

## **MINUTES FROM 22<sup>nd</sup> ANNUAL GENERAL MEETING**

22<sup>nd</sup> Annual General Meeting was held on June 23, 2017 at the Company headquarters in Zemun, Batajnicki drum bb, beginning at 1 pm.

The meeting was convened by the Board of Directors' decision dated May 18, 2017. The convene of the General Meeting was published on Company's web site, Belgrade Stock Exchange's website and Securities Commission website on May 19, 2017.

**Attendees:**

- Shareholders and proxies: Zivorad Vojinovic – shareholder and proxy of company Mikend d.o.o., Agromarket d.o.o. - Dusan Mojsilovic, Nedeljko Puhar, Dragan Nenadovic, Herma investments Co.Ltd. – Danijela Mirkov Arkula, Sempiola Invest Limited – Marijan Triaska, Nevena Ivanovic and Milan Puhar.
- Galenika Broker, corporate agent – Biljana Dordevic;
- UHY REVIZIJA d.o.o., independent auditor – Mira Krza;
- The Board of Director members: Mirjana Bogicevic, Branislav Medakovic, Slavica Pekovic;
- Voting Committee: Zorica Jeremic, Bozana Radivojevic Crepulja, Ivana Petkovic;
- Recording secretary: Lidija Nikolic.

The chairman of the Board of directors proposed Zivorad Vojinovic for the chairman of the General Meeting, which was approved by all attending shareholders and proxies.

Chairman of the General Meeting opened the meeting and Lidija Nikolic (Secretary of the Company) was appointed as the minutes taker.

The Voting Committee was formed by the decision of the Board of Directors on convene the General Meeting as follows: Zorica Jeremic (Chairman), Bozana Radivojevic Crepulja (Member), Ivana Petkovic (Member).

Zorica Jeremic submitted the Voting Committee report:

The General Meeting is attended by the shareholders, i.e. their proxies owning totally 1,569,039 shares, i.e. 59.43% of the total number. Shareholders owning 23,082 shares, i.e 0.87% voted in writing.

The total number of votes comprising quorum amounts to 1,592,121 shares, i.e. 60.31% of the total number. The Voting Committee acknowledged that there is a quorum for holding the meeting.

President of the General Meeting notified the participants that the time planned for discussion for each item of agenda is 10 per participant, he opened the meeting and acknowledged the following:

### **AGENDA**

1. Adoption of the minutes from the previous Annual General Meeting held on June 24<sup>th</sup> 2016
2. Adoption of the Annual Report for 2016
3. Adoption of the Annual Consolidated Report for 2016
4. Adoption of the Board of Directors Report for 2016
5. Making a decision on profit distribution for 2016
6. Making a decision on award for work to the non-executive members of the Board of Directors
7. Selection of an independent auditor for 2017

## 1<sup>st</sup> ITEM

Considering the Minutes from 21. Annual General Meeting held on June 24, 2016, the Chairman of General Meeting Z. Vojinovic, who was the Chairman at the previous meeting, concluded that everything was written correctly and proposed to the attendees to adopt it.

*With 1,592,121 votes „FOR“ (100% of the total number of votes), 0 votes „AGAINST“, 0 votes „ABSTAINED“, the Council reached a unanimous decision, as follows:*

## CONCLUSION

The Minutes from 21. Annual General Meeting of „GALENKA - FITOFARMACIJA“ a.d. held on June 24, 2016 is adopted.

Note: The minutes were area publicly published document and has been available on the website of the Company since June last year and are not included as an integral part of these minutes

## 2<sup>nd</sup> ITEM

Chief executive officer of the Company, Dragan Nenadovic, expressed satisfaction to briefly report on good business results with a special emphasis on obtaining the first EU registration for three products and obtaining GLP certificates for active substance tests in the laboratory for physical and chemical testing. The company has continuity in achieving good business results. Content of the Annual Report is in accordance with legal regulations. The Annual Report was discussed in detail and approved by the Board of Directors and was published within the legal time frame on the websites of the Company, the Securities Commission and the Belgrade Stock Exchange. He stressed the following: strengthening of operational efficiency; growth in sales revenue by 4% in comparison to the previous year; gross margin growth from 48% to 50%; growth of business profit by 15%; the tendency of reduction in terms of liabilities and strengthening the business processes that the Company manages.

Chairman of the General Meeting, Zivorad Vojinovic, after addressing this item on the agenda, asked an independent auditor to talk.

UHY REVIZIJA d.o.o., independent auditor of the Company, Mira Krza, thanked for the cooperation and expressed hope that the cooperation would stay the same in the future.

Representative of the company Herma investments, Danijela Mirkov Arkula, asked the question of how the Company manages to increase the EBITDA margin.

Chief executive officer of the Company, Dragan Nenadovic, explained that the sales strategy is focused on the end user, that we rationally manage the price and cost aspect, and that timely procurement, i.e. import of active substances has a positive impact on profitability.

Representative of the company Sempiola Invest Limited, Marijan Triaska, asked the question whether the orientation towards the end user is a new strategy.

Chief executive officer of the Company, Dragan Nenadovic, said that this strategy is not completely new and that we have been working on the development of the infrastructure and logistics of the expert service for several years now.

Representative of the company Sempiola Invest Limited, Marijan Triaska, asked the question about the causes of the increase in operating revenues.

Chief executive officer of the Company, Dragan Nenadovic, answered that the reasons for the increase are multiple. Our sales strategy has yielded good results and this was the first reason of the increase in sales. Also, our estimate is that the weather conditions in 2016 caused a rise in the demand for plant protection products, which certainly contributed to the growth of our sales.

Representative of the company Sempiola Invest Limited, Marijan Triaska, asked the question whether the company Holding Galenika d.o.o. was bought for real estate.

Chief executive officer of the Company, Dragan Nenadovic, confirmed. Galenika Fitofarmacija already owns most of the business building in which Holding Galenika d.o.o. has its office space.

Executive Officer of the Company, Slavica Pekovic, instructed the attendees that the Business Report, in the section Review of 2016, explains that the Company became the owner of the Holding Company "Galenika" dp in bankruptcy, now Holding Galenika d.o.o., which was the reason for the purchase.

Representative of the company Sempiola Invest Limited, Marijan Triaska, noted that there is an income from an agricultural land rent, so he asked the question of what is being leased.

Chief executive officer of the Company, Dragan Nenadovic, replied that we lease agricultural land in Vrbas, and we are exploiting the land in Ugrinovci and Becmen.

Representative of the company Sempiola Invest Limited, Marijan Triaska, asked if there are any significant investments planned.

Chief executive officer of the Company, Dragan Nenadovic, pointed out that we have a high amount of undistributed profit and that the plan is to invest in generating registration files. In principle, we plan to invest in the diversification of activities, into an area that will bring synergy with our core business.

Representative of the company Sempiola Invest Limited, Marijan Triaska, asked the question of how we solve the issue of customer crediting - the 10 largest buyers (in terms of credit risk), and also asked whether we expect disputable receivables.

Chief executive officer of the Company, Dragan Nenadovic, replied that these receivables are adequately secured and that we do not expect significant problems.

Representative of the company Sempiola Invest Limited, Marijan Triaska, expressed satisfaction for obtaining EU certificates, but they do not understand why the Company does not expect significant revenues.

Chief executive officer of the Company, Dragan Nenadovic, said that we do not expect significant revenue because we only offer three products, which is not enough for a serious market appearance. Also, we appear as a company for the first time in these markets, and we come from a country outside the EU, a country which is not well-known for the production of plant protection products, and therefore we will have to build our market position gradually.

Representative of the company Sempiola Invest Limited, Marijan Triaska, asked how significant is it that the lab obtained the certificate, whether it is recognized in the EU.

Chief executive officer of the Company, Dragan Nenadovic, informed the attendees that the GLP certificate was obtained from the Accreditation Body of Slovakia and that it is a confirmation of the competence of our laboratory, as the first GLP laboratory for testing pesticides, not only in our country, but also in the region.

Chairman of the General Meeting, Zivorad Vojinovic, especially praised the Company's executive directors, as well as the entire management, and said that prudence is one of the main virtues that leads to good results. He emphasized that the Company is growing and that it has a good

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perspective to continue so. Based on the large reserves and the growth of business profit, the Company is able to plan bigger investments based on synergy of business activities.

With 1,592,121 votes „FOR“ (100% of the total number of votes), 0 votes „AGAINST“, 0 votes „ABSTAINED“, the Council reached a unanimous decision, as follows:

## DECISION

The Company's Annual Report for 2016 IS ADOPTED. The Report includes:

1. The Annual Financial Report for 2016
2. The Auditor's Report for 2016
3. The Annual Report of the Company's Operations for 2016
4. Statement of persons responsible for preparing the Annual Report
5. Decision of supervisors on the adoption of the Annual Report (note)
6. Decision on profit distribution or loss covering (note)

Annual Report for 2016 is public document and can be found on Company's website, Belgrade Stock Exchange's website and Securities Commission website.

Note: For practical reasons, the Annual Report is not included as an integral part of these minutes. It is published on websites: of the Company, Belgrade Exchange and Commission for Securities on May 4, 2017.

## 3<sup>rd</sup> ITEM

Chief Executive Officer of the Company, Dragan Nenadovic, shortly presented the content of the Annual Consolidated Statements. GALENIKA – FITOFARMACIJA a.d. has three subsidiaries, which are not significant in the income part, because of which it is obliged to prepare consolidated statements: ENVIPACK d.o.o. Belgrade, GALENIKA – FITOFARMACIJA d.o.o. Slovenia and HOLDING GALENIKA d.o.o. Their business activity does not significantly affect the final result, i.e. consolidated balance sheet items differ by only 1% in relation to the individual financial report of GALENIKA - FITOFARMACIJA a.d.

ENVIPACK d.o.o. which operates as an operator with the license for collection and transportation of hazardous and non-hazardous waste, was primarily established for the fulfillment of the legal obligations that GALENIKA - FITOFARMACIJA a.d. had to fulfill, not with a goal of making profit.

GALENKA - FITOFARMACIJA d.o.o. Slovenia was established for administrative reasons, in order to obtain the EU registrations for the parent company's products.

HOLDING GALENIKA d.o.o. do not have any business activities and employees. The primary motive for purchasing this entity was the fact that it is the owner of commercial property in a building on Masarikov trg 8a in Zemun, which is majority owned by GALENIKA – FITOFARMACIJA a.d..

With 1,592,121 votes „FOR“ (100% of the total number of votes), 0 votes „AGAINST“, 0 votes „ABSTAINED“, the Council reached a unanimous decision, as follows:

## DECISION

The Company's Annual Consolidated Report for 2016 IS ADOPTED. The Report includes:

1. The Consolidated Financial Report for 2016
2. The Auditor's Consolidated Report for 2016
3. The Annual Consolidated Report of the Company's Operations for 2016
4. Statement of persons responsible for preparing the Annual Consolidated Report
5. Decision of supervisors on the adoption of the Annual Consolidated Report (note)
6. Decision on profit distribution or loss covering (note)

Annual Consolidated Report for 2016 is public document and can be found on Company's website, Belgrade Stock Exchange's website and Securities Commission website.

Note: For practical reasons, the Annual Consolidated Report is not included as an integral part of these minutes. It is published on websites: of the Company, Belgrade Exchange and Commission for Securities on May 4, 2017.

#### **4<sup>th</sup> ITEM**

Executive Officer of the Company, Slavica Pekovic, firstly pointed out that the previous two points of the schedule happened due to the good work performed by the Board of Directors, and as a confirmation of that, the positive opinion was given by the external audit. The Board of Directors' report, compiled in accordance with the obligations set forth in Article 399 of the Companies Act, contains information already published in the annual reports, and this report only presents them in the form of review and in one place.

The Board of Directors should in particular report on: accounting practice and the practice of financial reporting, compliance of the Company's operations with the law and other regulations, qualifications and independence of the Company's auditors in relation to the Company and on possible activities with the Company's directors and third parties in relation to them.

During 2016, the Board of Directors held 5 live Meetings, where one of the items on the agenda was always dedicated to the informing by the Executive Directors on current business and current events, which is the basis from which the Board of Directors obtains information on the Company's operations.

Risk management is another important process that the Board of Directors deals with in the process of managing and controlling the Company's operations. Improvements in this process were visible during 2016. Considering that formalization of the risk management process in the Company was one of the new requirements of the ISO 9001 standard, the Company, at the end of year 2016, published a new management system procedure - *PR 605 Risk Management*, describing the operational processes. Accordingly, the Board of Directors has adopted a new *Methodology for risk management*, which is the basic document in the risk management process and the document on which the procedure relies.

The Company has established the Audit Committee, which was submitting regular reports throughout the year to the Board of Directors on issues under its area of responsibility, and in its operation it has been relying on periodic reports of the internal audit of the Company, as well as reports of executive management on the functioning of the system of internal controls and risk management in the Company. The company's internal audit team consists of two of its employees: Aleksandar Stamenkovic as the entity primarily in charge of internal control of the production process, and Aleksandar Vucenovic as the entity for internal control of financial operations.

The Company has been investing maximum efforts to meet all legal regulations, not only within the meaning of financial statements but also occupational safety, protection of health and environmental protection, since the Company is involved in high risk activity.

The Board of Directors deems that the Company's accounting policies are in accordance with the legal regulations of the Republic of Serbia.

The Independent Auditor, UHY revizija d.o.o., fulfills all legal conditions to perform audit activities for the Company.

Regarding the agreements with directors, the Company did not conclude any agreements with them, or with their affiliates.

With 1,592,121 votes „FOR“ (100% of the total number of votes), 0 votes „AGAINST“, 0 votes „ABSTAINED“, the Council reached a unanimous decision, as follows:

## DECISION

TO ACCEPT the Board of Director's Report for 2016, in accordance with the Appendix which is an integral part of this decision.

Note: The Board of Director's Report is enclosed in Attach 1 of this Minutes.

### 5<sup>th</sup> ITEM

Chief Executive Officer of the Company, Dragan Nenadovic, said, after the Annual Report for 2016 had been adopted, that conditions had been met to adopt the decision on distribution of profit. The profit of the current year amounts to RSD 900,875,831.34. In accordance with the Statute of the Company, 5% of the profit from the current year is allocated into mandatory reserves until the reserves reach 10% of the share capital. By distributing the amount of RSD 45,043,791.00 into mandatory reserves, the value of these reserves reaches 7.51% of the value of the share capital of the Company.

The proposal for payment of dividend is 227,040,000.00, i.e. RSD 86.00 gross per share. The amount of 628,792,040.34 will after this remain as retained profit of the current year.

The proposed amount of dividend is in accordance with the Policy of Dividends of the Company and represents 26.53% of total profit for distribution (the Policy defines the limit of 30%). The amount of 227,040,000.00 that is allocated for the payment of dividends will not negatively affect liquidity of the Company. It is planned that the payment of dividends is carried out in the period from 4 to 8 September 2017.

In addition to the uniform decision on distribution of profit, where in one place the entire procedure of distribution and structure of the capital of the Company after completed distribution of profit are presented in one place, this item also includes a separate decision on the payment of dividends. This decision is adopted as separate for practical reasons, it regulates in more details the procedure of payment of the dividends, and is submitted to different institutions and companies as necessary business and accounting documentation that accompanies the procedure of payment of dividends.

So far, one of the elements that was adopted at the Annual General Meeting was the "Decision on Authorization of Own Share Acquisition", which was important only for the purpose of facilitating the resolution of a potential problem in the event of market disturbances. Since there have been no such cases, it was decided that this Decision should not be passed at the General Meeting. Under the Companies Act, the Board of Directors is certainly authorized to make such a decision.

Representative of the company Sempiola Invest Limited, Marijan Triaska, asked whether the decision to authorize the acquisition of own shares is passed biannually.

Chief executive officer of the Company, Dragan Nenadovic, answered that it is passed annually.

Executive Officer of the Company, Slavica Pekovic, explained that the decision was discussed at the Board of Directors meeting and that it was concluded that the adoption of this decision at the Annual General Meeting was unnecessary, because the decision described the matters allowed by the provisions of the Companies Act. In case of market disturbance, the Board of Directors is authorized to react and buy out its own shares of the Company, and then submit a report on the undertaken actions at the next General Meeting. For this reason, the adoption of this decision was not proposed to the Assembly, because it has so far only raised questions from small shareholders who expected the purchase of their own shares as a planned activity.

With 1,592,121 votes „FOR“ (100% of the total number of votes), 0 votes „AGAINST“, 0 votes „ABSTAINED“, the Council reached a unanimous decisions, as follows:

**DECISION**  
**on the distribution of profits for 2016**

I The distribution of profits for 2016 is hereby adopted according to the following table:

	RSD
PROFITS FROM THE CURRENT YEAR	900,875,831.34
Distributed into mandatory reserves (Article 13 of the Articles of Association)	45,043,791.00
<i>PROFITS FOR DISTRIBUTION</i>	<i>855,832,040.34</i>
<i>PART FOR PAYMENT OF DIVIDEND</i>	<i>227,040,000.00</i>

II

Pursuant to Article 13 of the Articles of Association, mandatory reserves make 5% of net profit, (RSD 45,043,791.00)

III

Determines a gross dividend of RSD 86.00 per share.

The allocated amount will be paid to the shareholders confirmed as such on the dividend day (record date), in accordance with the shareholders list determined by the Central Securities Depository. In line with the Article 15 of the Company's Articles of Association, the dividend day is the date the Annual General Meeting is held, June 23<sup>th</sup> 2017.

The dividends will be paid in cash to all shareholders in proportion to their shareholding and nominal value of the shares, who owned on the dividend day.

The deadline for dividends payment is date of September 30<sup>th</sup> 2017.

**DECISION**  
**on the payment of dividends for year 2016**

1. For dividend payments a portion of the undistributed profit for 2016 will be allocated, with total gross amount of RSD 227,040,000.00 or a gross dividend of RSD 86.00 per share.

2. The allocated amount will be paid to the shareholders confirmed as such on the dividend day (record date), in accordance with the shareholders list determined by the Central Securities

Depository. In line with the Article 15 of the Company's Articles of Association, the dividend day is the date the General Meeting is held, being June 23<sup>th</sup> 2017.

3. The dividends will be paid in cash to all shareholders in proportion to their shareholding and nominal value of the shares.

4. The management will, within 15 days from the General Meeting date at latest, inform the shareholders on the dividend payment date through the Company's webpage. The deadline for dividends payment is date of September 30<sup>th</sup> 2017.

5. In case after the record date and before the payment of dividend, the shareholder transfers the shares on the basis of which he was entitled to dividend, he will keep the right to receive dividends payment.

### **6<sup>th</sup> ITEM**

Chief executive officer of the Company, Dragan Nenadovic, stated that this is a traditional item on the agenda, in accordance with the Remuneration and Award Policy in the Company. The proposed amount of the reward for the work of the non-executive members of the Board of Directors is in correlation with the Policy and does not accrue to the burden of the Company's profit, but to the current business.

Representative of the company Sempiola Invest Limited, Marijan Triaska, asked how this allocated amount was distributed.

Chief executive officer of the Company, Dragan Nenadovic, replied that the Chairman of the Board of Directors is authorized to determine the individual amounts of the reward and that the decision on individual amounts of the reward will be made at the Board of Directors meeting, which will be held after the Assembly, which was confirmed by the Chairman of the Board of Directors.

Representative of the company Herma investments, Danijela Mirkov Arkula, asked what the net amount of the reward was.

Executive Officer of the Company, Slavica Pekovic, responded that the burden on net payments of this kind is around 50%.

Representative of the company Herma investments, Danijela Mirkov Arkula, informed the attendees that to her knowledge, the monthly rewards usually do not exceed EUR 500 net per member of the Board of Directors.

With 1,458,927 votes „FOR“ (91.63% of the total number of votes), 76,866 votes „AGAINST“ (4.83% of the total number of votes) and 56,328 votes „ABSTAINED“ (3.54% of the total number of votes), the Council reached a decision, as follows:

### **D E C I S I O N**

#### **On reward for work to the non-executive members of the Board of Directors**

A special compensation has been established for the members of the Board of Directors in total amount of RSD 30,000,000.00.

Upon the proposal of the President of the Board, the Board of Directors is hereby authorized to decide on the compensation amount for each member of the Board.



## 7<sup>th</sup> ITEM

Non-executive Director of the Company, Mirjana Bogicevic, pointed out that the Audit Committee works in accordance with its competencies and meets with the certified auditor at least twice a year. The Audit Committee received two offers for the selection of an independent auditor of the Company for 2017. One from the audit company UHY REVIZIJA d.o.o. Belgrade, and the other from PKF d.o.o. Belgrade.

The Commission pointed out that the scope of work, methodologies and reputations of both audit companies are not significantly different and that both fulfill the independence requirement. The amount of the proposed audit fee is the criterion by which the proposed audit companies also do not differ significantly.

The Audit Committee has proposed to the Board of Directors to accept and submit to the Assembly the proposal to select UHY REVIZIJA d.o.o. Belgrade for year 2017 since they fulfill all the postulations and conditions to be elected in terms of objectivity and independence in their work, and has had a long-standing successful cooperation with the Company.

Representative of the company Herma investments, Danijela Mirkov Arkula, asked for how long has UHY REVIZIJA d.o.o. been the independent auditor of the Company and for how many years it can remain so.

Executive Officer of the Company, Slavica Pekovic, responded that this is the last year that the Company can hire UHY REVIZIJA d.o.o. and highlighted that there was a legal limitation in terms of selecting the same auditor - the same auditor may not be selected for more than 5 consecutive years (UHY audit has been the auditor of the Company for four years).

Representative of the company Herma investments, Danijela Mirkov Arkula, informed the attendees that they, as shareholders, do not like it when the auditor changes.

With 1,535,793 votes *FOR* (96.46% of the total number of votes), 0 votes *AGAINST* and 56,328 votes *ABSTAINED* (3.54% of the total number of votes), the Council reached a unanimous decision, as follows:

## **DECISION** **on the selection of an independent auditor for the business year 2017**

1. UHY REVIZIJA d.o.o. Belgrade, MB 17082175, is selected for an independent auditor to perform audit work in the business year 2017.
2. The Chief Executive Officer of the Company is authorized to conclude the Contract on the performance of an audit work, which will specify the mutual rights and obligations of the contractor with the selected auditor from this Decision.

Then the meeting was completed at 2:00 pm.

CHAIRMAN OF THE GENERAL MEETING: Zivorad Vojinovic

Recording secretary: Lidija Nikolic

Pursuant to Article 399 of the Law on Business Companies, and for the purpose of reporting to the shareholders at the regular Annual General Meeting, the Board of Directors of „GALENKA-FITOFARMACIJA“ a.d. (hereinafter referred to as: The Company) submits the

## **BOARD OF DIRECTORS REPORT FOR 2016**

This report has been prepared on the basis of direct and indirect insights and analysis of all major aspects of the Company's business, which were performed by the Board of Directors during the reporting period. During the reporting year, the Board of Directors of the Company held five regular meetings and eight meetings in writing.

In accordance with the established practice, at each of the regular meetings of the Board of Directors, an obligatory item on the agenda was the Executive Directors' Report on current operations with interim financial statements for the previous period. Based on these statements, Board members had a continuous and detailed insight in the current operations of the Company.

The Board of Directors has also reviewed the regular Reports constituted and submitted for approval by the Audit Committee of the Company in accordance with its responsibilities: the implementation of accounting policies and risk management policies; application of accounting standards; evaluation of the content of financial statements of the Company; supervision over the work of the Internal Audit of the Company; implementation of the procedure of election of the independent auditor of the Company and evaluation of the audit procedure. Based on these reports, members of the Board of Directors had a continuous and detailed insight into the said aspects of Company operations.

In addition to executive management's detailed reporting, the Board of Directors has, for their assurance, considered and adopted the Company's Audit Committee Annual Report, which includes all business aspects from the area of reports of the Audit Committee positively evaluated.

The findings in this report have been finally formed also on the basis of the Company independent Auditor's report, UHY REVIZIJA d.o.o., in which it is assessed that the individual and consolidated financial statements have been prepared in accordance with the accounting regulations of the Republic of Serbia and that they objectively present the state of assets and liabilities as of Dec 31<sup>st</sup> 2016.

### **1. Risk management and functioning of the system of internal controls**

During the reporting period, the Internal Audit of the Company performed their duties in accordance with the adopted Work plan for 2016 and the general acts that regulate the domain of internal audit. The Audit Committee has reviewed, approved and submitted to the Board of Directors for adoption the reports on the engagement of internal audit, as well as reports on implementation of previously recommended measures of the internal audit. The Board of Directors has reviewed and approved the following:

- Internal audit report for the first two quarters of 2016, at the meeting held on 09 August 2016;
- Internal audit report for the remaining two quarters of 2016, at the meeting held on 20 December 2016;
- Annual internal audit plan for 2017, at the meeting held on 20 December 2016.

In 2016, improvements were achieved in the risk management process of the Company. A new management system procedure was declared, which defines the procedure and responsibilities in the operational implementation of the process, i.e. method for the identification and assessment of risks, response to risks, internal controls, supervision of risk and reporting on the implemented activities. In accordance with the changes in the management system procedure, a new risk management

methodology was adopted, that defines the form, flows and methodology of the risk management process.

During the reporting period, the Executive management prepared and submitted to the Audit Committee interim reports on risk management and functioning of the system of internal controls. These reports were approved by the Audit Committee and submitted to the Board of Directors for review and adoption. The Board of Directors has reviewed and approved the following:

- Annual Report on risk management and system of internal controls in 2015, at the meeting held on 14 March 2016;
- Report on risk management and system of internal controls for the period January - June 2016, at the meeting held on 09 August 2016;
- Report on risk management and system of internal controls for the period July - December 2016, at the meeting held on 20 December 2016.

The Board of Directors finds that the Company adequately managed risks of its operations in the reporting period, keeping them at an acceptable level, and that it had a proactive attitude towards the upcoming events and changes in the business environment.

## **2. Accounting and financial reporting practice**

Accounting policies which are being applied by the Company are described and disclosed in the notes, together with the financial statements.

The Board of Directors estimates that the Company's accounting policies have been established in accordance with the legislation of the Republic of Serbia, and that the Company's Annual and Six-month Reports are prepared and disclosed in accordance with legislation and internal Company's rules.

The Board of Directors has reviewed and approved:

- Company's individual and consolidated six-month financial statements for 2016, on a session held on Aug 9<sup>th</sup> 2016
- Company's individual and Consolidated Annual financial statements for 2016, on a session held on Apr 27<sup>th</sup> 2017

The Company's independent auditor, UHY REVIZIJA d.o.o., Beograd, has expressed its unreserved opinion in his report on annual individual (Apr 19<sup>th</sup> 2017) and on annual consolidated Company's financial statements for 2016 (Apr 27<sup>th</sup> 2017).

## **3. Company's compliance with Laws and other regulations**

The Board of Directors estimates that the Company's business is in compliance with Laws and other regulations and that the established internal control mechanisms are efficient and effective.

As the Company's activity is of high risk, the Company pays special attention to safety at work, health and environmental protection.

During the 2016, the Board of Directors did not identify any cases of Company's non-compliance with the laws and other regulations.

## **4. Qualification and independence of the Company's auditor with respect to the Company**

By the decision of the Annual General Meeting from June 24<sup>th</sup> 2016, the Company has contracted UHY REVIZIJA d.o.o., Belgrade, to audit its financial statements for the year of 2016.

UHY REVIZIJA d.o.o. (formerly EKI REVIZIJA d.o.o.) was founded in 2000 by the Institute of Economy in Belgrade. In 2012, it became a member of UHY International, a global network of independent accounting and consultancy companies, which provide auditing, accounting and tax and business consulting services.

UHY REVIZIJA d.o.o. is an independent legal entity with respect to the Company. In 2016, UHY REVIZIJA d.o.o. did not provide other services to the Company.

#### **5. Contracts concluded between the Company and the directors, as well as related parties**

In 2016, the Company did not conclude transactions of personal interest with the directors and related parties.