production of medicinal products and dietary products for sale on the Serbian market and surrounding markets.

In Croatia, Bosnia and Herzegovina, and Slovenia, registration processes have been initiated in order to be able to sell products of JGL d.o.o. Beograd Sopot products:

- Bosnia and Herzegovina: Urirose, Urirose kids, Ferro TOP DIREKT, Folinova
- Slovenia: Folinova, Ferro TOP DIREKT
- Croatia: Ferro TOP DIREKT

In addition to revenue growth in the 2019 business year, the company completed the first part of the testing to obtain the ISO 13485:2003 certification.

It is important to point out that JGL d.o.o. Belgrade – Sopot put its own Urirose and Urirose Kids products on sale in 2019, and by the end of the year, it had reached the stage of finalising two new products, Ferro TOP DIREKT and Folinova. The company has also expanded its portfolio with products from the Parent Company for which it is an importer and distributor, i.e. the holder of the marketing authorisation (Meralys COMB and Normia rehidro).

The Serbian market is still defined as an investment market and its further growth and development is based on customer segments in focus.

## EMPLOYEES

The total number of employees (except for employees on vocational training) in the JGL Group on 31 December 2019 was 1,002, in JGL Pharma 834, and 578 in the Parent Company.

The Croatian market is the largest in terms of the number of employees, with 629 employees working within the parent company JGL d.d., the Adrialab company and Pablo Health Institution. The Russian market is the second largest in terms of the number of employees (Jadran LLC Moskva) with 210 employees.

Out of the total number of employees in the JGL Group, 76% are women, and 24% are men. The percentage of employees with university degrees is 67%, and their average age is 42.

*Number of employees on 31 December 2018 and 2019 in the JGL Group*

	<b>31/12/2018</b>	<b>31/12/2019</b>
<b>JGL D.D.</b>	<b>546</b>	<b>578</b>
<b>MARKET OF CROATIA</b>	431	461
<b>REPRESENTATIVE OFFICE IN BOSNIA AND HERZEGOVINA</b>	1	0
<b>MARKET OF MACEDONIA</b>	5	5
<b>MARKET OF RUSSIA</b>	5	5
<b>MARKET OF BELARUS</b>	15	17
<b>MARKET OF UKRAINE</b>	47	50
<b>MARKET OF KAZAKHSTAN</b>	41	39
<b>MARKET OF KOSOVO</b>	1	1
<b>AFFILIATED COMPANIES</b>	<b>418</b>	<b>424</b>
<b>JGL D.O.O. BEOGRAD-SOPOT</b>	18	19
<b>FARMIS D.O.O. SARAJEVO</b>	26	26
<b>JGL D.O.O. LJUBLJANA</b>	6	6
<b>ADRIALAB D.O.O. RIJEKA</b>	27	28
<b>LJEKARNA PABLO HEALTH INSTITUTION</b>	144	140
<b>JADRAN LLC MOSKVA</b>	197	205
<b>TOTAL FOR THE JGL GROUP</b>	<b>964</b>	<b>1,002</b>

## **STATEMENT ON THE APPLICATION OF THE CODE OF CORPORATE GOVERNANCE**

JGL d.d. has not adopted the Corporate Governance Code developed by the Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga, HANFA) and the Zagreb Stock Exchange (Zagrebačka burza d.d.), but implements it in the appropriate manner. JGL d.d. operates on the principles of lawfulness, disclosure and transparency, prevention of conflicts of interests, efficient internal control, strengthening personal responsibility and corporate social responsibility.

JGL d.d.'s organisational structure follows the one-tier model, in which the functions of governance and supervision are carried out by the Board of Directors, elected by the General Meeting, while a CEO (appointed by the Board of Directors) represents and manages the company's operations.

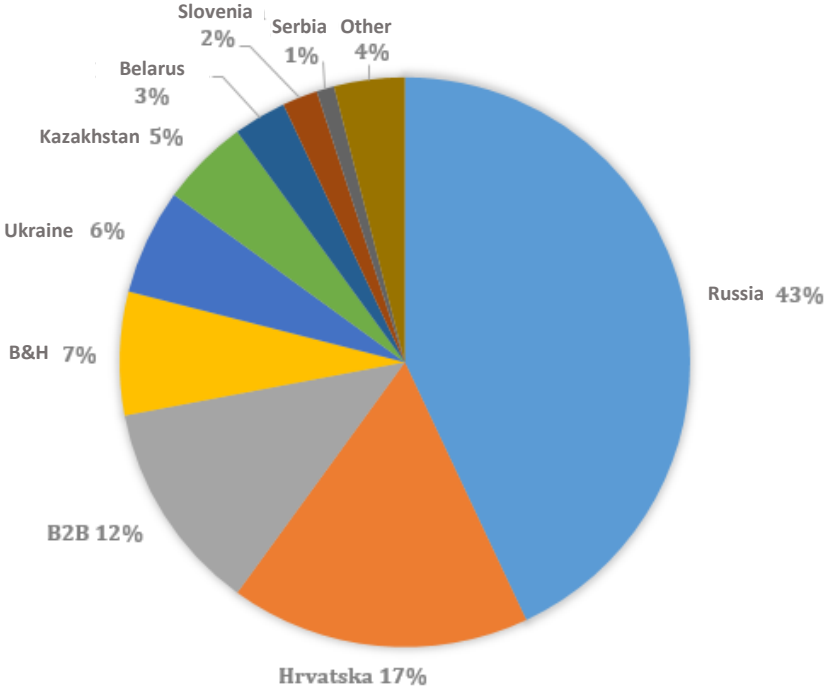
In its business activities, JGL d.d. applies internal policies with clearly defined procedures for the work of the Board of Directors and CEO, and clear principles guaranteeing the protection of interests of all stakeholders (e.g. annual and semi-annual reports are available to stakeholders; persons who use or come into contact with privileged information are familiar with the nature and significance of the information and the relevant restrictions; control of the flow of privileged information and the possible abuse of such information has been established).

The Board of Directors has established an Audit Committee. In the course of its work, the Committee assesses the quality of the internal control and risk management system, with the aim of properly identifying the main risks the Company is exposed to (including the risks related to compliance with regulations).



# SALES PERFORMANCE

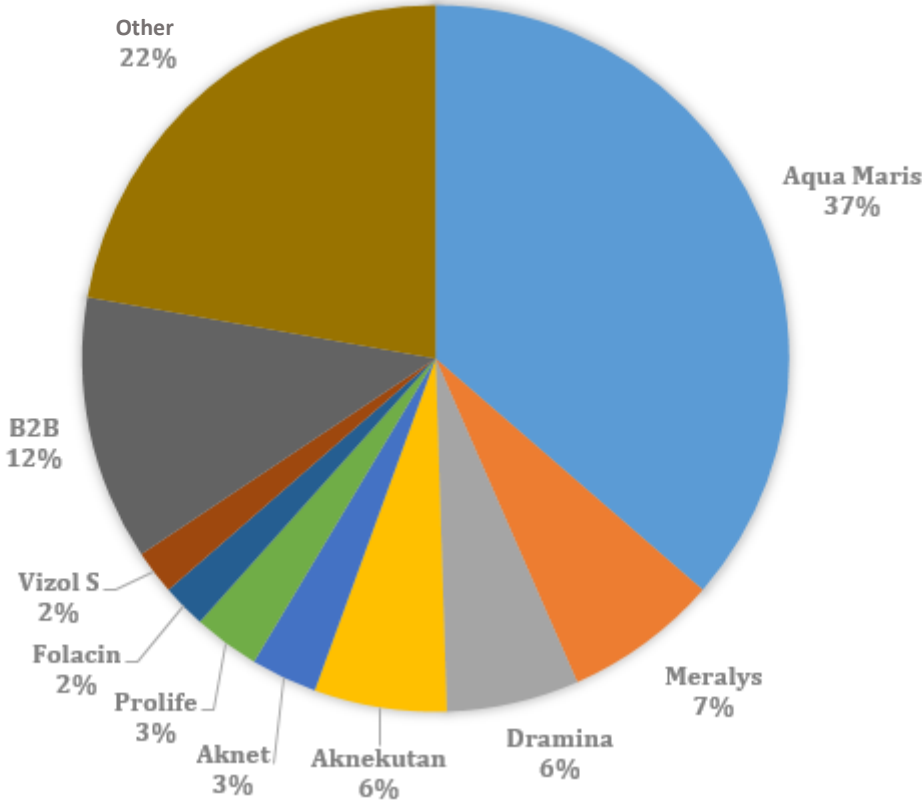
The sales structure of JGL Pharma by market in the period from 1 January to 31 December 2019



Source: JGL

# SALES RESULTS OF KEY BRANDS

The sales structure of JGL Pharma by brand in the period from 1 January to 31 December 2019



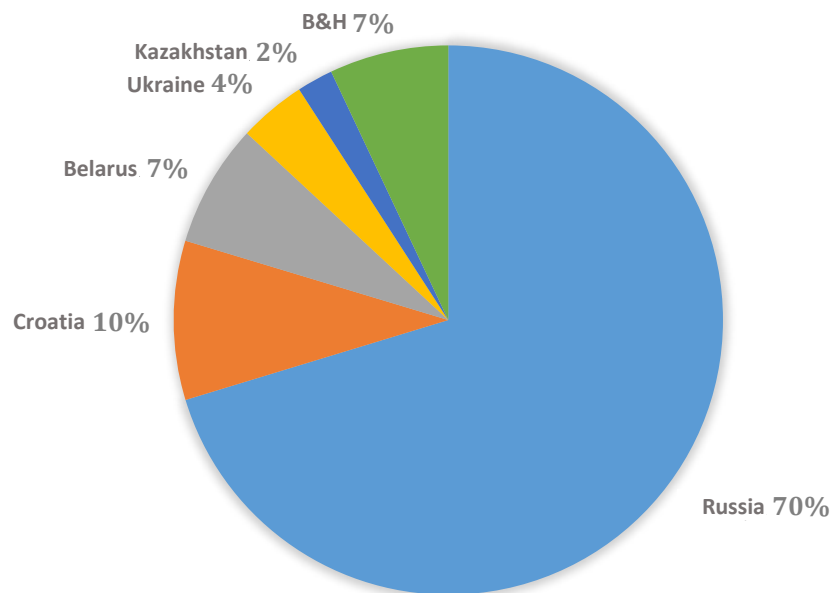
Source: JGL

## AQUA MARIS

During 2019, the Aqua Maris brand achieved net sales of HRK 258.9 million, which is an increase of 16% compared to the previous year. The market with the largest share in sales is still Russia with 70%. Russia is followed by the market of Ukraine with a 9% share, Kazakhstan with a 7% share and Belarus with a 4% share.

The highest absolute sales growth of Aqua Maris compared to the previous year was achieved in the Russian market, where sales grew by 17% or HRK 25.7 million. We also recorded an increase in sales in all major markets, so sales in Ukraine increased by 20%, in Belarus by 45%, in Azerbaijan by 55%, and in Bosnia and Herzegovina by 20%. The sale of Aqua Maris in Croatia is the same as last year.

# AQUA MARIS®



Source: JGL

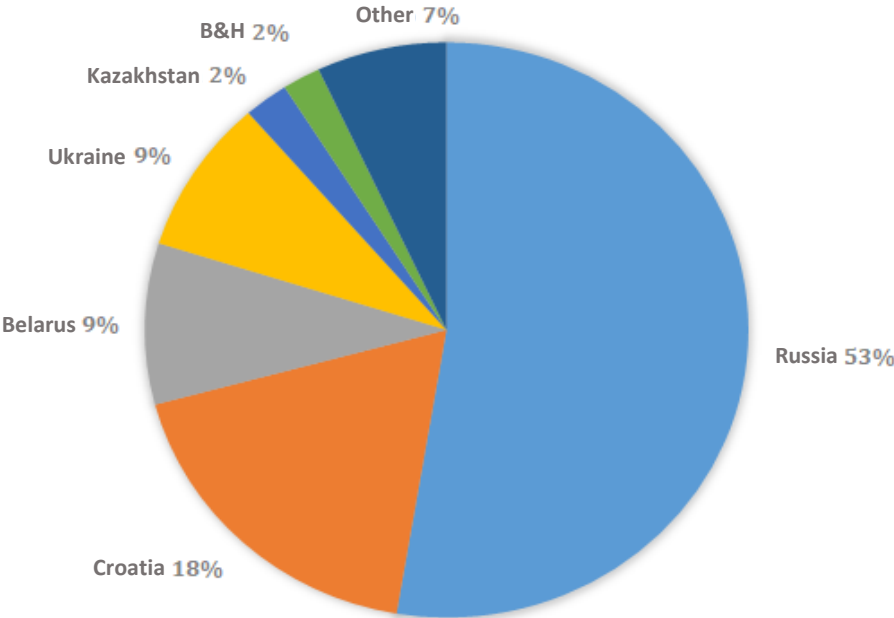


**MERALYS**

The Meralys brand achieved double-digit growth in sales this reporting year as well. Total net sales in 2019 amounted to HRK 53.4 million and grew by 30% compared to the previous year. The biggest growth drivers are also markets with the largest share in sales – Russia with 53% share and Croatia with 18% share. In Russia, sales increased by HRK 3.9 million (an increase of 16%), while Croatia recorded an increase of HRK 3.3 million (an increase of 52%).

The highest sales growth in percentages was recorded by the Kazakhstan market with 1,907% higher sales compared to the previous year (HRK +1.2 million). Sales growth was also achieved in all key markets. Belarus records a growth rate of 78% (HRK +2.1 million), Croatia 52% (HRK +3.3 million), Bosnia and Herzegovina 43% (HRK +0.3 million), Ukraine 35% (HRK +1.2 million) and Russia 16% (HRK +3.9 million).

# MERALYS



Source: JGL

## DRAMINA

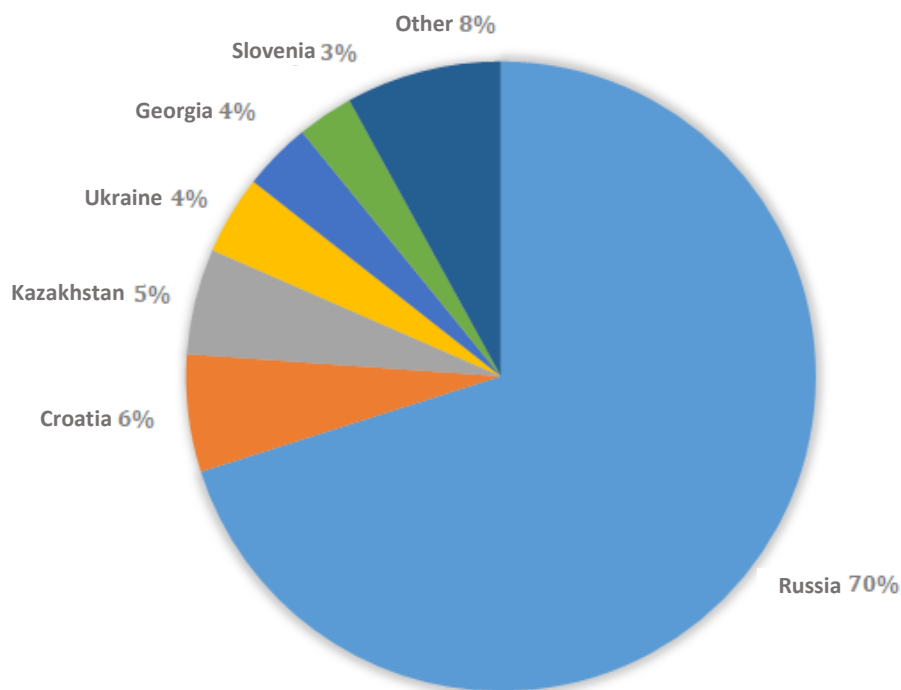
In 2019, the Dramina brand achieved net sales of HRK 41.9 million, which is an increase of 16% compared to 2018. As with other brands, the largest growth was recorded by the markets of Russia, Ukraine, Kazakhstan and Croatia.

The Russian market has the greatest impact on the overall growth of the brand's sales and it continues to grow at a double-digit rate this year. Sales in Russia increased by 14% or HRK 3.6 million compared to the previous year. Sales on the Ukrainian market increased by HRK 0.8 million (growth of 85%), in Kazakhstan by HRK 0.6 million (growth of 36%) and in Croatia by HRK 0.4 million (growth of 19%).

The largest share in the brand's sales belongs to the Russian market with a 70% share, followed by Croatia with a 6% share, Kazakhstan with a 5% share, and Ukraine and Georgia with 4% shares each.

## DRAMINA

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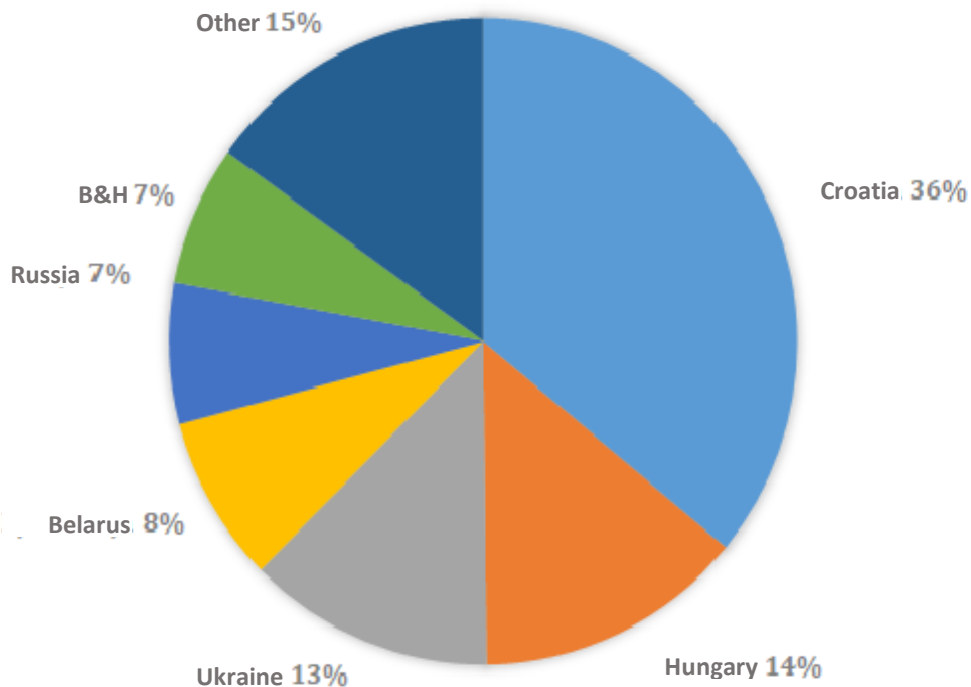
Source: JGL

## VIZOL S

The Vizol S brand achieved the highest percentage of net sales growth compared to the previous reporting period. Sales of HRK 18.6 million recorded a growth of 48%. The largest increase is visible on the Hungarian market, where the brand has grown by 181% or HRK 1.7 million in absolute terms. The recorded growth on the Belarus market was 97%, in Macedonia 86%, Ukraine 84% and Kosovo 70%. The Croatian market recorded an increase of 39% or HRK 1.9 million more than the previous year.

The largest share in the brand's sales belongs to the Croatian market with a 36% share, followed by Hungary with 14%, Ukraine with 13%, Belarus with 8%, and Russia and Bosnia and Herzegovina with a 7% share each.

# vizolS



Source: JGL

## FINANCIAL RISK MANAGEMENT

In its ordinary course of business, the Group is exposed to various financial risks which are connected to foreign currency, interest rate, credit and liquidity risks. JGL Group monitors these risks and tries to reduce their potential effect on the Company's financial exposure. The most significant risks, along with the methods used to manage them, are described below.

### FOREIGN CURRENCY RISK

The Group is exposed to risks of foreign exchange rate fluctuations during procurement and sales denominated in foreign currencies. Foreign currency risk is present due to possible foreign exchange rate fluctuations. The dominant share of export in sales results in the exposure to foreign currency in such a manner that foreign currency assets exceed foreign currency liabilities. The existing policies of the Group include active risk protection.

The exposure to foreign currency risk is constantly monitored and hedge accounting is used as necessary. The decision on hedging depends on the currency in which the receivables are denominated, type of hedge accounting and its price. As at 31 December 2019, JGL did not have any active forward contracts.

The Group is primarily exposed to the foreign currency risk from the fluctuation of the kuna (HRK) in relation to EUR, USD and RUB. JGL invoices products for the Russian market in the Russian rouble. The exchange rate of the rouble is strongly influenced by the political situation between the USA and Russia and by the price of oil on global markets. During 2019, due to the stabilisation of the Russian economic situation, the volatility of the Russian rouble decreased, and a trend of this currency's strengthening can be noticed.

In the first half of 2019, the average value of EUR-RUB was 73.74, and in the second half of 2019, it was 71.22 EUR-RUB. The average for the entire year was 72.46 EUR-RUB.

*An overview of the EUR-RUB exchange rate movement for the period 01/01/2019 – 31/12/2019*



Source: ECB

## **INTEREST RATE RISK**

The Group's business activities expose its cash flow to a minimum interest rate risk since the majority of interest rate debt is contracted at a fixed interest rate, which exposes the Group to the fair value interest rate risk. The average interest rate on bank loans in 2019 was 3.18% (3.04% in 2018).

JGL Group does not use derivative instruments for active protection against interest rate risk exposure (cash flow interest rate risk and fair value interest rate risk), but it actively monitors interest rate movements on the market.

JGL is partially exposed to interest rate changes as part of financial leasing with a variable interest rate linked to EURIBOR. The proportion of such interest is of small material significance on the total interest paid by the Company. Newer financial leasing contracts were arranged at a fixed interest rate (from 2.75% to 3.50%).

## **LIQUIDITY RISK**

The liquidity risk is manifested as the risk that the Group will not be able to fulfil its obligations towards creditors or that it will not be able to collect cash fast enough and sell its less liquid assets (receivables and inventories). The Group manages its liquidity risk by maintaining sufficient amounts of liquid assets and working capital, and by negotiating favourable credit lines with various commercial banks, allowing for a fast withdrawal of short-term funds under more favourable conditions. In 2019, credit lines in EUR were approved and contracted with commercial banks, in the total amount of EUR 6,400,000. These lines are used as a liquidity reserve and there was no need for their use in the same year.

## **CREDIT RISK**

The most significant credit risk for the Group is the non-performance of contractual obligations by customers, ie the risk associated with the collection of receivables. Within the Group, the parent company JGL d.d. is most exposed to this risk.

### **Collection of foreign receivables**

Credit risk in connection with trade receivables is limited since these receivables are spread across various geographical areas and customers. The Group tries to protect itself by obtaining payment insurance instruments and by selecting customers based on the evaluation of their creditworthiness. In order to further protect the collection of our foreign receivables, we have been insuring trade receivables from Russia since 2003, as well as from other countries (CIS, SEE, Global markets) since 2011. The Russian trade receivables are insured through the Euler Hermes insurance company. Total insured amount for all Russian customers is EUR 53,939,993.

Customers in other markets have insurance policies contracted with the Croatian Bank for Reconstruction and Development (CBRD) and Hrvatsko kreditno osiguranje (HKO – Croatian Credit Insurance). Most foreign trade receivables that have an arranged deferral of payment are insured, with the exception of several customers in the CIS region and the EU. Together with insurers, information on customers is collected and the risk, creditworthiness and liquidity of insured customers are systematically monitored. All insured customers have agreed credit limits that are constantly monitored, thus controlling the Group's exposure to each customer as well as the collection of receivables. The limits are approved by the insurer and the Group, and are

continuously revised and changed as needed. During 2019, there were no claims for damages related to securing the collection of receivables.

*An overview of insured amounts by country in the period from 2016 to 2019 (in EUR)*

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
RUSSIA	16,800,000 EUR	20,846,784 EUR	47,212,443 EUR	53,939,993 EUR
KAZAKHSTAN	1,000,000 EUR	1,600,000 EUR	2,400,000 EUR	3,900,000 EUR
UKRAINE	0 EUR	1,200,000 EUR	1,600,000 EUR	4,200,000 EUR
BELARUS	250,000 EUR	700,000 EUR	1,100,000 EUR	1,770,000 EUR
GEORGIA	350,000 EUR	350,000 EUR	350,000 EUR	400,000 EUR
OTHER COUNTRIES	1,080,000 EUR	2,280,000 EUR	3,787,271 EUR	4,160,000 EUR
<b>TOTAL</b>	<b>19,480,000 EUR</b>	<b>26,976,784 EUR</b>	<b>56,449,714 EUR</b>	<b>68,369,993 EUR</b>

*Source: JGL*

The Group is a part of the healthcare system and as such is indirectly subject to the payment maturity risk. The security risk connected to receivables in the pharmacy system is reduced through the market position of the affiliate LJEKARNA PABLO, whose purchase from wholesale pharmacies is based on the share of a wholesale pharmacy in JGL sales. JGL ensures nearly 90% of its pharmaceutical wholesale in Croatia by directing the purchase policy of its affiliate company, so the payment security risk is virtually non-existent.

The system of financing consumption in the health systems of our markets varies considerably. Although the Group does not operate directly with the healthcare system, due to the business with wholesalers, the stated payment days in healthcare significantly affect the Group's operations. In Croatia, in the last few years, the system of financing spending in Croatian health care has recorded a constant reduction of payment deadlines from once 150 to 74 days. In the Russian market, the most important export market, the average collection days from wholesalers are 120 days. In the home countries of other member firms, the average collection days from customers are 30-60 days.

## **MARKET RISK**

### **Research and development**

The pharmaceutical industry is characterised by significant investments in research and development, which are at the same time a generator of the Company's future growth and development. The success of research and development of new products is inherently uncertain. Research and development in the pharmaceutical industry in the segment of medicinal products is a multi-annual process, and there is a possibility of changes in market conditions from the beginning of a project. The Group protects itself from this risk with detailed planning and management of the R&D process.

### **Regulations**

Another important aspect of the pharmaceutical industry are regulations. Due to significant operations in the CIS and Eurasian Economic Union countries, the Group is exposed to the risk of change of the regulatory framework for processes, existing and new products as well as implementing serialization for Russia and harmonizing product registration within the Eurasian Economic Union. The pharmaceutical industry is characterized by the obligation to comply with

strict regulatory rules. Without timely and continuous implementation of regulations it is not possible to conduct regular business.

Pharmaceutical companies are exposed to the possibility that the national regulatory authorities withhold or revoke their approval of pharmaceutical products or processes, and in some markets frequent regulatory changes make it difficult to predict the duration and time of obtaining an approval. The Group's inability to obtain an approval for its pharmaceutical products or processes, or the withdrawal of any such approval, could have an adverse effect on its operations, financial position, business performance and prospects. Because of this, the Group invests significant funds, knowledge and experience into sophisticated production facilities, equipment and manufacturing processes that guarantee that regulatory approvals will be obtained and maintained, in accordance with the rules of the pharmaceutical industry and the current Good Manufacturing Practice (cGMP).

### **Pricing policy**

In addition to investments and regulations, the pricing policy in the pharmaceutical industry also has a strong impact on business operations. The pharmaceutical industry is characterised by changes in prices of medicinal products, which can be caused by healthcare reforms, changes in the CIHI list of medicines, tax reforms, market instability, etc. Prices for OTC products are not regulated and can rise and fall depending on market competition. In case of changes in market prices, the Group can keep the same level of profitability by decreasing operating costs (other external service costs – promotions, entertainment, consulting services, etc. and negotiating lower costs of purchase of raw materials).

The Group manages its market risks through a diversified product portfolio, sophisticated technology and manufacturing processes, and through investments in highly skilled staff and research and development.

## **CAPITAL MANAGEMENT**

JGL Group manages its credit debt by regulating the proportion of self-financing versus financing from external sources. Financing from other sources is based on non-current assets with extremely favourable interest rates, and does not represent a burden on the Company's liquidity. With regard to debt type, JGL has long-term liabilities for received loans, leasing and issued bonds. The liability for the long-term HBOR loan used to finance an investment in a new production facility Svilno 2 amounts to HRK 204,519,340. This loan was negotiated at very favourable terms, with a deferment until 2019. At the beginning of 2019, Appendix VI to the Loan Agreement with HBOR was concluded, establishing an earlier start of loan repayment and the change from annual payment to quarterly payment (first instalment on 28/02/2019, the second instalment on 31/03/2019, and every quarter thereafter until the final loan repayment on 30/09/2027). The amount of the short-term HBOR loan due in 2020 is HRK 26,588,675.

JGL d.d. has obligations toward the holders of bonds with the code HRJDGLO20CA4, in the amount of HRK 46,764,260 and maturity on 21/12/2020, and a new issue of bonds with the code HRJDGLO24XA2, in the amount of HRK 130,000,000 with maturity on 18/12/2024. The holders of bonds with the code HRJDGLO20CA4 were offered bond exchange and/or repurchase. Bonds in the nominal amount of HRK 80,735,740 were collected and added to own bonds in the amount of HRK 2,500,000, and bonds in the nominal amount of HRK 83,235,740 in total were cancelled.

The decrease of debt and shorter deadlines for collection of receivables resulted in financial stability, liquidity, creditworthiness, and a good net-debt-to-capital ratio.

The capital structure is measured based on the financial leverage ratio, which is calculated as the ratio of net debt and total capital. Net debt is calculated as the difference between total liabilities (current and non-current liabilities) and cash and cash equivalents. Total capital is calculated as the sum of total capital shown in the balance sheet and net debt.

	<b>2019</b>	<b>2018</b>
<b>Debt</b>		
Short-term and long-term debt	408,702,803	454,591,327
Cash and cash equivalents and loans granted	(29,404,871)	(85,395,248)
<b>Net debt</b>	<b>379,297,932</b>	<b>369,196,079</b>
Total capital and reserves	545,543,482	624,963,119
Net debt / capital and reserves	<b>0.70</b>	<b>0.59</b>
Financial leverage ratio	<b>41.01%</b>	<b>37.14%</b>



## FUTURE DEVELOPMENT

Thanks to its efforts and outstanding performance in 2019, amid increased pressure of competition and a decline in the macroeconomic situation, JGL Group has achieved the growth of key brands, in almost all markets where it maintains its operations. In the reporting period, the Group has also made a big step forward in all other markets in the sales of key brands, especially in the strategic segments – respiratory, dermatology and ophthalmology.

One thing especially worth mentioning is the wide base of JGL's growth, from the B2B segment, Aqua Maris and Meralys, to Dramina, Acnecutan and Vizol S. Owing to excellent financial and market results, and subsequently a significantly improved position in terms of net debt and cash flow, at the end of the year, JGL refinanced its bonds at the fixed interest rate of 1.75% in HRK, for a period of five years. This is the lowest interest rate for corporate bonds in the non-financial sector in the history of the Croatian capital market.

The Group continues with its set growth and development strategy on sound foundations. JGL's current favourable financial position enables it to continue with investments, primarily in employees, but also in technological capacities and capabilities and R&D, which puts JGL well above the European average for companies that invest in their development.

The investment of HRK 361m in the JGL Pharma Valley site in 2015 is followed by a second phase of investments, the Integra 2020 project. The project envisions a 60% increase in the capacity of sterile production, the construction of a pilot plant, investing in development and quality labs, and expanding our storage facilities.

Mislav Vučić, izvršni direktor

15 JGL d.d.  
Svilno 20 Rijeka



JGL d.d.

Auditor's Report and Consolidated Financial Statements  
for the Year Ended 31 December 2019

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## **CHIEF EXECUTIVE OFFICER'S RESPONSIBILITY FOR THE PREPARATION AND APPROVAL OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS**

According to the Accounting Act, the CEO is responsible for the preparation of consolidated financial statements that provide a true and fair view of the Group's financial position and its business performance in accordance with the applied accounting policies, and for maintaining adequate accounting records that enable the preparation of such financial statements at any moment. The CEO has a general responsibility to undertake steps that would, to a reasonable extent, enable the protection of the Group's assets and the discovery and prevention of fraud or other irregularities.

The CEO is responsible for selecting appropriate accounting policies in accordance with the applied accounting standards that should be applied consistently, for making reasonable and careful judgements and estimates, and for preparing consolidated financial statements in accordance with the going concern principle, unless the assumption that the Group will continue to operate is inappropriate.

The CEO has a reasonable expectation that the Group has the appropriate resources to continue operating in the foreseeable future.

The CEO is responsible for submitting annual consolidated financial statements to the Company's Board of Directors for their acceptance. These statements represent consolidated financial statements of the Group.

Consolidated financial statements were approved by the CEO on 28 April 2020 for submittal to the Company's Board of Directors for their acceptance, as confirmed by his signature.

For JGL d.d.

15 JGL d.d.  
Svilno 20 Rijeka

Mislav Vučić, Executive Director

# **INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS OF JGL d.d.**

## **Report on the Audit of the Annual Consolidated Financial Statements**

### ***Opinion***

We have audited the annual consolidated financial statements of JGL d.d. (Company) and its subsidiaries (Group), which comprise the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying annual consolidated financial statements give a true and fair view of the financial position of the company JGL d.d. and its subsidiaries as at 31 December 2019, and of their financial performance and cash flows for the year then ended in accordance with the Accounting Act and International Financial Reporting Standards (IFRS) as adopted by the European Commission and published in the Official Journal of the European Union.

### ***Basis for opinion***

We conducted our audit in accordance with the Accounting Act, the Audit Act, and International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the annual consolidated financial statements" section of our independent auditor's report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants, (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance therewith. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Highlighted issues***

We draw your attention to Note 12 – Income tax, which describes the status of tax proceedings regarding the first-instance decision of the Ministry of Finance – Tax Administration, in which the dependant entity PABLO HEALTH INSTITUTION FOR PHARMACEUTICAL ACTIVITIES is a party to the proceedings. According to the assessment of the persons in charge of management, there are no indicators that would indicate the need to record the related expenses and liabilities in the business books. Our opinion has not been modified on this issue.

### ***Key audit matters***

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual consolidated financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF JGL d.d. (continued)

Report on the Audit of the Annual Consolidated Financial Statements (continued)

## Key audit matters (continued)

<u>Key audit matters</u>	<u>How key matters were addressed in the audit</u>
<b>Recognition of revenue – notes 2.6, 3 and 4</b>	
<p>Revenue is one of the key matters for establishing the Group's performance. There is a risk that revenue is reported in a higher amount than the actually generated revenue and that it is not recognised in the correct period.</p> <p>Revenue consists of the fair value of received compensation or receivables for products, goods or services sold in the Group's ordinary course of business. Revenue is shown in amounts reduced by value added tax, returns, rebates and discounts.</p> <p>In accordance with contractual provisions, customers are approved subsequent rebates and are entitled to a subsequent return of goods.</p> <p>Considering the potential significant consequences of incorrectly calculated revenue, we have concluded that revenue is one of the key audit matters.</p>	<p>During the audit, we analysed contracts with the Group's most significant customers and the significant transactions of product sales to determine on a selected sample whether revenue is recognised in accordance with the contracted parity (at the time of transfer of significant risks and benefits to the customer), whether it can be measured reliably, is it probable that economic benefits connected with a transaction will flow into the entity, and whether revenue is reduced by transaction-related costs, which can be measured reliably.</p> <p>During the audit, we have gained an understanding of the internal control implemented in the Group's sales process.</p> <p>A cut-off was tested to achieve reasonable assurance that revenue has been reported in the correct period.</p>

## Valuation of trade receivables – notes 2.18, 19.1

On 31 December 2019, the Group had a balance of trade receivables in the amount of HRK 293,238. A significant amount of receivables was denominated in the Russian rouble, and considering the economic situation in Russia and surrounding countries, and the unpredictable movement of the exchange rate of the Russian rouble, in which the receivables were denominated, trade receivables are one of the key matters that we considered during our audit.

Receivables are initially measured at fair value. At each balance sheet date, receivables expected to be collected in a period longer than one year are carried at amortised cost using the effective interest rate method less impairment loss for incurred and expected credit losses. Current receivables are carried at initially recognised nominal amount less the appropriate impairment allowance for incurred and expected credit losses.

During the audit, we confirmed the existence of the receivables reported through external confirmations of customers on a selected sample.

The age structure of receivables was analysed.

We have carried out the understanding of the process of estimating future cash flows from receivables which can be reliably determined by the CEO and a reality assessment (undervaluation/overvaluation) of the impairment allowance for trade receivables reported at the balance sheet date.

# **INDEPENDENT AUDITOR'S REPORT**

## **TO THE SHAREHOLDERS OF JGL d.d. (continued)**

### **Report on the Audit of the Annual Consolidated Financial Statements (continued)**

#### ***Other information in the annual statement***

The CEO is responsible for all other information. The other information comprises the information included in the annual consolidated statement, but does not include the annual financial consolidated financial statements nor our independent auditor's report thereon.

Our opinion on the annual consolidated financial statements does not include other information, except to the extent which is explicitly stated in the "Report on Other Legal Requirements" section of our independent auditor's report, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### ***Responsibilities of the CEO and those charged with governance for the consolidated financial statements***

The CEO is responsible for the preparation of the annual consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as the CEO determines is necessary to enable the preparation of annual consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual consolidated financial statements, the CEO is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the CEO either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting.

#### ***Auditor's responsibilities for the audit of the annual consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the annual consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists.

# **INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS OF JGL d.d. (continued)**

**Report on the Audit of the Annual Consolidated Financial Statements (continued)**

## ***Auditor's responsibilities for the audit of the annual consolidated financial statements (continued)***

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the annual consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the CEO.
- We conclude on the appropriateness of the CEO's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or circumstances that may cast significant doubt on the Group's ability to continue operating as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the annual consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual consolidated financial statements, including the disclosures, and whether the annual consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



# **INDEPENDENT AUDITOR'S REPORT**

**TO THE SHAREHOLDERS OF JGL d.d. (continued)**

**Report on the Audit of the Annual Consolidated Financial Statements (continued)**

## ***Auditor's responsibilities for the audit of the annual consolidated financial statements (continued)***

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## ***Report on other regulatory requirements***

### ***Report pursuant to the requirements of Regulation (EU) No 537/2014***

1. The Annual General Meeting, as of 17 June 2019, based on the proposal of the Board of Directors of JGL d.d., adopted the decision to select Grant Thornton revizija d.o.o. as the Company's and Group's auditor for 2019.
2. On the date of this report, we have been continuously engaged in the performance of the Group's legal audits from the audit of the Group's annual financial statements for 2015 until the audit of the Group's annual financial statements for 2019, i.e. a total of five years.
3. Except for the matters that we have stated as the key audit matters in our independent auditor's report, under the "Report on the Audit of the Annual Financial Statements" subsection, we have nothing to report in connection with Article 10(c) of Regulation (EU) No 537/2014.

# INDEPENDENT AUDITOR'S REPORT

## TO THE SHAREHOLDERS OF JGL d.d. (continued)

### *Report on Other Legal Requirements (continued)*

### *Report pursuant to the requirements of Regulation (EU) No 537/2014 (continued)*

4. Through our legal audit of the Company's annual financial statements for 2019, we are capable of discovering irregularities, including fraud in accordance with Section 225 of the IESBA Code, "Responding to Non-Compliance with Laws and Regulations," which requires from us to consider, during the performance of an audit, whether the Group complied with the laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in its annual financial statements, as well as with the other laws and regulations that do not have a direct effect on the determination of material amounts and disclosures in its annual financial statements, but compliance with which may be fundamental to the operating aspects of the Group's business, to its ability to continue its business, or to avoid material penalties.

Except in the case when we encounter, or are made aware of, non-compliance with one of the above mentioned laws or regulations that is clearly inconsequential, judged by its nature and their impact, financial or otherwise, on the Group, its stakeholders, and the general public, we have an obligation to report it to the Group and ask from it to investigate the case in question and undertake the appropriate measures for solving irregularities and preventing the recurrence of such irregularities in the future. If the Group, at the audited balance sheet date, does not resolve the irregularities which were the basis for misstatements in the audited annual financial statements that are cumulatively equal to or greater than the materiality amount for financial statements as a whole, we are required to modify our opinion in the independent auditor's report.

In the audit of the Group's annual financial statements for 2019, we have determined the materiality for the financial statements as a whole in the amount of HRK 6.0 million, which represents approximately 10% of the Group's three-year average profit before tax. We have considered the following qualitative factors: the component which is in the focus of the users of the financial statements, a stable internal control system, and the Group's industrial and economic environment.

5. Our audit report is consistent with the additional report to the Group's Audit Committee prepared in accordance with the provisions of Article 11 of Regulation (EU) No 537/2014.
6. During the period between the start date of the audited annual consolidated financial statements of the Group for 2019 and the date of this report, we have not provided the Group with prohibited non-audit services, nor have we, in the business year before the stated period, provided it with the services of the design and implementation of internal control or risk management procedures in connection with the preparation and/or control of financial information, or the design and implementation of financial information technology systems, and during our audit we have preserved our independence from the Group.

# INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF JGL d.d. (continued)

## *Report pursuant to the requirements of the Accounting Act*

1. In our opinion, based on the tasks we have performed during the audit, the information in the accompanying Management Report of the Group for 2019 is consistent with the accompanying annual financial statements of the Group for 2019.
2. In our opinion, based on the tasks we have performed during the audit, the accompanying Management Report of the Group for 2019 was prepared in accordance with the Accounting Act.
3. Based on our knowledge and understanding of the Group's business and its environment that we gained during the audit, we have not determined the existence of material misstatements in the accompanying Management Report of the Group.
4. In our opinion, based on the tasks we have performed during the audit, the Statement on the Application of the Code of Corporate Governance, included in the Group's annual statement for 2019, is in accordance with the requirements stated in Article 22(1), points (3) and (4) of the Accounting Act.
5. The Statement on the Application of the Code of Corporate Governance, included in the Group's annual statement for 2019, includes information from Article 22(1), points (2), (5), (6) and (7) of the Accounting Act.

The partner in charge of the audit resulting in this independent auditor's report is Dalibor Briški, MSc

Grant Thornton revizija d.o.o.  
Ulica grada Vukovara 284  
10 000 Zagreb  
Croatia

Zagreb, 28 April 2020



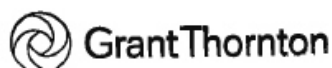
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Dalibor Briški, MSc  
*Director*



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Ivica Bašić  
*Certified Auditor*



Grant Thornton revizija d.o.o.  
HR - 10000 Zagreb

## Statement of Comprehensive Income

	<i>Note</i>	2019	2018
<b>OPERATING REVENUE</b>		<b>909,204,509</b>	<b>796,442,539</b>
Sales revenue	3	884,715,500	774,110,875
Other operating revenue	4	24,489,009	22,331,664
<b>OPERATING EXPENSES</b>		<b>(820,610,546)</b>	<b>(732,615,583)</b>
Change in inventories	5	(6,046,899)	8,917,918
Material costs	6	(534,652,768)	(506,949,474)
Employee costs	7	(172,631,334)	(155,800,099)
Depreciation	8	(47,025,115)	(35,771,491)
Value adjustment	9	(767,362)	(1,117,960)
Other operating expenses	10	(59,487,068)	(41,894,477)
<b>Finance revenue</b>	11	23,443,369	3,440,455
<b>Finance expenses</b>	11	(30,530,549)	(47,219,685)
<b>Net finance expenses</b>	11	<b>(7,087,180)</b>	<b>(43,779,230)</b>
<b>PROFIT BEFORE TAX</b>		<b>81,506,783</b>	<b>20,047,726</b>
<b>Income tax</b>	12	(3,064,443)	(3,014,679)
<b>PROFIT</b>		<b>78,442,340</b>	<b>17,033,047</b>
Earnings per share (basic and diluted)		70	15
Other comprehensive income before tax		-	-
<b>COMPREHENSIVE INCOME OF THE PERIOD</b>		<b>78,442,340</b>	<b>17,033,047</b>

Notes accompanying the financial statements are an integral part of the Statement of Comprehensive Income.

## Balance Sheet

	Note	2019	2018
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>659,106,408</b>	<b>617,203,930</b>
Intangible assets	13	116,366,072	109,234,008
Property, plant and equipment	14	508,065,543	476,012,723
Investment property	15	16,487,256	17,217,981
Other financial assets	16	1,786,087	1,743,668
Deferred tax assets	17	16,401,450	12,995,550
<b>Current assets</b>		<b>606,738,402</b>	<b>501,074,928</b>
Inventory	18	206,232,958	188,884,737
Receivables	19	311,563,490	279,576,019
Financial assets	20	201,792	521,212
Cash at bank and in hand	21	85,193,456	28,883,659
Other receivables	22	3,546,706	3,209,301
<b>TOTAL ASSETS</b>		<b>1,265,844,810</b>	<b>1,118,278,858</b>
<b>CAPITAL AND LIABILITIES</b>			
<b>Capital and reserves</b>		<b>624,963,119</b>	<b>545,543,482</b>
Share capital	23	119,255,000	118,472,000
Reserves	24	62,494,706	52,709,171
Profit or loss brought forward	25	364,771,073	357,329,264
Financial year profit	26	78,442,340	17,033,047
<b>Non-current liabilities</b>		<b>353,190,803</b>	<b>361,202,050</b>
Provisions	27	3,150,555	1,730,908
Liabilities towards banks and financial institutions	28	178,051,836	228,809,863
Lease liabilities	29	40,507,089	-
Liabilities arising from securities	30	127,835,906	127,032,106
Deferred tax liability	31	3,645,417	3,629,173
<b>Current liabilities</b>		<b>287,690,888</b>	<b>211,533,326</b>
Liabilities towards banks and financial institutions	32	37,270,831	52,860,834
Lease liabilities	33	24,091,558	-
Trade payables	34	120,365,638	119,567,867
Liabilities arising from securities	35	53,094,414	4,800,000
Other liabilities	36	52,868,447	34,304,625
<b>TOTAL PRINCIPAL AND LIABILITIES</b>		<b>1,265,844,810</b>	<b>1,118,278,858</b>

## Statement of Changes in Equity for 2018

	Share capital	Reserves	Profit or loss brought forward	Financial year profit	Capital and reserves
<b>As at 31/12/2017</b>	<b>118,472,000</b>	<b>46,035,724</b>	<b>294,269,254</b>	<b>65,813,322</b>	<b>524,590,300</b>
Yield from previous year's profit	-	6,673,447	59,139,875	-	65,813,322
Financial year profit yield	-	-	-	17,033,047	17,033,047
Transactions relating to own shares	-	5,187,380	2,618,000	-	7,805,380
<b>TOTAL INCREASE</b>	<b>-</b>	<b>11,860,827</b>	<b>61,757,875</b>	<b>17,033,047</b>	<b>90,651,749</b>
Transfer to profit brought forward and legal reserve	-	-	-	(65,813,322)	(65,813,322)
Transfer to liability for dividend	-	-	(6,665,934)	-	(6,665,934)
Transactions relating to own shares	-	(5,187,380)	(2,569,380)	-	(7,756,760)
Consolidation effect	-	-	10,537,449	-	10,537,449
<b>TOTAL DECREASE</b>	<b>-</b>	<b>(5,187,380)</b>	<b>1,302,135</b>	<b>(65,813,322)</b>	<b>(69,698,567)</b>
Net change	-	6,673,447	63,060,010	(48,780,275)	20,953,182
<b>As at 31/12/2018</b>	<b>118,472,000</b>	<b>52,709,171</b>	<b>357,329,264</b>	<b>17,033,047</b>	<b>545,543,482</b>

Notes accompanying the financial statements are an integral part of the Statement of Changes in Equity.

## Statement of Changes in Equity for 2019

	Share capital	Reserves	Profit or loss brought forward	Financial year profit	Capital and reserves
<b>As at 31/12/2018</b>	<b>118,472,000</b>	<b>52,709,171</b>	<b>357,329,264</b>	<b>17,033,047</b>	<b>545,543,482</b>
Subscription of a new share issue	783,000	3,069,360	-	-	3,852,360
Yield from previous year's profit	-	6,233,839	10,799,208	-	17,033,047
Financial year profit yield	-	-	-	78,442,340	78,442,340
Transactions relating to own shares	-	1,247,440	1,790,440	-	3,037,880
Consolidation effect	-	482,336	2,073,059	-	2,555,395
<b>TOTAL INCREASE</b>	<b>783,000</b>	<b>11,032,975</b>	<b>14,662,707</b>	<b>78,442,340</b>	<b>104,921,022</b>
Transfer to profit brought forward and legal reserve	-	-	-	(17,033,047)	(17,033,047)
Transfer to liability for dividend	-	-	(6,677,898)	0	(6,677,898)
Transactions relating to own shares	-	(1,247,440)	(543,000)	-	(1,790,440)
<b>TOTAL DECREASE</b>	<b>-</b>	<b>(1,247,440)</b>	<b>(7,220,898)</b>	<b>(17,033,047)</b>	<b>(25,501,385)</b>
Net change	783,000	9,785,535	7,441,809	61,409,293	79,419,637
<b>As at 31/12/2019</b>	<b>119,255,000</b>	<b>62,494,706</b>	<b>364,771,073</b>	<b>78,442,340</b>	<b>624,963,119</b>

Notes accompanying the financial statements are an integral part of the Statement of Changes in Equity.

## Statement of Cash Flows – Direct Method

	2019	2018
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>79,585,817</b>	<b>63,692,866</b>
<b>Cash inflow from operating activities</b>	<b>963,047,905</b>	<b>873,730,584</b>
Cash inflows from customers	943,749,574	856,715,805
Cash inflows from dividends	-	26,037
Cash inflows from insurance for damage compensation	621,230	613,659
Cash inflows from tax refund	13,769,253	15,088,898
Other cash inflows from operating activities	4,907,848	1,286,185
<b>Cash outflows from operating activities</b>	<b>(883,462,088)</b>	<b>(810,037,718)</b>
Cash outflows to suppliers	(628,188,282)	(586,271,894)
Cash outflows to employees	(125,254,800)	(118,944,722)
Cash outflows for interest	(16,957,179)	(17,569,380)
Cash outflows for tax	(91,611,881)	(67,123,327)
Other cash outflows from operating activities	(21,449,946)	(20,128,395)
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>	<b>(14,105,255)</b>	<b>8,052,311</b>
<b>Cash inflows from financing activities</b>	<b>130,263,731</b>	<b>27,796,331</b>
Cash inflows from sales of non-current tangible and intangible assets	4,992,651	15,250,859
Cash inflows from interest	11,157	5,427
Cash inflows from payment of loans granted	320,115	58,346
Cash inflows from dividends	44,507	-
Other cash inflows from financing activities	124,895,301	12,481,699
<b>Cash outflows from investment activities</b>	<b>(144,368,986)</b>	<b>(19,744,020)</b>
Cash outflows for acquiring non-current tangible and intangible assets	(19,617,286)	(19,598,020)
Cash outflows for loans granted	-	(146,000)
Other cash outflows from investment activities	(124,751,700)	-
<b>CASH FLOW FROM FINANCIAL ACTIVITIES</b>	<b>(9,560,977)</b>	<b>(67,464,213)</b>
<b>Cash inflows from financing activities</b>	<b>57,249,920</b>	<b>23,414,137</b>
Cash inflows from issued equity and debt instruments	47,229,920	-
Other cash inflows from financing activities	20,000	23,414,137
Cash inflows from received loans	10,000,000	-
<b>Cash outflows from financing activities</b>	<b>(66,810,897)</b>	<b>(90,878,350)</b>
Cash outflows for leases	(24,725,285)	(20,717,512)
Cash outflows for loan payment	(34,773,114)	(36,420,136)
Cash outflows for dividend payment	(6,681,498)	(6,659,722)
Cash outflows for own share repurchase	(611,000)	(4,371,380)
Other cash outflows from financial activities	(20,000)	(22,709,600)
Unrealised cash exchange differences	390,212	(380,014)
Cash and cash equivalents at the beginning of the period	28,883,659	24,982,709
<b>Increase/decrease in cash and cash equivalents</b>	<b>55,919,585</b>	<b>4,280,964</b>
Cash and cash equivalents at the end of the period	85,193,457	28,883,659



## **JGL d. d.**

### **NOTES ACCOMPANYING THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2019**

#### **1. General information**

These consolidated financial statements for the year ended on 31 December 2019 comprise the statements of JADRAN – GALENSKI LABORATORIJ d.d. (“JGL” or “Company”) and its subsidiaries (collectively “Group”). The company was established and operates in Croatia. The Company is headquartered in Rijeka, Svilno 20.

The Group consists of the Company and its subsidiaries:

	2019	2018
Farmis d.o.o. Sarajevo	100%	100%
Jadran – Galenski laboratorij d.o.o. Ljubljana	100%	100%
JGL d.o.o. Beograd – Sopot	100%	100%
Pablo d.o.o. Zagreb	100%	100%
– Pablo Rijeka Pharmacy	100%	100%
JGL North America LLC	100%	100%
Adrialab d.o.o.	100%	100%
Jadran LLC Moskva	100%	100%

#### **1.1. History and establishment of the Company**

JADRAN – GALENSKI LABORATORIJ, a joint-stock company for the production and trade in pharmaceutical and cosmetics products, Rijeka, Svilno 20, was entered into the court register of the Commercial Court in Rijeka on 2 May 1991, in the registry certificate with the company registration number 040004561. Personal identification number (OIB) is 20950636972. On 24 October 2011, the company changed its short name into JGL d.d. On 10 February 2012, the company changed its long name into JADRAN – GALENSKI LABORATORIJ d.d. On 6 November 2013, the company changed the address of its headquarters into Svilno 20, Rijeka.

#### **1.2. Core business**

The most important business activities for which the Company is registered are the production of pharmaceutical products, the production of basic pharmaceutical raw materials, the production of other chemical products, and the production of perfumes and toiletries and cosmetics.

The Group’s subsidiaries perform the activities of distribution of pharmaceutical products in retail and wholesale, as well as production of pharmaceutical products.

### **1.3. Ownership structure of the Company**

The share capital of JGL d.d. Rijeka is HRK 119,255,000 (HRK 118,472,000 in 2018), and is divided into 1,192,550 (1,184,720 in 2018) shares with a nominal value of HRK 100 per share, namely A series 7,500 shares, B series 30,000 shares, C series 18,750 shares, D series 8,500 shares, E series 524,790 shares, F series 589,540 shares, G series 5,640 shares, and the new issue in 2019, H series, 7,830 shares.

At the beginning of the period, the Company owned 76,853 of own shares. By the end of the financial year, the Company acquired an additional 1,150 and allocated 5,266 own shares, so the number of own shares in the Company's portfolio on 31 December 2019 amounted to 72,737. Out of the total acquired own shares during 2019, affiliates were allocated 4,500 own shares.

In accordance with the provisions of the Companies Act, the Company created reserves for the repurchase of own shares which, as at 31 December 2019, amounted to HRK 24,461,813 (HRK 25,709,253 in 2018).

Legal and other reserves are created in accordance with the Companies Act and the Articles of Association of JGL d.d., Rijeka. Legal reserves as at 31 December 2019 amounted to HRK 42,107,648 (HRK 35,873,810 in 2018). Other reserves as at 31/12/2019 amounted to HRK 2,140,779 (HRK 2,140,779 in 2018).

By the resolution of the General Meeting of the Company, a total of HRK 6,677,898 (HRK 6,665,934 in 2018) was allocated for dividend from profit brought forward generated in 2019, to the holders of A, B, C, D, E, F and G series ordinary shares, in the amount of HRK 6.00 per share with dividend rights.

Net profit in the current year amounts to HRK 78,442,340 (HRK 17,033,047 in 2018), representing the profit realised according to Profit and Loss Account. Net profit per share as at 31 December 2019 amounted to HRK 70 (HRK 15 per share in 2018) and was calculated based on the average weighted number of ordinary shares.

Dividends are recognised in the statement of changes in equity and shown as liability in the period in which they were declared.

### **1.4. Company bodies**

Pursuant to the Companies Act, as at 31 December 2014, the Company passed from a two-tier structure of a public limited company to a one-tier structure, in which the functions of governance and supervision are taken over by a single body – the Board of Directors.

Members of the Board of Directors on 31 December 2019 are:

- Ivo Usmiani – President
- Zdravko Saršon – Deputy President
- Marina Pulišić – Member
- Grozdana Božić – Member
- Eva Usmiani Capobianco – Member
- Dorotea Pernjak Banić – Member
- Mislav Vučić – Member

As of 31 December 2017, the Company has been represented and managed by Mislav Vučić as its sole CEO.

## **2. Summary of material accounting policies**

Accounting policies have been consistently applied in all periods shown in these consolidated financial statements.

### **2.1. Basis for the preparation of statements**

#### *2.1.1. Compliance statement*

Consolidated financial statements of the Group were prepared in accordance with the legal requirements in the Republic of Croatia and International Financial Reporting Standards (IFRS) applied in the European Union.

Consolidated financial statements are prepared based on the principle of historical cost, except for certain financial instruments and investment property which are carried at fair value.

Accounting policies were applied consistently, with the exception of the amended accounting policies as a result of the application of the new accounting standard IFRS 16, effective as of 1 January 2019. Financial statements are prepared on an accrual basis under the going concern assumption.

The financial statements of the Group are prepared with the Croatian kuna (HRK) as the measurement or reporting currency of the Company. As at 31/12/2019, the exchange rate for 1 EUR was HRK 7.44258 (HRK 7.417575 in 2018), and the exchange rate for 1 RUB was HRK 0.107175 (HRK 0.09331 in 2018).

#### *2.1.2. First application of new amendments to the existing standards effective in the current reporting period*

The amendments to the existing standards and new interpretations, as published by the International Accounting Standards Board (IASB) and adopted by the European Union and effective in the current reporting period are as follows:

- IFRS 16 “Leases” – adopted in the European Union on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 9 “Financial instruments” – Prepayment Features with Negative Compensation – adopted in the European Union on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 “Employee Benefits” – “Plan Amendment, Curtailment or Settlement” – adopted in the European Union on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” – “Long-term Interests in Associates and Joint Ventures” – adopted in the European Union on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards due to “Improvements to IFRS Standards 2015–2017 Cycle,” arising from the project of annual improvements to IFRS standards (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily for removing inconsistencies and clarification – adopted in the

European Union on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019);

- IFRIC 23 “Uncertainty over Income Tax Treatments” – adopted in the European Union on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to the existing standards and interpretations has led to the changes in financial statements of the Group, as follows:

### **Leases (IFRS 16)**

IFRS 16, effective from 1 January 2019 and approved by the European Union on 31 October 2017, amends the principles of International Accounting Standards and lease interpretations currently in force, especially IAS 17.

As the result of implementation of IFRS 16, the Group had to change the accounting policy for leases, as explained in Note 2.13.

IFRS 16 introduces a new definition of leases and confirms the current difference between two types of leases (operating and finance) with regard to the accounting treatment applied by the lessor. The accounting treatment applied by lessors entails the same treatment for all types of leases, namely the recognition of assets, which represents the right to use the asset and the obligation to make future payments under the lease contract. On initial recognition, an asset is measured based on cash flows from the lease contract. After initial recognition, the right of use will be valued according to international standards for assets, IAS 16, IAS 38 or IAS 40, therefore applying the cost model less accumulated depreciation and accumulated impairment losses, the revaluation model or the fair value model.

In order to calculate the lease liability and the accompanying right-of-use asset, discounting of future lease payments is performed at the appropriate discount rate. In connection with this, future discounted lease payments are established based on contractual provisions, VAT free, since the obligation to pay such tax occurs when the invoice is issued by the lessor, and not on the commencement date of the lease contract.

For the performance of the above calculation, lease payments must be discounted at the implicit contractual interest rate or, if not available, at the incremental borrowing rate. The incremental borrowing rate is determined based on financing costs for liabilities of similar duration and similar security as those in the lease contract. When determining the lease term, it is necessary to consider the non-cancellable period established in the contract, in which the lessee is entitled to use the underlying asset taking also into account the potential renewal options if the lessee is reasonably certain to renew. In particular, with reference to those contracts that allow the lessee to tacitly renew the lease contract after a first set of years, the lease term is determined taking into account factors such as the length of the first period, the existence of dismissal plans for the asset leased, and any other circumstance indicating a reasonable certainty of the renewal.

The effect of the initial application of IFRS 16 resulted in the increase in long-term assets in the amount of HRK 39,184,005, long-term liabilities in the amount of HRK 29,047,103 and short-term liabilities in the amount of HRK 10,136,902, as shown in Notes 14, 29 and 33.

*2.1.3. Amendments to the existing standards published by the IASB and adopted in the European Union, but not yet effective*

At the date of approval of these consolidated financial statements there are no new standards, amendments to the existing standards nor interpretations that were issued by the IASB and adopted by the European Union, that are not yet effective.

*2.1.4. Standards and interpretations published by the IASB and not yet adopted in the European Union*

IFRSs currently adopted in the European Union do not differ significantly from the regulations adopted by the International Accounting Standards Board, except from the following standards, amendments to the existing standards and interpretations which the European Union has not yet adopted at the date of approval of these financial statements.

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016); – The European Commission has decided to delay the transposition of this transitional standard until the publication of its final version;
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 3 “Business Combinations” – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” – Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2021).
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” and further amendments (originally established effective date is deferred until the research project on the equity method has been concluded);
- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” – Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

The Group envisages that the adoption of these standards, amendments to the existing standards and new interpretations will not have a material, i.e. significant effect on the financial statements of the Group in the period of their first application.

The issue of hedge accounting for financial assets and financial liabilities remains unregulated seeing as the hedge accounting principles have not yet been adopted in the European Union.

## **2.2. Consolidation**

Subsidiaries are all companies over which the Company has control. Control is achieved if the Company has dominance, if it is exposed or has rights in relation to the variable yield based on its participation in that entity and is able to influence its yield based on its dominance, i.e. power. The subsidiary is consolidated or ceases to be consolidated, from the moment the Company acquires or loses control over it. In the Company's financial statements, these investments are stated using the cost method of impairment losses, if any.

The acquisition method is used to state the acquisition of subsidiaries by the Group. The cost of purchase is measured as fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of purchase, increased by costs directly attributable to the purchase. Acquired identifiable assets, liabilities and contingent liabilities in a business combination are initially measured at fair value at the acquisition date, regardless of the minority share. The excess of the cost of acquisition over the fair value of the Group's share in the net acquired assets of the subsidiary is recognised as goodwill. If the cost of acquisition is less than the fair value of the net acquired assets of the subsidiary, the difference is recognised directly in the statement of comprehensive income.

All intra-Group transactions, balances and unrealised gains from intra-Group transactions are eliminated on consolidation. Unrealised losses are also eliminated, unless there is evidence of impairment of the transferred assets. Where necessary, the accounting policies of the subsidiary are amended to harmonise them with policies applied by the Group.

## **2.3. Operating segment reporting**

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

## **2.4. Foreign currencies**

The items included in the consolidated financial statements of the Group are presented in the currency of the primary economic environment in which the Company operates, i.e. in the functional currency. The consolidated financial statements of the Group are presented in the Croatian kuna, the functional and presentation currency of the Group.

Foreign currency transactions are translated into the functional currency in such a manner that the foreign currency amounts are converted using the exchange rate at the date of the transaction. Exchange rate gains or losses, incurred during the settlement of these transactions and conversion of foreign currency monetary assets and liabilities, are recognised in the statement of comprehensive income.

## **2.5. The use of estimates and judgements**

The preparation of consolidated financial statements in accordance with IFRS requires from the CEO to make judgements, estimates and assumptions that influence the application of policies and amounts disclosed for assets and liabilities, income and expenses. Estimates and related assumptions are based on historical experience and various other factors, which are considered reasonable in

given circumstances and result in a basis for making estimates about the value of assets and liabilities that cannot be obtained from other sources. The actual results can differ from such estimates.

The mentioned estimates and related assumptions are subject to a regular review. The impact of estimate correction is recognised in the period in which the estimate was corrected if the correction has an impact solely on the period in which it was made, or in the period in which the correction was made and future periods if the correction has an impact on both the current and future periods.

Judgements made by the CEO in the application of IFRSs which have a material impact on consolidated financial statements and judgements which have a high risk of material corrections in the following year are given in the Notes.

## **2.6. Revenue**

Revenue is generated in the Group's ordinary course of business. The Group recognises revenue in such a manner that reflects the transfer of contractual goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for contractual goods or services.

Revenue is recognised for each distinct contractual performance obligation in the amount of the transaction price. The transaction price is the amount of contractual consideration to which the Group expects to be entitled in exchange for transferring contractual goods or services.

Revenue is recognised when performance obligations to transfer the control of contractual goods and services to the customer are satisfied. The control of goods is transferred when the goods are delivered and made fully available to a customer and there is no outstanding liability that could impact the customer's acceptance of goods.

The control of services is transferred at a certain point, and the revenue from providing services is recognised in the period in which the services are performed.

## **2.7. Finance revenue and expenses**

Finance revenue includes the accrued interest on loans granted using the effective interest method, revenues from dividend, foreign exchange gains, and realised and unrealised gains from the increase in the fair value of financial assets.

Finance expenses include the accrued interest on credits, loans and bonds, foreign exchange losses, and realised and unrealised losses from the decrease in the fair value of financial assets.

Borrowing costs directly attributable to the purchase, construction or production of a qualifying asset are capitalised during the period which is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are recognised in the statement of comprehensive income using the effective interest rate method.

## **2.8. Provisions**

Provisions are recognised if the Group has a present (legal or constructive) obligation that has arisen as a result of a past event, if the settlement of this obligation is likely to require an outflow of economic resources, and if the amount of the obligation can be estimated reliably.

Provisions are reviewed at every balance sheet date and adjusted in accordance with the latest best possible estimates. If the effect of the time value of money is material, the amount of the provision is the present value of costs which are expected to be necessary to settle the obligation. In case of discounting, an increase in provisions that reflects the passage of time is recognised as a finance expense, and the carrying amount of provisions is increased each year to reflect the passage of time. The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties related to that obligation. If a provision is measured using an estimate of cash flows necessary to settle the present obligation, the accounting value of the obligation is the present value of those cash flows.

When a third party is expected to return some or all economic benefits that are necessary to settle a provision, the related receivable is recognised as an asset when it is more likely than not that an inflow of benefits will occur and if the amount of the receivable can be measured reliably.

## **2.9. Taxation**

The Group presents its tax liability in accordance with the tax laws of the country in which the subsidiary has its registered office. Income tax for the current year includes current and deferred tax.

Current tax is the expected tax payable on the taxable income of the current year using the tax rate in force at the balance sheet date.

Deferred taxes result from temporary differences between the carrying amount of assets and liabilities in the financial statements and the amount used for the purpose of determining the income tax base.

A deferred tax asset is recognised for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured using the income tax rate applicable to the period when those assets or liabilities will be realised.

Current and deferred tax is recognised as income or expense in the statement of comprehensive income except when relating to items recognised directly in equity, when tax is also recognised directly in equity.

## **2.10. Government grants**

Government grants, including non-monetary grants at fair value, are not recognised until there is reasonable assurance that the company within the Group will comply with the conditions attached to the grant and the grant will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the company within the Group recognises expenses for the related costs for which the grants are intended to compensate. Grant receivables as compensation for expenses or losses already incurred, or for immediate financial support to the company within the Group with no future related costs, are recognised in profit or loss in the period in which they are incurred.

## **2.11. Intangible assets**

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



asset. Capitalised costs include costs of materials, direct labour and external services that are directly attributable to preparing the asset for its intended use. Other development costs are recognised in the statement of comprehensive income in the period in which they were incurred.

Costs of licences, software, rights to registration use, investments in non-owned assets and other rights are capitalised as intangible assets based on acquisition costs and costs incurred in bringing the intangible asset to working condition.

Subsequent expenses related to capitalised intangible assets are recognised in the carrying amount of items only if they increase the future economic benefits associated with the asset and if these benefits will flow to the Group. All other costs represent an expense in the statement of comprehensive income in the period in which they were incurred.

The costs of the Group incurred by acquiring licences to perform pharmaceutical activities, without which it is impossible to perform pharmacy operations, are capitalised to the extent that future economic benefits are probable. Licences have an indefinite validity and are not depreciated, but are assessed annually for impairment.

Goodwill arises during the acquisition of a subsidiary or jointly controlled entity and represents the difference between the fair value of the cost of acquisition and the fair value of the Group’s share in the net identifiable assets of the acquired company at the date of acquisition.

Separately represented goodwill is reviewed annually for impairment and is stated at acquisition cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Goodwill is allocated for the purpose of testing impairment losses to cash-generating units, or groups of cash-generating units, that are expected to benefit from the business merger in which the goodwill arose. Each cash-generating unit, or group of cash-generating units, to which goodwill is allocated represents the lowest level within the Group at which the CEO monitors goodwill for internal use.

Any gain or loss on fair value is recognised in profit or loss.

Gains and losses from the sale of an entity include the carrying amount of goodwill relating to the sold entity.

Amortisation of intangible assets is calculated on a straight-line basis over the estimated useful life of each item and charged to the statement of comprehensive income. Amortisation rates in application are as follows:

	<b>2019</b>	<b>2018</b>
Internally developed intangible assets	6.67%	6.67%
Licences	6.67%- undetermined	6.67%- undetermined
Software	10-50%	10-50%
Rights to registration use	20-33.33%	20-33.33%
Other intangible assets	6.67-50%	6.67-50%

**2.12. Property, plant and equipment**

Property, plant and equipment are stated at purchase cost less subsequent accumulated depreciation and impairment. Property under construction is presented at construction cost less

recognised impairment losses. Cost includes professional fees and, for qualified assets, borrowing costs capitalised in accordance with the applicable accounting policy of the Group.

Subsequent costs related to property, plant and equipment are recognised in the carrying amount of items only if they increase the future economic benefits associated with the item and if these benefits will flow to the Group. All other costs represent an expense in the statement of comprehensive income in the period in which they were incurred.

The depreciation of these assets begins when an asset is ready for its intended use. Depreciation is calculated by writing off the purchase value of assets, except for property under construction, over their estimated useful life using the straight-line method, at the following rates:

	<b>2019</b>	<b>2018</b>
Buildings	1.67-10%	1.67-10%
Leases of property	7.95-80%	-
Plants and equipment	5-10%	5-10%
Tools, plant inventory and means of transportation	5-50%	5-50%
Leases of vehicles	20-50%	-
Leases of equipment	5-20%	-

The estimated useful life, residual value and depreciation method are reviewed at the end of each year, with the effects of any changes in estimates being calculated prospectively.

Owned land is carried at acquisition cost and is not depreciated.

Gains or losses from the sale or disposal of property, plant and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset recognised in the statement of comprehensive income.

### **2.13. Leases**

The Group chose to apply IFRS 16 using the modified retrospective approach as of 1 January 2019, under which cumulative effects of initially applying the standard are recognised at the date of initial application, and it has accordingly not restated comparative information for 2018, which is permitted in accordance with the standard.

Until 31 December 2018, all leases of property, vehicles and equipment for which the Group bears all the risks and rewards of ownership were classified as finance leases.

Finance leases were initially recognised as assets and liabilities at amounts equal to the fair value of the leased assets or, if lower, at the present value of the minimum lease payments. The related obligation towards the lessor was included in the balance sheet as the liability for financial leasing.

Lease payments were apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Financing costs were recognised directly in profit or loss. Assets purchased under a finance lease were depreciated on their useful lives.

Leases in which the Group did not bear a significant share of the risks and rewards of ownership were classified as operating leases. Payments made under operating leases were recognised in profit or loss as an expense.

From 1 January 2019, leased assets are classified as right-of-use assets under the item of property, plant and equipment. A lease liability is also simultaneously recognised at the date the asset is ready for use.

Right-of-use assets and lease liabilities are initially recognised at the present value of acquisition cost.

Right-of-use assets are recognised at cost that consists of the amount of the initial measurement of the lease liability, all payments made prior to lease commencement and direct costs.

Right-of-use assets are depreciated over the period of their useful life. If the right of use is contracted for an indefinite time period with the possibility of termination, then the best possible estimate is taken into account, a maximum of 5 years.

Lease liabilities are discounted using the interest rate implicit in the lease. If this rate cannot be determined directly, an incremental borrowing rate is applied, representing the interest rate that the Group would pay to borrow the funds necessary to obtain an such asset in a similar economic environment.

Lease payments are allocated to the payment of principal and financing costs. Financing cost is recognised in profit or loss.

Leases that mature within 12 months and low-value leases are recognised using the straight-line method in profit or loss over the lease term.

#### **2.14. Impairment of intangible and tangible assets**

At each balance sheet date, the Group checks the carrying amounts of its long-term intangible and tangible assets to determine whether there is any indication of impairment losses. If any such indication exists, the recoverable amount of the asset is estimated to determine any impairment loss. If it is not possible to determine the recoverable amount for an asset, the Group determines the recoverable amount for the asset's cash-generating unit.

If a realistic and consistent allocation basis can be determined, the assets of the Group are also allocated to individual cash-generating units or, if this is not possible, to the smallest identifiable group of assets that generates cash inflows for which a realistic and consistent allocation basis can be determined.

Goodwill and licences to conduct pharmaceutical activities as intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually in accordance with the specified accounting policy and whenever there is an indication of possible impairment.

Recoverable amount is the higher of fair value less costs of selling and the value of assets in use. For the purpose of estimating value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the current market estimate of the time value of money and the risks specific to that asset for which 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 that asset is reduced to its recoverable amount. Impairment losses are recognised immediately as an expense, except for the asset stated in the revalued amount, in which case the impairment loss is recognised as a decrease in value arising from the revaluation of the asset.

In the subsequent reversal of an impairment loss, the carrying amount of an asset is increased to the revised estimated recoverable amount of that asset in such a way that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment losses had been recognised in that asset in previous years. The reversal of an impairment loss is recognised immediately as income, unless the underlying asset is carried at revalued amount according to other standards (for example, under the revaluation model in accordance with IAS 16), in which case the reversal of an impairment loss is recognised as income up to the amount of the previously recognised impairment loss and subsequently as an increase in revaluation.

#### **2.15. Investment property**

Investment property is held to generate rental income, to increase the capital value of assets, or both.

Investment property is initially measured at cost plus transaction costs, and subsequent valuation is measured at fair value. The determination of the fair value of investment property is based on a valuation by a qualified independent valuer.

Gains or losses arising from changes in the fair value of investment property are recognised in the statement of comprehensive income for the period in which they were incurred.

#### **2.16. Investments in associates**

An associate is an entity over which an Group has significant influence, but not control. A significant influence is the power to participate in the financial and operating policies of the investee, but it does not represent the control or joint control of these policies. Investments in associates are presented in the individual financial statements using the cost method, while in consolidated financial statements the equity method is used to adjust the investment for the Group's share in the capital of the associate.

#### **2.17. Financial assets**

According to IFRS 9, all recognised financial assets are subsequently fully measured at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss depending on the business model and the characteristics of the contractual cash flows of financial assets.

As of 1 January 2018, the Group classifies financial assets into the category measured at amortised cost by applying the effective interest rate method, as part of the business model whose objective is to collect contractual cash flows and according to which cash flows are solely payments of principal and interest on the principal amount outstanding. Moreover, financial investments in securities are measured at fair value through profit or loss.

At each balance sheet date, the Group assesses whether there is objective evidence that a financial asset is impaired.

The Group ceases to recognise financial assets only when the contractual right to receive cash flows from the asset has expired, or when the financial asset and substantially all of the risks and rewards of ownership are transferred to another entity. If the Group does not transfer nor retain substantially all of the risks and rewards of ownership and continues to have control of the transferred assets, it recognises its continuing involvement in the assets and the related liability in the amounts that it

may be required to pay. If the Group retains substantially all of the risks and rewards of ownership of the transferred financial assets, those assets will continue to be recognised, while recognising the secured loan from the proceeds received.

Upon derecognition of the entire financial asset, the difference between the carrying amount of the asset and the sum of the consideration received and the consideration receivable and the cumulative gain or cumulative loss presented in other comprehensive income and accumulated in equity are transferred to profit or loss.

#### *2.17.1. Impairment of financial assets*

The Group recognises provisions for expected credit losses on trade receivables. The amount of expected credit losses is calculated at each reporting date to reflect the changes in credit risk since the initial recognition of each financial instrument.

##### Significant increase in credit risk

The Group compares the risk of a default occurring at the reporting date with the risk of a default occurring on the financial instrument at the initial recognition date as part of its assessment whether there has been a significant increase in credit risk of the financial instrument since initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and available, including historical experience, which can be obtained without undue cost or effort.

The assumption is that the credit risk of a financial instrument has not increased significantly since initial recognition if it is determined that the financial instrument has a low credit risk at the reporting date. A financial instrument has a low credit risk if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual obligations in the near term;
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to determine whether there has been a significant increase in credit risk and revises them to ensure that the criteria can identify a significant increase in credit risk before payments are delayed.

##### Credit impairment of financial assets

Financial assets are credit-impaired when one or more events occur that have an adverse effect on the estimated future cash flows of those financial assets. Evidence that a financial asset is credit-impaired includes available information about the following events:

- significant financial difficulty of the borrower;
- occurrence of a default;
- the entity, for reasons relating to the borrower's financial difficulties, granted the borrower a concession that would not otherwise be considered;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for the financial asset because of financial difficulties.

### *2.17.2. Write-off policy*

The Group will write off financial assets when there is information indicating that the borrower is in serious financial difficulty and that there is no realistic prospect of recovery (liquidation, bankruptcy). Written-off financial assets may still be subject to enforcement activities under the borrower's recovery procedures, taking into account legal advice where appropriate. Recovery is recognised in the profit or loss.

## **2.18. Receivables**

Receivables are initially measured at fair value. At each balance sheet date, receivables expected to be collected in a period longer than one year are carried at amortised cost using the effective interest rate method less impairment loss for incurred and expected credit losses. Current receivables are carried at initially recognised nominal amount less the appropriate impairment allowance for incurred and expected credit losses.

A receivable is impaired and impairment losses are recognised only and exclusively if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset when it has an effect on estimated future cash flows from receivables that can be determined reliably. At each balance sheet date, it is assessed whether there is objective evidence that an individual receivable is impaired. If there is objective evidence of impairment of a receivable, the amount of the loss is measured as the difference between the carrying amount and estimated future cash flows. The carrying amount of a receivable will be reduced directly or using a separate value adjustment account. The amount of the loss is recognised in profit or loss for the current year.

## **2.19. Cash and cash equivalents**

Cash and cash equivalents are reported in the balance sheet at cost. In the statement of cash flows, cash and cash equivalents consist of cash at bank and in hand.

## **2.20. Inventory**

Inventories are reported at the lower of cost or net realisable value. Net realisable value is the expected selling price of inventories in the ordinary course of business minus the associated selling costs.

Inventory costs include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The costs of purchase of inventories include the purchase price, import duties and other taxes (except those which the entity can recover from tax authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

The costs of conversion of inventories include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads to the costs of conversion is based on the normal capacity of the production facilities.

The use of inventories is measured using the weighted average cost method.

Small inventory is completely written off when being put to use.

## **2.21. Equity instruments issued by the Company**

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

### Share capital

#### *a) Ordinary shares*

Share capital is the nominal value of shares issued. Capital gain includes the premium earned on the issue of shares. Any transaction costs associated with the issue of ordinary shares are recognised as a decrease in equity.

#### *b) Repurchase of share capital*

The amount of consideration paid for the repurchase of share capital, including direct dependent costs, is recognised as an impairment in equity and reserves. Repurchased shares are classified as own shares and represent a deductible item from total equity and reserves.

## **2.22. Financial liabilities**

### *2.22.1. Financial liabilities at fair value through profit or loss*

Financial liabilities are classified as financial liabilities at fair value in profit or loss when they are either intended for trade or defined by the Group as such. A financial liability carried at fair value through profit or loss is measured at its fair value, and the related gain or loss is recognised in the statement of comprehensive income. Net gain or loss recognised in the statement of comprehensive income includes interest paid on the financial liability.

### *2.22.2. Other financial liabilities*

Other financial liabilities, including credits and loans, are initially measured at fair value less transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest rate method, with the interest cost recognised on the basis of effective yield.

Effective interest rate method is the method for calculation of the amortised cost of a financial liability and distribution of the interest expense in a given period. Effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, where more appropriate, through a shorter period.

### *2.22.3. Derecognition of a financial liability*

The Group derecognises a financial liability when, and only when, it is discharged, cancelled or expires.

## **2.23. Contingent assets and liabilities**

Contingent assets are not recognised in the Group's financial statements, but are recognised when they become a probable inflow of economic benefits.

Contingent liabilities are not recognised in the Group's financial statements, but are only published in the notes to the financial statements.

**2.24. Key estimates and judgements and uncertainties in the preparation of financial statements**

During the preparation of the financial statements, the CEO used certain estimates and judgements that affect the net carrying value of assets and liabilities of the Group, the disclosure of contingent items at the balance sheet date, and the disclosed income and expenses of the period then ended.

The estimates used include, without limitation: calculation and period of depreciation and residual values of property, plant and equipment and intangible assets, impairments estimates, impairment allowances for inventory and doubtful and disputed claims, and provisions for employee benefits and court disputes.

More details about the accounting policies for these estimates can be found in other parts of this note and in other notes to the financial statements. Future events and their effects cannot be predicted with certainty. This is why accounting estimates require judgements, and those used in the preparation of financial statements are subject to the occurrence of new events, gaining additional experience, receiving additional information, and changes in the environment in which the Group operates. Actual results can differ from the estimates.

**2.25. Events after the reporting date**

Events after the reporting date that provide additional information on the Group’s position on the balance sheet date (adjusting events) are recognised in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements if they are of material significance.

**2.26. The effect of introducing changes in the accounting policies**

As stated in Note 2.1, the adoption of the new IFRS 16 standard “Leases,” effective for annual periods beginning on or after 1 January 2019, resulted in changes to the Group’s accounting policies. This change had no impact on the initial principal balance as at 1 January 2019.

The effect of IFRS 16 adoption on assets and liabilities is shown as follows:

	01/01/2019
Right-of-use assets	39,184,005
Operating lease liabilities	(39,184,005)
<b>Net effect on principal</b>	<u>-</u>



### 3. Sales revenue

Sales revenue amounted to HRK 884,715,500 (2018: HRK 774,110,875) and includes revenue from the sale of products, goods and services.

#### 3.1. Operating revenue by segments – programmes

	2019		2018	
Aqua Maris programme	306,438,865	35%	260,596,720	34%
Prescription drug programme	166,388,072	19%	158,122,623	20%
Retail	153,445,503	17%	142,290,061	18%
Other programmes	137,588,750	15%	106,832,185	14%
Non-prescription programme	120,854,310	14%	106,269,286	14%
<b>Total</b>	<b>884,715,500</b>	<b>100</b>	<b>774,110,875</b>	<b>100</b>
		%		%

#### 3.2. Operating revenue by segments – regions

	2019		2018	
South-East Europe	377,367,987	43%	355,788,702	46%
CIS	368,028,480	41%	315,120,373	41%
Other regions	139,319,033	16%	103,201,800	13%
<b>Total</b>	<b>884,715,500</b>	<b>100</b>	<b>774,110,875</b>	<b>100</b>
		%		%

### 4. Other revenue

	2019		2018	
Revenue from sales of brands and licences	3,636,796	15%	3,871,903	17%
Revenue from grants and subsidies	3,550,014	14%	3,833,500	17%
Revenue from sales of property, plant and equipment	1,012,094	4%	571,313	3%
Other revenue	16,290,105	67%	14,054,948	63%
<b>Total</b>	<b>24,489,009</b>	<b>100%</b>	<b>22,331,664</b>	<b>100%</b>

Revenue from grants and subsidies refers to income from preferential interest, revenue from co-financing of employment, revenue from government grants and subsidies, and revenue from free receipts of property.

Other revenues include revenues from write-offs of liabilities, surpluses, subsequently collected adjustments, revenues from damage reimbursement, revenue from previous periods, revenue from the cancellation of provisions, and other revenue not mentioned above.

## 5. Change in inventories

The value of the finished goods inventory of the Group decreased by HRK 6,046,899 compared to the initial amount of the period (increase of HRK 8,917,918 in 2018).

## 6. Material costs

	<b>2019</b>	<b>2018</b>
Costs of materials, energy and small inventory	155,993,710	175,827,873
Costs of goods sold	206,280,452	171,381,761
Other external service costs	172,378,606	159,739,840
<b>Total</b>	<b>534,652,768</b>	<b>506,949,474</b>

## 7. Employee costs

As at 31 December 2019, the Group had 1,002 employees (964 employees in 2018).

	<b>2019</b>	<b>2018</b>
Net salaries	108,323,273	97,332,381
Tax, surtax and contributions from salary	39,306,630	35,301,774
Contributions on salaries	25,001,431	23,165,944
<b>Total</b>	<b>172,631,334</b>	<b>155,800,099</b>

In the ordinary course of business, regular payments of contributions on employee salaries are paid in accordance with the law. Mandatory pension contributions paid to funds are expressed as part of salary expense upon their calculation.

## 8. Depreciation

	<b>2019</b>	<b>2018</b>
Depreciation of tangible assets	23,895,587	29,668,909
Depreciation of tangible right-of-use assets	15,732,953	-
Depreciation of intangible assets	7,396,575	6,102,582
<b>Total</b>	<b>47,025,115</b>	<b>35,771,491</b>

## 9. Value adjustment

In 2019, the value adjustment of trade receivables was performed in the amount of HRK 767,362 (in 2018, HRK 1,117,960).

## 10. Other operating expenses

	<b>2019</b>	<b>2018</b>
Other employee costs	14,573,483	12,397,949
Costs of expenses	9,675,376	3,586,408
Remuneration of the Board of Directors and allocation of shares	9,299,524	4,061,380
Other operating costs	8,940,179	7,387,355
Insurance costs	4,611,429	4,675,351
Unamortised value of scrapped non-current assets	3,087,653	270,745
Costs of own product representation	2,277,640	1,510,939
Banking costs	2,023,894	2,232,992
Costs of own product registration	1,985,265	3,292,420
Costs of professional training	1,393,775	895,887
Costs of subsequent approvals	1,068,853	756,608
Costs of donations	395,449	346,306
Costs of professional literature	154,548	82,360
Unrealised loss – IAS 40 and IFRS 5	-	397,777
<b>Total</b>	<b>59,487,068</b>	<b>41,894,477</b>

## 11. Net finance expenses

	<b>2019</b>	<b>2018</b>
Revenue from exchange rate differences	23,197,057	3,158,634
Revenue from interest	148,137	299,839
Share in profit from associates	49,125	(45,161)
Revenue from dividend	44,507	26,037
Other finance revenue	4,543	1,106
<b>Total finance revenue</b>	<b>23,443,369</b>	<b>3,440,455</b>
Interest expenses	(16,479,189)	(19,717,521)
Expenses from foreign exchange differences	(5,228,622)	(27,493,239)
Value adjustment of financial assets	(3,406,519)	-
Interest expenses for leases	(3,069,306)	-
Other finance expenses	(2,346,913)	(8,925)
<b>Total finance expenses</b>	<b>(30,530,549)</b>	<b>(47,219,685)</b>
<b>Net finance expenses</b>	<b>(7,087,180)</b>	<b>(43,779,230)</b>

## 12. Income tax

	<b>2019</b>	<b>2018</b>
Current tax	(5,902,852)	(4,961,866)
Deferred tax	2,838,409	1,947,187

<b>Total</b>	<u>(3,064,443)</u>	<u>(3,014,679)</u>
	<b>2019</b>	<b>2018</b>
<b>Profit before tax</b>	<b>81,506,783</b>	<b>20,047,726</b>
Base increase	34,690,097	27,185,953
Base reduction	(6,878,379)	(3,495,115)
<b>Tax base</b>	<b>109,318,501</b>	<b>43,738,564</b>
Tax incentive for investment	(15,358,214)	(4,207,456)
Tax payable	(5,902,852)	(4,961,866)
Deferred taxes	2,838,409	1,947,187
<b>Profit after tax</b>	<u><b>78,442,340</b></u>	<u><b>17,033,047</b></u>

The Ministry of Economy awarded the status of beneficiary of incentive measures to the Parent Company for the Svilno 2 project pursuant to the Act on Investment Promotion on 26 February 2014.

The amount of investment incentive for which deferred tax assets were not created amounts to HRK 27,217,589.

The CEO is not aware of the circumstances that could lead to new potential material liabilities, except for the tax proceedings of the subsidiary PABLO HEALTH INSTITUTION FOR PHARMACEUTICAL ACTIVITIES which is conducted before the Ministry of Finance, Independent Sector for Second-Instance Procedure, based on which the first-instance decision of 12 September 2017 was issued, by which the Institution is obliged to pay HRK 10.2 million of income tax on other income (including default interest), to which the Institution filed an appeal in October 2017.

According to the statement of the law office representing the Institution, success in the appeal proceedings is expected in its entirety, and therefore this has not been recorded in the business books.

### 13. Intangible assets

#### Movement of intangible assets during 2018

Description	Internally developed intangible assets	Patents, licences, trademarks, registration of own products	Goodwill	Intangible assets in preparation	Total intangible assets
	in HRK	in HRK	in HRK	in HRK	in HRK
<b>Purchase value of intangible assets</b>					
As at 31 December 2017	22,019,910	74,228,698	31,607,723	24,502,507	<b>152,358,838</b>
Direct increases	11,576	381,043	-	20,262,625	<b>20,655,244</b>
Increase by transfer from assets in preparation	2,554,170	16,476,129	-	(19,030,299)	-
Other increases/decreases	-	(68,400)	-	(3,608)	<b>(72,008)</b>
Expenses and sale	-	(4,042,954)	-	(230,854)	<b>(4,273,808)</b>
As at 31 December 2018	<b>24,585,656</b>	<b>86,974,516</b>	<b>31,607,723</b>	<b>25,500,371</b>	<b>168,668,266</b>
<b>Accumulated depreciation and impairment of intangible assets</b>					
As at 31 December 2017	8,727,066	38,317,698	9,783,063	-	<b>56,827,827</b>
Accrued depreciation for 2018	1,636,550	4,466,032	-	-	<b>6,102,582</b>
Value adjustment for scrapped and sold assets	-	(3,496,151)	-	-	<b>(3,496,151)</b>
As at 31 December 2018	10,363,616	39,287,579	9,783,063	-	59,434,258
Current value of intangible assets as at 31 December 2017	13,292,844	35,911,000	21,824,660	24,502,507	95,531,011
Current value of intangible assets as at 31 December 2018	14,222,040	47,686,937	21,824,660	25,500,371	109,234,008

## Movement of intangible assets during 2019

Description	Internally developed intangible assets	Patents, licences, trademarks, registration of own products	Goodwill	Intangible assets in preparation	Total intangible assets
	in HRK	in HRK	in HRK	in HRK	in HRK
<b>Purchase value of intangible assets</b>					
As at 31 December 2018	24,585,656	86,974,516	31,607,723	25,500,371	<b>168,668,266</b>
Direct increases	258	3,207,473	-	14,245,848	<b>17,453,579</b>
Increase by transfer from assets in preparation	3,206,028	4,046,289	-	(7,232,162)	<b>20,155</b>
Adjustment	-	13,943	-	(16,547)	<b>(2,604)</b>
Expenses and sale	(674,918)	(571,110)	-	(2,678,593)	<b>(3,924,621)</b>
As at 31 December 2019	<b>27,117,024</b>	<b>93,671,111</b>	<b>31,607,723</b>	<b>29,818,917</b>	<b>182,214,775</b>
<b>Accumulated depreciation and impairment of intangible assets</b>					
As at 31 December 2018	10,363,616	39,287,579	9,783,063	-	<b>59,434,258</b>
Accrued depreciation for 2019	1,906,445	5,490,130	-	-	<b>7,396,575</b>
Value adjustment for scrapped and sold assets	(420,754)	(561,376)	-	-	<b>(982,130)</b>
As at 31 December 2019	<b>11,849,307</b>	<b>44,216,333</b>	<b>9,783,063</b>	<b>-</b>	<b>65,848,703</b>
Current value of intangible assets as at 31 December 2018	14,222,040	47,686,937	21,824,660	25,500,371	109,234,008
Current value of intangible assets as at 31 December 2019	15,267,717	49,454,778	21,824,660	29,818,917	116,366,072

Licences required to perform pharmaceutical activities of indefinite validity on 31 December 2019 amount to HRK 20,832,598 (HRK 20,832,598 in 2018).

Impairment test of goodwill and licences of indefinite validity as of 31 December 2019 showed that the recoverable amount exceeds the carrying amount and there were no impairment losses.

## 14. Property, plant, equipment and property investments

Movement of tangible assets during 2018:

Description	Land	Buildings	Plants and equipment	Tools, plant and office inventory, furniture, means of transportation, 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
<b>Purchase value of tangible assets</b>							
As at 31 December 2017	41,684,006	297,478,620	277,335,603	40,732,273	842,480	5,301,090	<b>663,374,072</b>
Direct increases in 2018	-	-	154,450	536,916	-	23,344,492	<b>24,035,858</b>
Increase by transfer from assets in preparation	8,880	1,338,730	24,677,651	1,191,088	-	(27,216,349)	-
Other increases/decreases	(7,996)	(69,640)	(83,984)	(434,165)	-	(587,712)	<b>(1,183,497)</b>
Expenses and sale	-	(1,535)	(1,356,817)	(2,271,233)	(10,000)	(79,849)	<b>(3,719,434)</b>
As at 31 December 2018	<u>41,684,890</u>	<u>298,746,175</u>	<u>300,726,903</u>	<u>39,754,879</u>	<u>832,480</u>	<u>761,672</u>	<b><u>682,506,999</u></b>
<b>Accumulated depreciation and impairment of tangible assets</b>							
As at 31 December 2017	-	46,232,681	108,822,421	26,071,699	-	-	<b>181,126,801</b>
Accrued depreciation for 2018	-	6,866,918	18,514,656	4,287,335	-	-	<b>29,668,909</b>
Value adjustment for scrapped and sold assets	-	(7,266)	(1,442,922)	(2,491,655)	-	-	<b>(3,941,843)</b>
As at 31 December 2018	<u>-</u>	<u>53,092,333</u>	<u>125,894,155</u>	<u>27,867,379.00</u>	<u>-</u>	<u>-</u>	<b><u>206,853,867</u></b>
<b>Prepayments for tangible assets as at 31 December 2017</b>							<b>12,045</b>
<b>Prepayments for tangible assets as at 31 December 2018</b>							<b>359,591</b>
Current value of tangible assets as at 31 December 2017	41,684,006	251,245,939	168,513,182	14,660,574	842,480	5,301,090	<b>482,259,316</b>
Current value of tangible assets as at 31 December 2018	<u>41,684,890</u>	<u>245,653,842</u>	<u>174,832,748</u>	<u>11,887,500</u>	<u>832,480</u>	<u>761,672</u>	<b><u>476,012,723</u></b>

Movement of tangible assets during 2019:

Description	Land	Buildings	Right-of-use assets – property	Plants and equipment	Tools, plant and office inventory, furniture, means of transportation, devices	Right-of-use assets – equipment	Right-of-use assets – vehicles	Other tangible assets	Tangible assets in preparation	Total tangible assets
<b>Purchase value of tangible assets</b>										
As at 31 December 2018	41,684,890	298,746,175	-	300,726,903	39,754,879	-	-	832,480	761,672	<b>682,506,999</b>
Direct increases / Application of IFRS 16	-	89,500	30,059,080	1,068,867	695,762	-	13,085,456	-	22,865,582	<b>67,864,247</b>
Increase by transfer from assets in preparation	-	181,850	-	14,164,188	547,147	7,644,688	-	-	(22,069,965)	<b>467,908</b>
Other increases/decreases	36,483	1,362,518	(65,436)	23,426	(124,444)	-	(69,790)	-	1,865	<b>1,164,622</b>
Reclassification	-	-	-	(96,951,281)	(8,501,493)	104,445,251	1,007,523	-	-	-
Expenses and sale	(8,880)	-	-	(4,384,094)	(4,194,259)	-	-	-	-	<b>(8,587,233)</b>
As at 31 December 2019	<u>41,712,493</u>	<u>300,380,043</u>	<u>29,993,644</u>	<u>214,648,009</u>	<u>28,177,592</u>	<u>112,089,939</u>	<u>14,023,189</u>	<u>832,480</u>	<u>1,559,154</u>	<b><u>743,416,543</u></b>
<b>Accumulated depreciation and impairment of tangible assets</b>										
As at 31 December 2018	-	53,092,333	-	125,894,155	27,867,379	-	-	-	-	<b>206,853,867</b>
Accrued depreciation for 2019	-	6,920,007	5,534,517	14,195,829	2,779,751	5,952,421	4,246,015	-	-	<b>39,628,540</b>
Reclassification	-	-	-	(22,039,070)	(2,815,918)	24,480,596	374,392	-	-	-
Value adjustment for scrapped and sold assets	-	-	-	(3,786,756)	(4,049,771)	-	-	-	-	<b>(7,836,527)</b>
As at 31 December 2019	<u>-</u>	<u>60,012,340</u>	<u>5,534,517</u>	<u>114,264,158</u>	<u>23,781,441</u>	<u>30,433,017</u>	<u>4,620,407</u>	<u>-</u>	<u>-</u>	<b><u>238,645,880</u></b>
<b>Prepayments for tangible assets as at 31 December 2018</b>										<b>359,591</b>
<b>Prepayments for tangible assets as at 31 December 2019</b>										<b>3,294,880</b>
Current value of tangible assets as at 31 December 2018	41,684,890	245,653,842	-	174,832,748	11,887,500	-	-	832,480	761,672	<b>476,012,723</b>
Current value of tangible assets as at 31 December 2019	<u>41,712,493</u>	<u>240,367,703</u>	<u>24,459,127</u>	<u>100,383,851</u>	<u>4,396,151</u>	<u>81,656,922</u>	<u>9,402,782</u>	<u>832,480</u>	<u>1,559,154</u>	<b><u>508,065,543</u></b>

A lien was registered on part of the property owned by the Company as security for loan repayment. The carrying value of properties in lien as at 31 December 2019 was HRK 257,716,346



## 15. Investment property

Description	Investment Property IAS 40 – Land	Investment Property IAS 40 – Buildings	Total assets IAS 40
As at 31 December 2017	3,376,039	13,494,825	16,870,864
Increase/decrease in fair value	126,667	220,450	347,117
As at 31 December 2018	<b>3,502,706</b>	<b>13,715,275</b>	<b>17,217,981</b>
Increase/decrease in fair value	101,020	384,025	485,045
Reclassification	(26,017)	(1,189,753)	(1,215,770)
As at 31 December 2019	<b>3,577,709</b>	<b>12,909,547</b>	<b>16,487,256</b>

## 16. Other financial assets

	2019	2018
Galena d.o.o. (i)	566,136	517,011
Kanal Ri d.o.o. (ii)	845,000	845,000
Kvarner Vienna Insurance Group d.d. (ii)	337,575	337,575
Deposits given	33,325	32,749
Long-term accruals	4,051	11,333
<b>Total</b>	<b>1,786,087</b>	<b>1,743,668</b>

(i) Conducted using the equity method.

(ii) There is not enough information for the assessment of the fair value for these entities, so the best assessment of the fair value of these investments is their acquisition cost. The total value of these financial assets is not materially significant.

## 17. Deferred tax assets

	2019	2018
Temporary tax differences	5,121,856	3,887,455
Unused tax reliefs	11,279,594	9,108,095
<b>Total</b>	<b>16,401,450</b>	<b>12,995,550</b>

## 18. Inventory

	<b>2019</b>	<b>2018</b>
Raw materials	83,180,640	64,406,041
Work in progress	207,216	183,689
Finished goods	47,174,289	58,043,454
Goods	66,459,789	53,850,913
Non-current assets held for sale	9,211,024	12,400,640
<b>Total</b>	<b>206,232,958</b>	<b>188,884,737</b>

The amount of the finished goods inventory that was recognised as an expense in 2019 is HRK 242,705,117 (HRK 215,259,369 in 2018).

## 19. Receivables

	<b>2019</b>	<b>2018</b>
Trade receivables and receivables from associates	293,238,337	262,369,164
Employee receivables	123,601	33,040
Government receivables	14,515,372	10,617,308
Other current receivables	3,686,180	6,556,507
<b>Total</b>	<b>311,563,490</b>	<b>279,576,019</b>

### 19.1. Trade receivables

	<b>2019</b>	<b>2018</b>
Domestic trade	211,417,385	198,877,379
Foreign trade	81,820,952	63,491,785
<b>Total</b>	<b>293,238,337</b>	<b>262,369,164</b>

Structure of trade receivables by currency, expressed in kuna:

	<b>2019</b>	<b>2018</b>
HRK	53,338,637	64,506,648
EUR	76,242,471	55,202,648
RUB	148,530,711	129,086,579
USD	2,521,372	766,449
BAM	11,262,691	11,140,688.00
Other currencies	1,342,455	1,666,152
<b>Total</b>	<b>293,238,337</b>	<b>262,369,164</b>

Age structure of matured trade receivables for which value adjustment has not been performed:

	<b>2019</b>	<b>2018</b>
0–90 days	129,196,203	19,782,975
91–180 days	37,659,961	2,980,357
181–360 days	2,759,786	647,778
over 360 days	1,849,486	2,000,567
<b>Total</b>	<b><u>171,465,436</u></b>	<b><u>25,411,677</u></b>

#### **19.2. Other current receivables**

	<b>2019</b>	<b>2018</b>
Receivables for prepayments	2,767,240	5,330,992
Receivables based on damage compensation	6,452	-
Other receivables	912,488	1,225,515
<b>Total</b>	<b><u>3,686,180</u></b>	<b><u>6,556,507</u></b>

#### **20. Current financial assets**

	<b>2019</b>	<b>2018</b>
Loans granted and deposits	201,792	521,212
<b>Total</b>	<b><u>201,792</u></b>	<b><u>521,212</u></b>

#### **21. Cash at bank and in hand**

	<b>2019</b>	<b>2018</b>
Giro account	58,371,428	18,739,294
Cash in hand	370,992	292,620
Foreign currency account and non-resident accounts	26,450,616	9,850,506
Foreign exchange cash in hand	420	1,239
<b>Total</b>	<b><u>85,193,456</u></b>	<b><u>28,883,659</u></b>

Structure of money in the bank and cash register by currency, expressed in HRK:

	<b>2019</b>	<b>2018</b>
HRK	39,481,123	3,744,227

EUR	19,303,999	8,680,350
RUB	23,997,730	11,673,153
USD	126,582	220,814
BAM	1,911,478	1,686,808
Other	372,544	2,878,307
<b>Total</b>	<b><u>85,193,456</u></b>	<b><u>28,883,659</u></b>

## 22. Other receivables

Other receivables relate to prepaid expenses and amount to HRK 3,546,706 as at 31 December 2019 (HRK 3,209,301 in 2018).

## 23. Share capital

As at 31 December 2019, the share capital of the Company amounts to HRK 119,255,000 (HRK 118,472,000 in 2018) and is divided into 1,192,550 shares (1,184,720 in 2018) with a nominal value of HRK 100 per share. The increase resulted from issuing 7,830 new ordinary shares.

## 24. Reserves

As at 31 December 2019, the Group has reserves in the amount of HRK 62,494,706 (HRK 52,709,171 in 2018). The change is a consequence of the formation of reserves for own shares from retained earnings due to the repurchase of own shares and the formation of reserves to cover development costs shown under assets that have not been written off.

## 25. Profit or loss brought forward

At the end of 2019, the total profit brought forward of the Group amounted to HRK 364,771,073 (HRK 357,329,264 in 2018).

By the Resolution of the General Meeting as of 17 June 2019, the Company's profit from 2018 in the amount of HRK 18,815,160 was allocated into the legal reserves of the Company to cover development costs that haven't been written off, shown under assets in the amount of HRK 6,233,839. The remaining amount of profit in the amount of HRK 12,581,322 was allocated to the Company's profit brought forward. A decision was also made to pay the dividend against the profit brought forward of 2007 and 2008 in the total amount of HRK 6,677,898.

In 2019, HRK 1,790,440 was returned to the profit brought forward due to the decrease in reserves for the repurchase of own shares. Reserves were created out of the profit brought forward in 2019 for the repurchase of own shares in the amount of HRK 543,000.

## 26. Financial year profit

In 2019, the Group realised a net profit in the amount of HRK 78,442,340 (in 2018, HRK 17,033,047).

## 27. Provisions

	2019	2018
Provisions for anniversary bonuses and severance	2,062,091	1,432,157
Provisions for initiated court disputes	1,088,464	298,751
<b>Total</b>	<b>3,150,555</b>	<b>1,730,908</b>

Changes in provisions during 2019 were as follows:

	2019	2018
<b>Provisions as at 01 January</b>	1,730,908	1,093,963
Cancellation of provisions	(175,987)	(867,963)
Additional provisions	1,595,634	1,504,908
<b>Provision as at 31 December</b>	<b>3,150,555</b>	<b>1,730,908</b>

## 28. Non-current liabilities towards banks and financial institutions

	2019	2018
Liabilities towards banks	178,051,836	204,519,340
Liabilities towards financial institutions	-	24,290,523
<b>Total</b>	<b>178,051,836</b>	<b>228,809,863</b>

The average interest rate for non-current debt in 2019 was 3.18% (3.04% in 2018).

Non-current liabilities towards banks	As at 01/01/2019	New debt and exchange rate differences	Transfer to the short-term position	As at 31/12/2019
	204,519,340	(89,423)	(26,378,081)	178,051,836
<b>Total</b>	<b>204,519,340</b>	<b>(89,423)</b>	<b>(26,378,081)</b>	<b>178,051,836</b>

A lien was registered on part of the property owned by the Company as security for the payment of a CBRD loan. The carrying value of properties in lien as at 31 December 2019 was HRK 257,716,346.

Maturity of non-current loan liabilities:

	<b>Current maturity 2020</b>	<b>2021–2024</b>	<b>2025 – forward</b>
	37,270,831	106,354,698	71,697,138
<b>Total</b>	<b>37,270,831</b>	<b>106,354,698</b>	<b>71,697,138</b>

## 29. Non-current lease liabilities

	<b>2019</b>	<b>2018</b>
Lease liabilities	40,507,089	-
<b>Total</b>	<b>40,507,089</b>	<b>-</b>

<b>Non-current lease liabilities</b>	<b>As at 01/01/2019</b>	<b>New debt and exchange rate differences</b>	<b>Transfer to the short-term position</b>	<b>As at 31/12/2019</b>
	24,290,523	40,308,124	(24,091,558)	40,507,089
<b>Total</b>	<b>24,290,523</b>	<b>40,308,124</b>	<b>(24,091,558)</b>	<b>40,507,089</b>

The effect of introducing IFRS 16 is shown in the new debt column.

Maturity of long-term lease liabilities:

	<b>Current maturity 2020</b>	<b>2021–2024</b>	<b>2025 – forward</b>
	24,091,558	35,938,442	4,568,647
<b>Total</b>	<b>24,091,558</b>	<b>35,938,442</b>	<b>4,568,647</b>

### **30. Non-current security liabilities**

Non-current security liabilities as at 31 December 2019 amount to HRK 127,835,906, and relate to liabilities for issued long-term bonds (HRK 127,032,106 in 2018).

On 21 December 2015, the Company issued bonds in the amount of HRK 200,000,000, with the fixed annual interest rate of 5.8125% and maturity on 21 December 2020.

On 19/02/2016, HANFA issued a Decision Class: UP/I-976-02/16-01/01 Ref. No: 326-01-770-772-16-7, approving a single prospectus of bonds in the amount of HRK 200,000,000, code JDGL-O-20CA, in registered dematerialised form, denominated in HRK 1, with a fixed interest rate of 5.8125% and maturity on 21 December 2020, on a regulated market.

On 21 July 2017, the Company performed an early voluntary repurchase of a part of a bond issue, ISIN code HRJDGLO20CA4, in the nominal amount of HRK 70,000,000, leaving in circulation bonds in the nominal amount of HRK 130,000,000.

On 10 July 2018, the Company repurchased a part of a bond issue of the HRJDGLO20CA4 series in the amount of HRK 2,500,000, through which JGL d.d. gained treasury bonds and reduced its non-current liability with the nominal amount toward bondholders from HRK 130,000,000 to HRK 127,500,000.

On 21/11/2019, HANFA issued a Decision Class: UP/I-976-02/19-01/06 Ref. No: 326-01-60-62-19-12, approving a single prospectus of bonds in the amount of HRK 130,000,000, in registered dematerialised form, denominated in HRK 1, with a fixed interest rate and maturity of 5 years, on a regulated market.

On 18 December 2019, the Company issued bonds in the amount of HRK 130,000,000, code JDGL-O-24XA, ISIN HRJDGLO24XA2, with a fixed annual interest rate of 1.75% and maturity on 18 December 2024.

The holders of bonds with the code HRJDGLO20CA4 were offered bond exchange and/or repurchase. Bonds in the nominal amount of HRK 80,735,740 were collected and added to own bonds in the amount of HRK 2,500,000, and bonds in the nominal amount of HRK 83,235,740 in total were cancelled. Liabilities remain towards the holders of bonds with the code HRJDGLO20CA4, in the amount of HRK 46,764,260 and maturity on 21 December 2020.

### **31. Deferred tax liability**

Deferred tax liability in the amount of HRK 3,645,417 (3,629,173 in 2018) was formed in connection with the recognition of licences at a nominal income tax rate of 18% upon the acquisition of pharmacy units.

### 32. Current liabilities towards banks and financial institutions

	<b>2019</b>	<b>2018</b>
Liabilities towards banks	37,270,831	36,170,038
Liabilities towards financial institutions	-	16,290,796
Liabilities for guarantees received	-	400,000
<b>Total</b>	<b>37,270,831</b>	<b>52,860,834</b>

Current liabilities towards banks	As at 01/01/2019	New debt and exchange rate differences	Payment	As at 31/12/2019
	36,170,038	35,498,824	(34,398,031)	37,270,831
<b>Total</b>	<b>36,170,038</b>	<b>35,498,824</b>	<b>(34,398,031)</b>	<b>37,270,831</b>

### 33. Current lease liabilities

	<b>2019</b>	<b>2018</b>
Lease liabilities	24,091,558	-
<b>Total</b>	<b>24,091,558</b>	<b>-</b>

Current lease liabilities	As at 01/01/2019	Yield, new debt and exchange rate differences	Payment	As at 31/12/2019
	16,290,796	35,404,832	(27,604,070)	24,091,558
<b>Total</b>	<b>16,290,796</b>	<b>35,404,832</b>	<b>(27,604,070)</b>	<b>24,091,558</b>

The effect of introducing IFRS 16 is shown in the new debt column.



### 34. Trade payables

	<b>2019</b>	<b>2018</b>
Domestic suppliers	71,118,476	82,951,498
Foreign suppliers	49,247,162	36,616,369
<b>Total</b>	<b>120,365,638</b>	<b>119,567,867</b>

Structure of liabilities towards suppliers by currency:

	<b>2019</b>	<b>2018</b>
HRK	46,839,578	63,448,336
EUR	51,117,147	35,656,465
RUB	19,093,563	17,747,661
USD	675,840	13,837
BAM	2,156,866	1,172,227
Other currencies	482,644	1,529,341
<b>Total</b>	<b>120,365,638</b>	<b>119,567,867</b>

### 35. Current security liabilities

Security liabilities as at 31 December 2019 amount to HRK 53,094,414 and refer to bonds issued in the amount of HRK 46,694,414 and promissory notes to suppliers in the amount of HRK 6,400,000 (only promissory notes in the amount of HRK 4,800,000 in 2018).

### 36. Other liabilities

	<b>2019</b>	<b>2018</b>
Liabilities for received advances	137,249	737,373
Liabilities towards employees	15,037,948	9,951,067
Liabilities for taxes, contributions and other fees	16,538,873	11,637,425
Liabilities for accrued charges	18,625,292	10,201,496
Other current liabilities	2,529,085	1,777,264
<b>Total</b>	<b>52,868,447</b>	<b>34,304,625</b>

## 37. Financial risk management

### 37.1. Financial risk factors

In its ordinary course of business, the Group is exposed to various financial risks which are connected to foreign currency, interest rate, credit and liquidity risks. The Group is monitoring these risks and trying to reduce their potential effect on the Group's financial exposure.

The most significant risks, along with the methods used to manage them, are described below.

### 37.2. Foreign currency risk

The Group is exposed to risks of foreign exchange rate fluctuations during procurement and sales denominated in foreign currencies. Foreign currency risk is present due to possible foreign exchange rate fluctuations. The dominant share of sales expressed in currencies other than the reporting currency results in the exposure to foreign currency risk in such a manner that foreign currency assets exceed the amount of foreign currency liabilities. The existing policies of the Company include active risk protection.

The exposure to foreign currency risk is constantly monitored and hedge accounting is used as necessary. The decision on hedging depends on the currency in which the receivables are expressed and the type of hedge accounting as well as on its price. Within the Group, JGL d.d. is exposed to foreign currency risk the most. On 31 December 2019, there were no active forward contracts, and unrealised gains and losses on these contracts amounted to HRK 0.

The following table shows the carrying amounts of assets and liabilities in foreign currencies as at 31 December 2019.

*Thousand HRK*

	<b>Liabilities</b>		<b>Assets</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
EUR	122,456	84,433	141,962	71,285
RUB	27,778	20,959	217,366	157,355
USD	929	71	86	2,142
Other currencies	9,244	4,092	16,079	15,992

The Group is primarily exposed to the foreign currency risk from the fluctuation of the kuna (HRK) in relation to EUR, USD and RUB. The exchange rate of the rouble is strongly influenced by the political situation between the USA and Russia and by the price of oil on global markets. During 2019, due to the stabilisation of the Russian economic situation, the volatility of the Russian rouble decreased, and a trend of this currency's strengthening can be noticed.

An overview of the EUR-RUB exchange rate movement for the period 01/01/2019 – 31/12/2019

Source: ECB



In the first half of 2019, the average value of EUR-RUB was 73.74, and in the second half of 2019, it was 71.22 EUR-RUB. The average for the entire year was 72.46 EUR-RUB.

Should the exchange rate of EUR increase by 1% against the exchange rate of HRK on 31 December 2019, provided that all the other indicators remain the same, the net profit for the reporting period would be HRK 200,225 higher (less by HRK 138,451 in 2018). The sensitivity analysis includes foreign currency assets and liabilities. In case of an inversely proportional change in the value of the euro against the Croatian kuna, the effect on profit would be equal and opposite.

Should the exchange rate of RUB increase by 1% against the exchange rate of HRK on 31 December 2019, provided that all the other indicators remain the same, the net profit for the reporting period would be HRK 111,447 higher, mostly as a result of the exchange rate gain during the conversion of foreign currency assets and liabilities (HRK 131,779 in 2018). The sensitivity analysis includes foreign currency assets and liabilities. In case of an inversely proportional change in the value of the Russian rouble against the Croatian kuna, the effect on profit would be equal and opposite.

### 37.3. Interest rate risk

The Group's business activities expose its cash flow to a minimum interest rate risk since the majority of interest rate debt is contracted at a fixed interest rate, which exposes the Group to the fair value interest rate risk.

The Group does not use derivative instruments for active protection against interest rate risk exposure (cash flow interest rate risk and fair value interest rate risk), but it actively monitors interest rate movements on the market.

For the purposes of short-term financing, the Group uses funds from the lines of credit arranged with its commercial banks at favourable interest rates.

The Group is partially exposed to interest rate changes as part of financial leasing with a variable interest rate linked to EURIBOR. The proportion of such interest is of small material significance on the total interest paid by the Group.

#### 37.4. Credit risk and liquidity risk

Assets that can potentially expose the Group to credit risk include short-term financial assets, cash and trade receivables.

Credit risk in connection with trade receivables is limited since these receivables are spread across various geographical areas and customers. Within the Group, JGL d.d. is exposed to this risk the most. In addition to the Parent Company, the company JADRAN LLC in Russia is also exposed to the risk related to the collection of trade receivables, and is protected from this risk by receivables insurance policies. The Group tries to protect itself by obtaining payment insurance instruments and by selecting customers based on the evaluation of their creditworthiness, as well as receivables insurance policies.

The Group has insurance policies for export receivables contracted with Euler Hermes, the Croatian Bank for Reconstruction and Development (CBRD) and Hrvatsko kreditno osiguranje (HKO – Croatian Credit Insurance). Most foreign trade receivables that have an arranged deferral of payment are insured, with the exception of several customers in the CIS region and the EU.

With the transition to a new business model and establishment of an affiliate company LLC JADRAN in Russia in April 2017, the insurance of export into Russia through CBRD stopped and receivables started to be insured locally, through the Euler Hermes insurance company. The Group has been continuously cooperating with those partners on increasing the share of insured customers in the total amount of receivables.

An overview of insured amounts by country in the period from 2016 to 2019

	2016	2017	2018	2019
RUSSIA	EUR 16,800,000	EUR 20,846,784	EUR 47,212,443	EUR 53,939,993
KAZAKHSTAN	EUR 1,000,000	EUR 1,600,000	EUR 2,400,000	EUR 3,900,000
UKRAINE	EUR 0	EUR 1,200,000	EUR 1,600,000	EUR 4,200,000
BELARUS	EUR 250,000	EUR 700,000	EUR 1,100,000	EUR 1,770,000
GEORGIA	EUR 350,000	EUR 350,000	EUR 350,000	EUR 400,000
OTHER COUNTRIES	EUR 1,080,000	EUR 2,280,000	EUR 3,787,271	EUR 4,160,000
	<b>EUR 19,480,000</b>	<b>EUR 26,976,784</b>	<b>EUR 56,449,714</b>	<b>EUR 68,369,993</b>

Credit risk is related both to short-term financial assets and to cash at bank. The Group protects itself against these risks by keeping funds and performing other business operations through commercial banks, which are among the leading banks in the Republic of Croatia and possess satisfactory levels of capital adequacy.

The Group is a part of the healthcare system and as such is indirectly subject to the payment maturity risk. The security risk connected to receivables in the pharmacy system is reduced through the market position of the affiliate entity LJEKARNA PABLO, whose purchase from wholesale pharmacies is based on the share of a wholesale pharmacy in JGL sales. JGL ensures nearly 90% of its pharmaceutical wholesale in Croatia by directing the purchase policy of its affiliate, so the payment

security risk is virtually non-existent.

The system of financing expenditure in the healthcare systems of our markets differs significantly. Although the Group does not deal directly with the healthcare system, due to operating with wholesale pharmacies, the payment days in healthcare stated significantly affect the Group's operations.

In Croatia in recent years, the system of financing expenditure in Croatian healthcare has been recording a constant decrease in payment deadlines from 150 to 74 days. On the Russian market, the most important export market, the average collection from wholesale pharmacies is 120 days. In the home countries of other member companies, the average collection from customers is 30-60 days.

The liquidity risk is manifested as the risk that the Group will not be able to fulfil its obligations towards creditors or that it will not be able to collect cash fast enough and sell its less liquid assets (receivables and inventories). The Group manages its liquidity risk by maintaining sufficient amounts of liquid assets and working capital, and by negotiating favourable credit lines with various commercial banks, allowing for a fast withdrawal of short-term funds under more favourable conditions.

In 2019, credit lines in EUR were approved and contracted with commercial banks, in the total amount of EUR 6,400,000. These lines are used as a liquidity reserve and there was no need for their use in the previous year.

Tables below show the contractual maturity of financial liabilities and financial assets of the Group at the end of each reporting period. The tables were prepared using non-discounted cash flows based on contractual conditions at the reporting date and include cash flows on principal and interest. An analysis of the liquidity risk below points to the possible lack of liquidity of the Group in the shorter term.

Group as at 31/12/2018	Net carrying value	Contracted cash flows	Up to 1 year	Thousand HRK	
				1–5 years	Over 5 years
<i>Non-interest-bearing liabilities:</i>					
Trade payables	<b>122,517</b>	122,517	122,517	-	-
Liabilities towards affiliates and other liabilities	<b>39,153</b>	39,153	35,547	-	3,606
<i>Interest liabilities:</i>					
Loan liabilities	<b>276,167</b>	276,167	35,063	127,236	113,868
Bond liabilities	<b>142,322</b>	142,322	7,411	134,911	-
Leasing liabilities	<b>42,769</b>	42,769	17,527	25,242	-
	<b>622,928</b>	<b>622,928</b>	<b>218,065</b>	<b>287,389</b>	<b>117,474</b>
<i>Non-interest-bearing assets:</i>					
Trade receivables (including promissory notes) and other receivables	<b>272,072</b>	272,072	272,072	-	-
Cash and cash equivalents	<b>28,872</b>	28,872	28,872	-	-

<i>Interest-bearing assets:</i>					
Loans granted	63	63	30	33	-
	<b>301,007</b>	<b>301,007</b>	<b>300,974</b>	<b>33</b>	-
<b>Net liquidity position</b>	<b>(321,921)</b>	<b>(321,921)</b>	<b>82,909</b>	<b>(287,356)</b>	<b>(117,474)</b>
					Thousand HRK
Group as at 31/12/2019	<b>Net carrying value</b>	Contracted cash flows	Up to 1 year	1–5 years	Over 5 years
<i>Non-interest-bearing liabilities:</i>					
Trade payables	<b>124,427</b>	124,427	124,427	-	-
Liabilities towards affiliates and other liabilities	<b>37,072</b>	37,072	33,466	-	3,606
<i>Interest liabilities:</i>					
Loan liabilities	<b>238,429</b>	238,429	42,749	122,640	73,040
Bond liabilities	<b>190,421</b>	190,421	51,669	138,752	-
Leasing liabilities	<b>65,668</b>	65,668	24,951	36,620	4,097
	<b>656,017</b>	<b>656,017</b>	<b>277,262</b>	<b>298,012</b>	<b>80,743</b>
<i>Non-interest-bearing assets:</i>					
Trade receivables (including promissory notes) and other receivables	<b>300,806</b>	300,806	300,806	-	-
Cash and cash equivalents	<b>85,189</b>	85,189	85,189	-	-
<i>Interest-bearing assets:</i>					
Loans granted	<b>33</b>	33	-	33	-
	<b>386,028</b>	<b>386,028</b>	<b>385,995</b>	<b>33</b>	-
<b>Net liquidity position</b>	<b>(269,989)</b>	<b>(269,989)</b>	<b>108,733</b>	<b>(297,979)</b>	<b>(80,743)</b>

### 37.5. Market risk

The pharmaceutical industry is characterised by significant investments in research and development, which are at the same time a significant generator of the Group's future growth and development. The success of research and development of new products is inherently uncertain. Research and development in the pharmaceutical industry in the segment of medicinal products is a multi-annual process, and there is a possibility of changes in market conditions from the beginning of a project. The Group protects itself from this risk by detailed planning and management of the entire research and development process.

Another important aspect of the pharmaceutical industry are regulations. Due to significant operations in the CIS and Eurasian Economic Union countries, the Group is exposed to the risk of change in the regulatory framework for processes, existing and new products, as well as the

implementation of serialisation in Russia, and harmonisation of product registration within the Eurasian Economic Union. The pharmaceutical industry is characterised by the obligation to comply with strict regulatory rules, and without its timely and continuous implementation, it is not possible to conduct regular business.

Companies operating in the pharmaceutical industry are exposed to the possibility that the national regulatory authorities withhold or revoke their approval of pharmaceutical processes and products, and in some markets frequent regulatory changes make it difficult to predict the duration and time of obtaining an approval and market authorisation for medicinal products and other pharmaceutical products.

The Group's inability to obtain approval for its pharmaceutical processes and products, or the withdrawal of any such approval, could have a negative impact on the Group's operations, financial position, performance and outlook, resulting in significant investment of funds, knowledge and experience in sophisticated manufacturing facilities, equipment and production processes that guarantee obtaining and maintaining regular approvals, all in accordance with the rules of the pharmaceutical industry and the applicable rules of good manufacturing practice – cGMP.

In addition to investments and regulations, the pricing policy in the pharmaceutical industry also has a strong impact on business operations. The pharmaceutical industry is characterised by changes in market prices of medicinal products, which can be caused by healthcare reforms, changes in the CIHI list of medicines, tax reforms, market instability, etc. Prices for OTC products are not regulated and can rise and fall depending on market competition. In case of changes in market prices, the Group can keep the same level of profitability by decreasing operating costs (other external service costs – promotions, entertainment, consulting services, etc. and negotiating lower costs of purchase of raw materials). The Group manages its market risks through a diversified product portfolio, sophisticated technology and manufacturing processes, and through investments in highly skilled staff and research and development.

### **37.6. Capital management**

The Group manages its credit debt by regulating the proportion of self-financing versus financing from external sources. Financing from other sources is based on non-current assets with extremely favourable interest rates, and does not represent a burden on the Company's liquidity. Group members use mutual short-term loans to maintain their liquidity.

Within the Group, JGL d.d. is exposed to this risk the most. The Company has non-current liabilities on loans, leasing and bonds, and partly short-term loans. The liability for the long-term HBOR loan used to finance an investment in a new production facility Svilno 2 amounts to HRK 204,519,340. This loan was negotiated at very favourable terms, with a deferment until 2019. At the beginning of 2019, Appendix VI to the Loan Agreement with HBOR was concluded, establishing an earlier start of loan repayment and the change from annual payment to quarterly payment (first instalment on 28/02/2019, the second instalment on 31/03/2019, and every quarter thereafter until the final loan repayment on 30/09/2027). The amount of the short-term HBOR loan due in 2020 is HRK 26,588,675.

JGL d.d. has obligations toward the holders of bonds with the code HRJDGLO20CA4, in the amount of HRK 46,764,260 and maturity on 21/12/2020, and a new issue of bonds with the code HRJDGLO24XA2, in the amount of HRK 130,000,000 with maturity on 18/12/2024. The holders of bonds with the code HRJDGLO20CA4 were offered bond exchange and/or repurchase. Bonds in the

nominal amount of HRK 80,735,740 were collected and added to own bonds in the amount of HRK 2,500,000, and bonds in the nominal amount of HRK 83,235,740 in total were cancelled.

The decrease of debt and shorter deadlines for collection of receivables resulted in financial stability, company liquidity, creditworthiness, and a good net-debt-to-capital ratio. The capital structure is measured based on the financial leverage ratio, which is calculated as the ratio of net debt and total capital. Net debt is calculated as the difference between total liabilities (“current and non-current liabilities”) and cash and cash equivalents. Total capital is calculated as the sum of total capital shown in the balance sheet and net debt.

	<b>2019</b>	<b>2018</b>
<b>Debt</b>		
Short-term and long-term debt	454,591,327	408,702,803
Cash and cash equivalents and loans granted	(85,395,248)	(29,404,871)
<b>Net debt</b>	<b>369,196,079</b>	<b>379,297,932</b>
Total capital and reserves	624,963,119	545,543,482
Net debt / capital and reserves	0.59	0.70
Financial leverage ratio	37.14%	41.01%

### 37.7. Categories of financial instruments

	<b>2019</b>	<b>2018</b>
<b>Financial assets at fair value</b>		
Investments in securities	1,182,575	1,182,575
<b>Total</b>	<b>1,182,575</b>	<b>1,182,575</b>
<b>Financial assets at amortised cost</b>		
Trade receivables	293,238,337	262,369,164
Cash and cash equivalents	85,193,456	28,883,659
Other financial assets	521,212	201,792
<b>Total</b>	<b>378,953,005</b>	<b>291,454,615</b>
<b>Financial liabilities at amortised cost</b>		
Loan liabilities	215,322,667	240,689,379
Liabilities arising from securities	180,930,320	131,832,106
Trade payables	120,365,638	119,567,867
Liabilities towards financial institutions	-	40,981,318
Lease liabilities	65,498,647	-
<b>Total</b>	<b>582,117,272</b>	<b>533,070,670</b>

### 38. Fair value



According to the CEO's assessment, the fair value of financial assets and liabilities is equal to their carrying amounts shown in the balance sheet.

### 39. Contingent liabilities

There are several ongoing court disputes against the Group, for which the CEO believes that the potential final liability for disputes and appeals will not have a significant impact on the financial position or future business performance of the Group.

### 40. Key management remuneration

	<b>2019</b>	<b>2018</b>
Net salaries	7,066,529	3,763,953
Taxes and contributions from salary	3,533,022	2,630,221
Contributions on salary	1,472,917	1,041,274
Remuneration of the Board of Directors and allocation of shares	9,299,523	4,061,380
<b>Total</b>	<b><u>21,371,991</u></b>	<b><u>11,496,828</u></b>

In 2019, annual awards and bonuses to key management were calculated in the amount of HRK 5,710,191, and 6,030 free shares were allocated (HRK 1,316,134 in bonuses and 1,226 free shares in 2018).

### 41. Reclassification of items in the financial statements for 2018

In 2019, the Group reclassified certain items in the balance sheet and the statement of comprehensive income for 2019 so that they are comparable to the information for 2019, because of changes in the presentation of certain items.

#### 41.1. Change in inventories and costs of goods sold

	2018 after reclassification	2018 before reclassification	Reclassification effect
Change in inventories	(8,917,918)	(4,134,907)	(4,783,011)
Costs of goods sold	171,381,761	166,598,750	4,783,011
<b>Total</b>	<b><u>162,463,843</u></b>	<b><u>162,463,843</u></b>	<b><u>-</u></b>

In the original statement of comprehensive income for 2018, the sale of purchased finished goods was reported under the item "Change in inventories". This amount was reclassified and reported under the item "Costs of goods sold".

#### 41.2. Inventory

	2018 after reclassification	2018 before reclassification	Reclassification effect
Finished goods	58,043,454	76,663,685	(18,620,231)
Goods	53,850,913	35,230,682	18,620,231
<b>Total</b>	<b>111,894,367</b>	<b>111,894,367</b>	-

In the original balance sheet for 2018, the purchased finished goods were reported under the item "Finished goods". This amount was reclassified and reported under the item "Goods".

#### 42. Events after the date of the financial statements

In light of the declared pandemic of the COVID-19 virus, measures were introduced both in Croatia and the world to restrict the movement of persons and goods with the aim of combating the pandemic. These measures have a significant impact on the Croatian and global economy, causing a significant slowdown and decline in economic activity. This decline in economic activity could have an impact on the Group's business operations. However, neither the duration and effect of these measures nor their impact on the Group's business can be reliably determined at this point.

Thanks to its financial and market performance achieved in recent years, stable growth and decrease in net debt, the Group is flexible enough to handle the crisis that could result from the COVID-19 pandemic. The Company's CEO believes that this will not endanger the going concern principle of the Group.

There were no other significant events after the date of the financial statements that would require adjustment or disclosure in financial statements of the Group.

#### 43. Approval of financial statements

Financial statements of the Group shown on the previous pages were prepared and approved for issuing by the Company's CEO on 28 April 2020.

For JGL d.d.

15 JGL d.d.  
Svrlina 20 Rijeka



Mislav Vučić, Executive Director

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

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**EXTRACT FROM**  
**MINUTES**

from the meeting of the Management Board of the Jadran - Galenski laboratorij, joint stock company from Rijeka, 2nd convocation held on Wednesday April 29, 2020 starting at 10.00 in the premises of the Jadran - Galenski laboratorij, joint stock company in Rijeka, Svilno 20.

Under the point 3 of the daily Agenda:

**“Consideration of yearly consolidated financial reports of JGL d.d. for 2019, composed by the Executive Director for period 01.01.-31.12.2019 and determination of yearly consolidated financial reports of the JGL d.d. for period of 01.01.-31.12.2019”,**

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.-31.12.2019 as composed by the Executive Director.

**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.-31.12.2019.

**III**

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

All members of the Board of Directors voted in favor of the decision.

PRESIDENT OF THE MANAGEMENT BOARD

