

GALENKA – FITOFARMACIJA A.D.
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MB 07725531
PIB 100001046

ANNUAL REPORT 2016
GALENKA – FITOFARMACIJA A.D.



Dear shareholders,

Here is Annual Report 2016, prepared in accordance with Art.50 of the Capital Market Law („Official Gazette of RS”, no. 31/2011, 112/2015 and 108/16) and in accordance with the Rules on the content, form and the way of publication annual, six-month and quarterly reports of public companies („Official Gazette of RS”, no. 14/2012, 5/2015 and 24/2017).

Annual Report 2016 was not adopted because the Annual General Meeting has not held yet.

The Annual General Meeting is planned on second half of June 2017.

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I FINANCIAL REPORT 2016

**BALANCE SHEET (IN 000 RSD)**

	2014	2015	2016
ASSETS			
Property, plant and equipment (PP&E)	1.767.565	1.878.942	1.857.903
Intangible assets	4.508	2.768	1.624
LT financial placements	16.557	261.871	205.690
<i>Fixed assets</i>	1.788.630	2.143.581	2.065.217
Prepaid tax, other expenses and accrued revenues	66.305	58.501	80.180
Inventory and advanced payments	1.423.256	1.558.601	1.820.429
Receivables	525.319	485.234	366.772
ST financial placements	1.817.615	1.779.561	2.248.719
Cash and cash equivalents	267.022	278.684	259.139
<i>Current assets</i>	4.099.517	4.160.581	4.775.239
<i>Deferred tax assets</i>	24.644	25.486	25.480
Total assets	5.912.791	6.329.648	6.865.936
Off-balance sheet assets	279.922	413.092	184.102
EQUITY AND LIABILITIES			
Shareholders' equity	1.755.600	3.511.200	3.511.200
Other equity	0	0	0
Reserves	851.353	833.560	876.757
Revaluation surplus	27.378	25.722	25.092
Un-realized gains on shares trading	0	0	0
Un-realized gains on shares trading	3	3	2
Retained earnings	2.520.624	1.447.783	2.094.891
<i>Equity</i>	5.154.952	5.818.262	6.507.938
LT reserved funds	0	0	0
LT Debt	0	0	0
Trade payables	281.472	378.291	234.062
ST financial liabilities	346.000	0	0
Tax payable	27.206	36.829	16.557
Other ST liabilities	103.161	96.266	107.380
Current (ST) liabilities	757.839	511.386	357.998
<i>Liabilities and reserved funds</i>	757.839	511.386	357.998
Total equity and liabilities	5.912.791	6.329.648	6.865.936
Off-balance sheet liabilities	279.922	413.092	184.102

**BALANCE SHEET (IN EUR)**

	2014	2015	2016
ASSETS			
(PP&E)	15.067.985	15.562.813	15.090.437
Intangible assets	38.429	22.927	13.192
LT financial placements	141.144	2.169.013	1.670.674
<i>Fixed assets</i>	15.247.558	17.754.753	16.774.304
accrued revenues	565.231	484.549	651.243
Inventory and advanced payments	12.132.849	12.909.508	14.786.062
Receivables	4.478.194	4.019.074	2.979.031
ST financial placements	15.494.646	14.739.665	18.264.763
Cash and cash equivalents	2.276.286	2.308.271	2.104.806
<i>Current assets</i>	34.947.206	34.461.066	38.785.904
<i>Deferred tax assets</i>	210.083	211.094	206.956
Total assets	50.404.847	52.426.913	55.767.164
Off-balance sheet assets	2.386.255	3.421.539	1.495.331
EQUITY AND LIABILITIES			
Shareholders' equity	14.965.986	29.082.403	28.519.005
Other equity	0	0	0
Reserves	7.257.540	6.904.172	7.121.283
Revaluation surplus	233.390	213.049	203.802
Un-realized gains on shares trading	0	0	0
Un-realized losses on shares trading	26	25	19
Retained earnings	21.487.597	11.991.629	17.015.324
<i>Equity</i>	43.944.487	48.191.229	52.859.396
LT reserved funds	0	0	0
LT Debt	0	0	0
Trade payables	2.399.468	3.133.291	1.901.121
ST financial liabilities	2.949.551	0	0
Tax payable	231.923	305.046	134.477
Other ST liabilities	879.418	797.348	872.169
Current (ST) liabilities	6.460.360	4.235.684	2.907.767
<i>Liabilities and reserved funds</i>	6.460.360	4.235.684	2.907.767
Total equity and liabilities	50.404.847	52.426.913	55.767.163
Off-balance sheet liabilities	2.386.255	3.421.539	1.495.331

**INCOME STATEMENT (IN 000 RSD)**

	2014	2015	2016
OPERATING REVENUES			
Sales	3.589.758	3.764.153	3.897.680
Other operating revenues	75.477	69.507	60.275
<i>Total operating revenues</i>	<i>3.665.235</i>	<i>3.833.660</i>	<i>3.957.955</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	441.904	426.906	451.506
Cost of material	1.490.486	1.721.105	1.605.943
Change in inventory value	72.104	-147.070	-55.251
Salaries/Other personal expenses	364.614	392.627	417.642
Amortization expense	78.210	73.949	81.113
Other operating expenses	411.867	485.846	444.229
<i>Total operating expenses</i>	<i>2.859.185</i>	<i>2.953.363</i>	<i>2.945.181</i>
OPERATING PROFIT	806.050	880.297	1.012.774
Other revenues	581.191	586.725	587.529
Other expenses	545.885	506.709	597.633
Earnings before tax (EBT)	841.356	960.313	1.002.670
Tax	83.933	96.363	101.794
NET PROFIT	757.423	863.950	900.876

**INCOME STATEMENT (IN EUR)**

	2014	2015	2016
OPERATING REVENUES			
Sales	30.601.657	31.177.551	31.658.110
Other operating revenues	643.420	575.709	489.571
<i>Total operating revenues</i>	<i>31.245.077</i>	<i>31.753.260</i>	<i>32.147.681</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	3.767.105	3.535.957	3.667.266
Cost of material	12.705.966	14.255.488	13.043.941
Change in inventory value	614.666	-1.218.145	-448.765
Salaries/Other personal expenses	3.108.230	3.252.033	3.392.213
Amortization expense	666.718	612.501	658.820
Other operating expenses	3.511.048	4.024.143	3.608.159
<i>Total operating expenses</i>	<i>24.373.732</i>	<i>24.461.977</i>	<i>23.921.635</i>
OPERATING PROFIT	6.871.345	7.291.283	8.226.046
Other revenues	4.954.487	4.859.698	4.772.084
Other expenses	4.653.513	4.196.946	4.854.152
Earnings before tax (EBT)	7.172.319	7.954.036	8.143.979
Tax	715.505	798.151	826.801
NET PROFIT	6.456.814	7.155.885	7.317.178

Values are presented in RSD and in EUR, using average value for RSD middle exchange rate:

in 2016 123,12 RSD/EUR
in 2015 120,73 RSD/EUR
in 2014 117,31 RSD/EUR

**STRUCTURE OF REVENUES, EXPENSES AND PROFITS**

REVENUES STRUCTURE	In 000 RSD						
	2014	%	2015	%	2016	%	16/15
OPERATING REVENUES	3.665.235	86%	3.833.660	87%	3.957.955	87%	103%
Sales revenues	3.589.758		3.764.153		3.897.680		104%
<i>plant protection products</i>	2.632.225		2.770.429		3.033.766		110%
<i>cold-storage</i>	313.237		266.384		120.323		45%
<i>agriculture</i>	171.402		245.969		212.293		86%
<i>goods</i>	472.894		481.371		531.297		110%
Other operating revenues	75.477		69.507		60.275		87%
FINANCIAL REVENUES	230.978	5%	108.658	2%	101.838	2%	94%
Interests received	58.227		59.145		35.728		60%
Exchange rate changes & Currency clause	171.108		49.362		66.016		134%
Other financial revenues	1.643		151		94		62%
ASSETS VALUATION ADJUSTMENTS	0	0%	0	0%	0	0%	
OTHER REVENUES	350.213	8%	478.067	11%	485.692	11%	102%
Property and equipment sale & Surpluses	2.627		11.310		12.300		109%
Revenues from previous years	339.475		458.534		467.903		102%
Other revenues	8.111		8.223		5.488		67%
TOTAL REVENUES	4.246.426	100%	4.420.385	100%	4.545.484	100%	103%

REVENUES STRUCTURE	In EUR						
	2014	%	2015	%	2016	%	16/15
OPERATING REVENUES	31.245.077	86%	31.753.260	87%	32.147.678	87%	101%
Sales revenues	30.601.657		31.177.551		31.658.107		102%
<i>plant protection products</i>	22.438.963		22.946.780		24.641.147		107%
<i>cold-storage</i>	2.670.256		2.206.393		977.300		44%
<i>agriculture</i>	1.461.153		2.037.301		1.724.310		85%
<i>goods</i>	4.031.286		3.987.077		4.315.349		108%
Other operating revenues	643.420		575.709		489.571		85%
FINANCIAL REVENUES	1.969.021	5%	899.987	2%	827.157	2%	92%
Interests received	496.368		489.883		290.190		59%
Exchange rate changes & Currency clause	1.458.647		408.853		536.202		131%
Other financial revenues	14.006		1.251		764		61%
ASSETS VALUATION ADJUSTMENTS	0		0		0		
OTHER REVENUES	2.985.465	8%	3.959.714	11%	3.944.930	11%	100%
Property and equipment sale & Surpluses	22.394		93.681		99.904		107%
Revenues from previous years	2.893.927		3.797.924		3.800.450		100%
Other revenues	69.144		68.109		44.576		65%
TOTAL REVENUES	36.199.564	100%	36.612.962	100%	36.919.766	100%	101%



EXPENSES STRUCTURE	In 000 RSD						
	2014	%	2015	%	2016	%	16/15
OPERATING EXPENSES	2.859.185	84%	2.953.363	85%	2.945.182	83%	100%
Cost of material	1.490.486		1.721.105		1.605.943		93%
Cost of goods sold (COGS)	441.904		426.906		451.506		106%
Income from the use of own products	7.115		6.343		4.755		75%
Change in inventory value	72.104		-147.070		-55.251		
Other materials	20.107		28.925		26.707		92%
Fuel and energy costs	33.127		31.792		33.475		105%
Salaries, contributions	364.614		392.627		417.642		106%
Production services	296.631		351.103		311.968		89%
Amortization expense	78.210		73.949		81.113		110%
Immaterial costs	69.117		80.369		76.834		96%
FINANCIAL EXPENSES	37.397	1%	47.178	1%	29.914	1%	63%
Interests paid	11.656		9.143		7		0%
Exchange rate changes & Currency clause	25.741		38.035		20.420		54%
Other financial expenses	0		0		9.487		
IMPAIRMENT COSTS	495.203	15%	438.303	13%	556.305	16%	127%
Impairment assets	0		964		433		
Impairment losses	495.203		437.339		555.872		127%
OTHER EXPENSES	13.285	0%	21.228	1%	11.415	0%	54%
Disposals & Deficits	5.300		11.243		4.996		44%
Other expenses	7.985		9.985		6.418		64%
TOTAL EXPENSES	3.405.070	100%	3.460.072	100%	3.542.815	100%	102%

EXPENSES STRUCTURE	IN EUR						
	2014	%	2015	%	2016	%	16/15
OPERATING EXPENSES	24.373.732	84%	24.461.977	85%	23.921.636	83%	98%
Cost of material	12.705.966		14.255.488		13.043.941		92%
Cost of goods sold (COGS)	3.767.105		3.535.957		3.667.266		104%
Income from the use of own products	60.653		52.538		38.620		74%
Change in inventory value	614.666		-1.218.145		-448.765		
Other materials	171.406		239.579		216.922		91%
Fuel and energy costs	282.398		263.325		271.892		103%
Salaries, contributions	3.108.230		3.252.033		3.392.213		104%
Production services	2.528.694		2.908.100		2.533.895		87%
Amortization expense	666.718		612.501		658.820		108%
Immaterial costs	589.203		665.677		624.071		94%
FINANCIAL EXPENSES	318.799	1%	390.764	1%	242.967	1%	62%
Interests paid	99.364		75.729		53		0%
Exchange rate changes & Currency clause	219.435		315.035		165.858		53%
Other financial expenses	0		0		77.057		
IMPAIRMENT COSTS	4.221.464	15%	3.630.356	13%	4.518.475	16%	124%
Impairment assets	0		7.985		3.515		
Impairment receivables	4.221.464		3.622.371		4.514.960		125%
OTHER EXPENSES	113.251	0%	175.826	1%	92.712	0%	53%
Disposals & Deficits	45.181		93.123		40.583		44%
Other expenses	68.070		82.703		52.129		63%
TOTAL EXPENSES	29.027.245	100%	28.658.923	100%	28.775.790	100%	100%



PROFIT STRUCTURE	In 000 RSD			
	2014	2015	2016	16 / 15
Gross profit	1.667.855	1.839.062	1.960.512	107%
Gross profit margin	46%	48%	50%	
Operating profit	806.050	880.297	1.012.774	115%
Operating profit margin	22%	23%	26%	
EBITDA	884.260	954.246	1.093.886	115%
EBITDA margin	24%	25%	28%	
EBT	841.356	960.313	1.002.670	104%
Net profit	757.423	863.950	900.876	104%

PROFIT STRUCTURE	IN EUR			
	2014	2015	2016	16 / 15
Gross profit	14.217.982	15.232.497	15.923.858	105%
Gross profit margin	46%	48%	50%	
Operating profit	6.871.342	7.291.283	8.226.046	113%
Operating profit margin	22%	23%	26%	
EBITDA	7.538.060	7.903.784	8.884.866	112%
EBITDA margin	24%	25%	28%	
EBT	7.172.315	7.954.036	8.143.979	102%
Net profit	6.456.814	7.155.886	7.317.178	102%



II AUDITORS REPORT 2016
INDEPENDENT AUDITOR: UHY REVIZIJA d.o.o.,
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INDEPENDENT AUDITORS' REPORT

**To the Shareholders and Management of the Shareholding company “Galenika Fitofarmacija“,
Beograd, Zemun**

Report on the Financial Statements

We have audited the accompanying financial statements of “Galenika Fitofarmacija“, Beograd, Zemun (the “Company”), which comprise the balance sheet as of December 31, 2016, and the related income statement, statement of other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations of the Republic of Serbia, as well as for internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and the Law on Audit of the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(continued)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of the Shareholding company "Galenika Fitofarmacija",
Beograd, Zemun (continued)

Report on the Financial Statements (continued)

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and its financial performance and its cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Serbia.

Report on Other Legal and Regulatory Requirements

We performed a review of the consolidated annual business report of the Group. The annual business report of the Parent company is integral part of the consolidated annual business report of the Group. The management of the Group is responsible for the preparation and presentation of the consolidated annual business report, in accordance with the requirements of the Law on Accounting (Official Gazette of Serbia No. 62/2013) and the Law on the Capital Market (Official Gazette of Serbia No. 31/2011, 112/2015, 108/2016). Our responsibility is to express an opinion on the compliance of the consolidated annual business report with the consolidated financial statements for the 2016. In this respect, our procedures are limited to assessing compliance of accounting information contained in the consolidated annual business report with the consolidated financial statements. Accordingly, our procedures did not include a review of other information contained in the consolidated annual business report arising from the information and records that were not subject to audit.

In our opinion, the accounting information presented in the annual business report, in all material respects, are consistent with the audited financial statements of the Company for the year ended 31 December 2016.

Belgrade, April 19, 2017



Marina Dimitrijević
Certified Auditor



III BUSINESS REPORT 2016



60 YEARS' TRADITION

THE LARGEST SERBIAN MANUFACTURER OF PLANT PROTECTION PRODUCTS

OUR VISION

WE STRIVE TO REACH THE PERFORMANCE ACHIEVED BY CONTEMPORARY EUROPEAN FORMULATORS OF PLANT PROTECTION PRODUCTS AND INCREASE OUR EXPORT POTENTIAL

OUR MISSION

SUSTAINABLE PRODUCT PORTFOLIO. We are building our business success by continued adjustment of our products to the customers' demands and needs, as well as to standards and legal regulations governing contemporary manufacture, sales and use of plant protection products.

MODERN TECHNOLOGY. We ensure high quality of our products and their compliance with requirements regarding environment and optimal working conditions within manufacturing process by development and implementation of modern formulation technologies.

RESPONSIBLE BUSINESS. We base our business policy on our responsibility to agricultural producers and business partners, but most of all to the community we live in, the environment and the population coming in contact with our products.



Company development timeline

1955	At the GALENIKA facility, the first plant protection preparation was manufactured - Monosan
1965	First exports to a foreign market (1,000 tons of Tritox, powder insecticide, exported to Russian market)
1966	Manufacturing performed at FEMOS site in Novi Beograd is moved to current location at Batajnicki drum b.b. in Zemun
1970s	Integration with "Sanohemija" from Obrenovac
From 1980	RO AGROHEMIJA becomes a part of SOUR GALENIKA
From 1991	Dependent company, part of the holding company GALENIKA HOLDING
From 1997	Independent, socially-owned, company GALENIKA-FITOFARMACIJA
From 1999	Corporation, with 83% of private capital and over 1900 shareholders
2001	Significant year for the operation, with three important characteristics: <ul style="list-style-type: none">- First trade in shares of Galenika Fitofarmacija a.d. at the Belgrade Stock Exchange- Commencement of intensive investment activity- Ownership consolidation
2004	Certified quality management system in compliance with ISO 9001:2000 Homogenization of shares performed
2005	New issue of shares from distribution of profits for 2004, increasing share capital by 89% Method of share trading at stock exchange changed to continuous trading
2007	The largest trading volume since the start of trading (about € 10.3 million), as well as the largest market capitalization at December 31 (€60.8 million).
2008	Accredited laboratory for physical and chemical testing, in line with requirements of SRPS ISO/IEC 17025:2006 standard Verified process of repayment of shares from the II round of ownership transformation, by which the share of socially-owned capital was reduced to 0%
2011	A split of shares has been performed, without causing any change to the value of the basic capital, by replacing each existing share with two new shares of a twice lower nominal value. The share capital has been increased by 50% with an issue of new shares.
2012	The Company management form has been changed into unicameral with seven members Board of Directors. Certified environmental management system, in compliance with ISO 14001:2004.
2014	Certified occupational safety and health management system, in compliance with BSI OHSAS 18001:2007.
2015	The share capital has been increased by 100% with an issue of new shares. First EU registrations were obtained for plant protection products
2016.	Laboratory for physical and chemical testing was certified for its established quality system according to the OECD Principles on Good Laboratory Practice (GLP).



2016 OVERVIEW

The year behind us is very important for our business, not because of good financial results that have been achieved, but because of the fact that we have proven our ability to meet the criteria of business set for the companies of our profile, manufacturers of generic plant protection products, in the EU. We are very proud of the facts that we are the first Serbian company that has registered its product, a plant protection product, in the EU, and that we are the first Serbian company whose laboratory has certified its established quality system for pesticide testing according to internationally recognized GLP standard.

The first EU registration was obtained in August 2016, by the regulatory authority by Austria for our product Talisman, a herbicide applied in corn, and it was followed by three more registrations: herbicide Mural, which is also used for corn, and for insecticide Harpun, separately for the use in greenhouses (cucumbers and tomatoes), and separately for outdoor use (apples and pears). These registrations now have a much greater strategic than commercial importance. Given the small number of products in our offer and the fact that we will be new participants in the EU market, we do not expect significant revenue from export of these products in the next few years. More important is the fact we have proved our ability to complete such a complex process of registration of plant protection products in the UE and that we will be able to gain commercial experience in appearances in the markets of EU Member States.

Laboratory for physical and chemical testing was certified for its established quality system according to the OECD Principles on Good Laboratory Practice (GLP). Such system ensures the organizational processes and conditions under which preclinical laboratory tests, or tests of various materials are conducted, in order to obtain information on their characteristics and safety. The results of these preclinical tests, or GLP studies, are used for the purpose of registration or issuing permits for marketing of products with the relevant institutions. The area for which our laboratory is certified physical includes physical and chemical testing of technical materials, through examination of five of manufacturing batches, the so-called 5-batch analysis. This implies identifying and determining the content of active substance, as well as relevant and significant impurities. GLP certificate, obtained from the Accreditation Body of Slovakia, is a confirmation of our laboratory competence, as the first GLP laboratory for pesticide testing in our country and in the region.

In the commercially most significant field, sales of plant protection products in the domestic market, we have achieved very good results. Weather conditions were favorable for the full implementation of agro-technical measures, which has led to a general increase in the value of the domestic market of plant protection products. Our well-designed sales policy has resulted not only in the growth of sales revenues, but also in the growth of profitability. Bearing in mind the fact that our sales prices were approximately at the same level as in the season of 2015, that we procure vast majority of raw materials abroad, and that the RSD has continued to weaken against the USD and the EUR, the increase in profitability was a great success.

Our financial results in 2016 are:

- Growth in total sales revenues by 4% (by 133 million RSD);
- Growth in revenues from sales of plant protection products by 10% (263 million RSD);
- Growth in gross operating profit by 7% (by 121 million RSD)
- Growth in gross operating profit margin by 2 percentage points (from 48% to 50%)
- Growth in operating profit by 15% (by 132 million RSD)
- Growth in operating profit margin by three percentage points (from 23% to 26%)
- Growth in net profit by 4% (by 37 million RSD).

In June 2016, as the only bidder at the public tender for the sale of a debtor, we became the owner of the holding company "Galenika" dp in bankruptcy. After completing legal formalities of suspension of bankruptcy, in early November we registered changes in the Business Registers Agency, so the new name of the legal entity is "Galenika Holding" Ltd., whose main activity is 6820 Renting of own or leased real estate and property management. The holding company "Galenika" dp in bankruptcy had no employees and did not have any business activities. The primary motive for purchasing this entity was the fact that it is the owner of commercial property in a building on Masarik Square 8a in Zemun, which is majority owned by our Company.



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1 ABOUT US

General information

Company name:	GALENIKA – FITOFARMACIJA a.d., Batajnički drum bb, 11080 Beograd - Zemun
No. of Decision of Serbian Business Registers Agency:	BD 307/2005 dated January 27, 2005
ID No.:	07725531
Tax ID No.:	100001046
Registered activity:	Manufacture of pesticides and agricultural chemicals, Activity Code 2020
Web site & email:	www.fitofarmacija.rs ; office@fitofarmacija.rs
Share capital:	RSD 3.511.200.000 at December 31, 2016
Number of issued shares:	2.640.000 (ordinary); ISIN No: RSFITOE21521; CFI code: ESVUFR; BELEX: FITO
Number of own shares:	None
	ENVIPACK d.o.o., Belgrade, ID No 2080115, Activity Code 7022 Consultancy activities in connection with business and other management
Subsidiaries:	GALENIKA-FITOFARMACIJA d.o.o., Brezovica pri Ljubljani, Slovenia; ID No 6813313000; Activity Code 46.900 Non-specialized wholesale
	HOLDING GALENIKA d.o.o., Belgrade, ID No 07092920, Activity code 6820 Renting of own or leased real estate and management thereof.
Auditor:	UHY REVIZIJA d.o.o., Belgrade, ID No.: 17082175

Company Management

Members of Board of Directors:

non-executive:	Nedeljko Puhar, Chairman, owner of 6,39% of Company shares Mirjana Bogicevic, independent director, Branislav Medakovic, Dusan Mojsilovic, owner of Agromarket d.o.o., Zivorad Vojinovic, owner of 21,56% of shares, owner of 75% of Mikend d.o.o.
executive:	Dragan Nenadovic, Chief Executive Officer, owner of 5,72% of shares Slavica Pekovic, Chief Corporate Affairs Officer

Company Secretary: Lidija Nikolic

**Ownership structure**

Information on ownership structure may be found at the web site of Central Securities Depository and Clearing House (www.crhov.rs). Ownership structure, at the time of preparation of this report:

No. of shareholders by share in capital	No. of entities		No. shares		% of total issued	
	local	foreign	local	foreign	local	foreign
0% to 5%	1.223	73	910.000	401.975	34,47%	15,23%
5% to 10%	2		319.533		12,10%	
10% to 25%	2		1.008.492		38,20%	
Total:	1.300		2.640.000		100%	

Type of shareholder	No. shares	%
Owned by individuals	1.382.225	52,36%
Owned by legal entities	1.036.864	39,28%
Joint (custody) account	220.911	8,37%
Total:	2.640.000	100%

Top ten shareholders by number of shares and votes:

No.	Shareholder	No. shares	%
1.	Vojinović Živorad	569.196	21,56%
2.	Agromarket d.o.o.	439.296	16,64%
3.	Puhar Nedeljko	168.583	6,39%
4.	Nenadović Dragan	150.950	5,72%
5.	Frontaura Global Frontier Fund	122.777	4,65%
6.	Mikend doo	100.554	3,81%
7.	Terra capital cayman	79.115	3,00%
8.	Herma investments co., ltd.	76.866	2,91%
9.	Komp. Dunav osiguranje a.d.o.	71.704	2,72%
10.	Sempiola invest limited	56.328	2,13%
	Total:	1.835.369	69,52%

Statement on the Corporate Governance Code's Implementation

Company implements own Corporate Governance Code, which is published on Company's website in the section *For investors / Corporate Governance / Company's Regulations*.

With its own Code of Corporate Governance, the Company established the principles of corporate governance practices and organizational culture in line with which the Company's corporate governance holders are acting. Principles in particular regard to the openness and transparency of operations of the Company, exercising the shareholders' rights, the framework and modus operandi of the Company's corporate governance holders and control of their of work.

The aim of the Code is to promote good business practices in the domain of corporate governance, which should ensure an effective system of control over the operations of the Company and increase confidence of investors and shareholders in the Company, with a view of securing a long-term business development of the Company.

During reporting year there were no significant departures from established principles in the implementation of the Corporate Governance Code.

**Location**

Company's registered office is located within the Zemun industrial zone, at Batajnicketi drum bb. Company owns facilities at following locations:

Location	Area in m ²		
	Manufacture	Warehouse	Offices
Zemun, Batajnicketi drum bb	5.549	5.362	1.356
Zemun, Masarikov trg 8a			760
Sremska Mitrovica, Stari Radinački put		1.078	502
Novi Sad, Narodnog Fronta 73			129
Ruma, Industrijska zona bb	2.157	2.299	948
Arilje, the village of Stupčevići (cold storage)	569		129

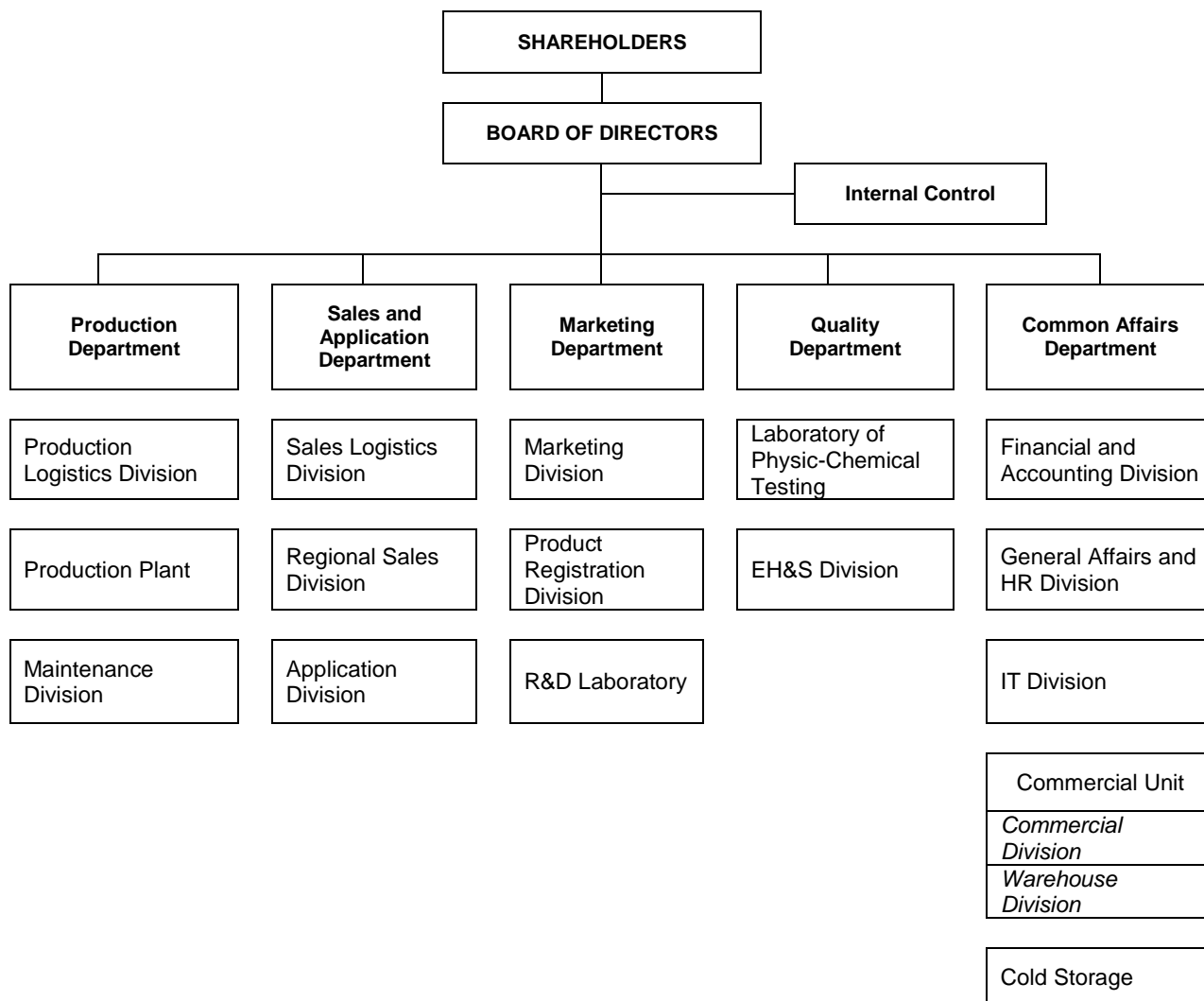
The building in Ruma was bought at the beginning of 2007, in a procedure of enforced collection of tax debt from the taxpayer „Zorka – Zaštita bilja“ a.d. from Šabac, conducted by the Serbian Tax Administration – Branch of the Town of Ruma. The plant facility has not been put into operation.

Land (including land covered with buildings):

Location	Designated use	Surface in m ²	Note
Zemun, Batajnicketi drum bb	Construction land	37.096	Right of use
Zemun, Masarikov trg 8a	Construction land	511	Right of use
Sremska Mitrovica, Stari radinački put	Land for cultivation	43.583	Ownership
Sremska Mitrovica, Stari radinački put	Construction land	6.153	Ownership
Arilje, Grbavica, Stupčevići	Land for cultivation	2.166	Ownership
Arilje, Grbavica, Stupčevići	Construction land	9.455	Ownership
Ruma, Industrijska zona (Industrial zone)	Construction land	76.500	Right of use
Ugrinovci, Zemun Municipality	Land for cultivation	3.860.715	Ownership
Becmen, Surcin Municipality	Land for cultivation	2.693.390	Ownership
Vrbas, Vrbas Municipality	Land for cultivation	3.396.537	Ownership



Organization





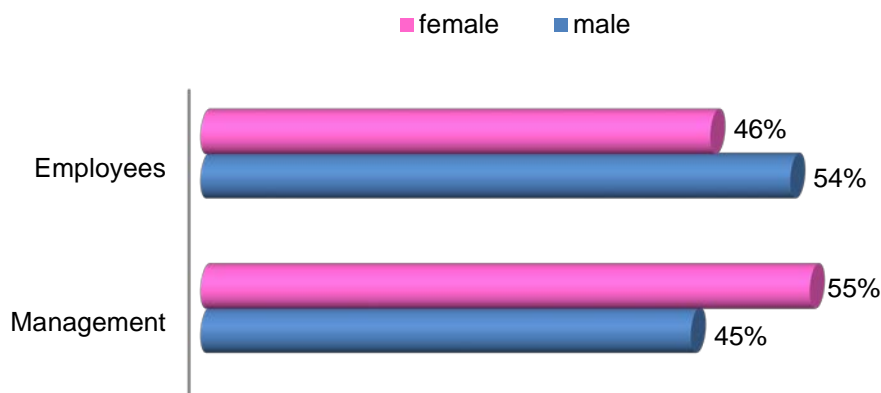
Employee qualifications

The table below shows the qualification and age structure of employees as of 31 December 2016.

Org. unit / Qualifications	I	II,III	IV	V,VI	VII,VIII	Total	%	
Management activities	0	0	0	0	4	4	3%	
Quality Department	0	0	4	0	7	11	7%	
Production Department	2	10	22	3	6	43	28%	
Sales and App. Department	1	0	3	1	31	36	24%	
Marketing Department	0	0	2	0	15	17	11%	
Common Affairs Department	3	1	14	6	16	40	26%	
GENDER	F	0	0	11	6	38	55	36%
	M	6	11	34	4	41	96	64%
TOTAL	6	11	45	10	79	151		
%	4%	7%	30%	7%	52%	100%		
Average age	42	43	43	51	42	43		

The table data do not present a realistic picture on gender representation in the Company. According to our policy, we do not employ women in production facilities due to the nature of our production activity.

The chart below presents the average ratio between male and female employees in the last five years, with the exception of employees in the production plant.





Our value chain

Of all the socially-owned companies involved in manufacture of plant protection products at the end of last century in Serbia, our company was the only one to be successfully privatized, overcoming all the pitfalls and problems of a transition economy. By continued organic growth, we increasingly gained a larger market share, developing our own product portfolio and investing significant funds in extension of manufacturing capacity, modernization and reconstruction of equipment and facilities, as well as in improvement of controls and monitoring for the entire system.

Today, Galenika Fitofarmacija a.d. is a modern company, the largest Serbian manufacturer of plant protection products, holding the single largest market share in sales of such products.

Our internal strength is reflected in the quality value chain of all business activities which has been built and improved for many years. At each link of this chain, we demonstrate a high level of control and management, which was verified by a quality management system in line with requirements of ISO 9001:2008 standard. System is designed to provide the required and controlled level of quality at all stages in creating a product, from development, procurement of materials, to formulation and packaging process, to warehousing and shipping.

Automation of the manufacture process at our company is at a high level. Special software system for automated production management (SCADA) has been integrated with the information system. In order to improve the production performance, particularly in the area of efficiency, productivity and reduction of losses, we are currently introducing the WCM (World Class Manufacturing) system.

Warehouse inventory management and control process is at a high level due to an ordered warehouse space organized in accordance with regulations on storage of hazardous materials and information system with implemented bar-code technology.

The quality control system is set to control required parameters at all significant stages of the manufacturing process. Quality control operations are performed by the laboratory for physical and chemical testing which accredited a part of its operations in accordance with requirements of SRPS ISO/IEC 17025:2006 standard. Efficient manufacturing process control system ensures cost control and, at the same time, enables the company to fully manage the traceability of its products, which represents one of basic requirements of modern manufacturing. Within the expansion of the laboratory activities, we have introduced a certified quality system in accordance with the Guidelines of Good Laboratory Practice (GLP), which enabled the implementation of technical material testing, i.e. 5-batch analyses, for the purpose of registration of plant protection products.

Our sales power is reflected in the vast experience and reputation we earned after operating in this market for many years, as well as in competent people assigned to marketing and sales operations. We pay special attention to the education of end-users of our products by organizing so called winter schools, various types of promotional activities, visiting their farms and providing advisory services. Past results in monitoring user satisfaction indicate that we have been performing these activities in the right manner.

Our continued investment in development operations resulted in our employment of highly educated and specialized professionals who have mastered the formulation technology for almost all known types of formulations. Such a policy resulted in significant number of newly registered products by which we supplemented our product portfolio, increased sales revenues and operating profit, but also provided our company with a good strategic starting point for a durable operation in the market.

Our insisting on responsible relationship with all stakeholders resulted in a reputation of a dependable partner among our customers and suppliers with which we have developed a "win-win" relationship. By implementing a responsible social policy, the company earned a reputation of a fair employer among our employees, which is further confirmed by their low turnover.

As regards responsible business operation, we should mention a systematic approach in analysing and identifying risks and implementation of all necessary measures in order to reduce these risks to a minimum in the field of environmental protection, health and occupational safety. This is proven by certified system of environmental management in accordance with the requirements of ISO 14001 standards and health and occupational safety management system in accordance with the requirements of BSI OHSAS 18001 standard.

The resulting development of our company speaks of an effective strategic management able to anticipate and adequately respond to all changes occurring within the surrounding environment. Efficient operational management enabled the improvement of management and control in all activities within a value chain, enabling us to gain significant competitive advantage. The quality and ability of management is best proved by the fact that the company has demonstrated the ability to maintain and repeat good performance, thus continuously increasing its shareholders' wealth.



2 MARKET FOR PLANT PROTECTION PRODUCTS

Modern agricultural production cannot be imagined without the use of agrochemical products, which provide high yields and high quality products. Increasing application of pesticides and other agrochemicals at the beginning of 1960s provided food security of all humanity. Benefits from chemicals use in agriculture experienced both developed and developing countries. Some of those countries managed to break the vicious circle of poverty of rural and agricultural population.

Agrochemical industry is highly profitable and highly competitive industrial sector, which faces great challenges at the beginning of the 21st century. On the one hand, there is the constant need to provide sufficient food for the growing world population through the application of effective and high quality pesticides and mineral fertilizers and on the other hand, there is the endeavour to minimize the impact of chemicals on health of people and animals, as well as on the environment. Therefore, the regulation regarding reevaluation of old and registration of new pesticides has become more severe.

Global market for plant protection products

Global market for plant protection products includes three different groups of products:

- Products under the patent;
- Products with expired patent, which still do not have generic competition (off patent);
- Products without patent protection, which are produced by other manufacturers as well i.e. generic products.

Global market for plant protection products is dominated by six main development and research companies, with about half the market share: Syngenta, Bayer CropScience, BASF, Dow AgroSciences, Monsanto, Du Pont. The greatest generic companies include: Adama, Platform, Amvac, Isagro, Nufarm, United Phosphorus Limited (UPL), etc.

European market for plant protection products is estimated at approx. 20 - 25% of the global market value. EU countries have established strict set of rules for pesticides registration (Regulation 1107/2009, adopted in 2011).

Serbian market for plant protection products

Serbian market for plant protection products is completely open and competitive. The following companies are present at the Serbian market: six leading research and development companies, the greatest global generic companies, generic companies from the Far East (China and India) as well as domestic manufacturers of pesticides.

Serbian agricultural production is still based on a modest level of agro technical measures, which results in lower yields of some crops and/or smaller scope than the potential. Therefore, we may conclude that the Serbian market for plant protection products has growth potential.

It is estimated that the value of Serbian market for plant protection products grew in 2016, to approx. value 98 million €. In addition to this, Serbian market is still equally divided between the generic and research and development companies in terms of value. It is difficult to precisely determine individual market shares of companies due to the fact that there are no available official data.

The total number of registered pesticides in 2016 in the Serbian market was approx. 1.200. The greatest number of registered products is owned by foreign generic companies (52%), then research and development companies (25%) and domestic manufacturers (23%). Our company, as the largest domestic manufacturer in the Serbian market participates with 130 products or with 47% of the total number of domestic registered products.



Legislation regarding the registration of plant protection products

The process of registration of active substance and finished products in EU is a strictly controlled and organized process whose basic purpose is to reduce environmental risks.

Legislation specifies which data on active substance and finished products should be presented, the manner of data evaluation, risk assessment, protection of commercial information, public access to information on pesticides, maximum allowed pesticide residues in food etc. Active ingredients and products may be sold in the market only if the testing proves that the criteria established by the relevant regulations, are met.

Registration of a finished product made of approved active substance is conducted in each member state individually. The company which registered the product is provided a certain period of exclusive protection of data based on which the registration has been made.

This registration process takes from 5-10 years with estimated costs of up to several dozen million €, depending on the type of active substance and the area of product application.

The process of creation of the registration file for generic product (based on already approved active substance, but from other manufacturer - source) is simpler and it is conducted in two phases:

- Proving the equivalence of the active substance source. This phase includes a series of physical, chemical and toxicological tests which should prove that the potential active substance is not more harmful and toxic than those already permitted for use.
- Product registration. At this phase physical and chemical characteristics of products are tested, as well as their biological efficiency. In addition to this, toxicological and eco toxicological tests are performed, but to a smaller extent than in the procedure of the first registration of a product (the already available data and test results are used, whenever possible).

When both phases are successfully completed, the product gets its registration file. The estimated value of creation of such a registration file is from 250,000 € to 800,000 €, depending on the type of active substance and the area of product application. The process of file completion lasts min. 3 years and the process of registration takes an additional year.

The registration process for plant protection products in Serbia

Whereas the strategic goal of the Republic of Serbia is to join EU, the compliance process of domestic legislation with EU legislation has been conducted in the last few years. The Ministry of Agriculture, Forestry and Water Management and/or Plant Protection Directorate is responsible for registration and marketing of pesticides.

The applicable Law on Plant Protection Products ("*Official Gazette of the Republic of Serbia*" no. 41/09) adopted in June 2009 is a legal document that is in compliance with the applicable Directive 91/414/EC. The Plant Protection Directorate adopted this Law in a hasty and unnecessary manner, ignoring the fact that it is largely inapplicable in our circumstances. Following the initiative of local producers, the Directorate realized that the Articles 11-25 (related to registration of PPP) are hardly applicable, therefore the application of these articles was postponed until 31 December 2013.

However, in the past six years, the Directorate has neither improved its professional capacities, nor established appropriate institutions, therefore it is unable to perform the assessment of registration files in the manner prescribed by the Law in 2009. Taking into account the ambiguities in Article 86 of the Law, in March 2014, it was decided that the registration procedure can be executed in two ways, and according to the provisions of the applicable law and the provisions of the old law.

We expect that the competent Ministry will soon take steps towards adapting the legislation to the actual possibilities and needs of all participants in the Serbian market for plant protection products.

The Association of domestic manufacturers of plant protection products, which operates under the auspices of the Serbian Chamber of Commerce endeavours to be an equal and constructive partner to the Ministry in the compliance process. The Association particularly insists on the facts that Serbia is not obliged to apply the harmonized legislation in this area until it becomes a member of the EU and that there are justified economic reasons to act accordingly.

At the same time, the Association welcomed the decision adopted by the Ministry on 31 December 2013, according to which the list of permitted active substances in Serbia has been compiled with the list applicable in the EU. This decision has a positive effect on the safety of produced food and environmental protection, and ultimately, on the export potential of Serbian agriculture.



3 STRATEGY

General business policy

Sustainable product portfolio

We strive to provide a wide product portfolio of quality plant protection products able to fully meet the needs of producers of various agricultural crops.

Our portfolio is dominated by our own brand, with a smaller share of products of global companies with which we do business through agency, cooperation and distribution.

Our own product range is based on active substances with expired patent terms, while ensuring its sustainability within European regulatory conditions. Selection of active substances is in line with substances allowed for use within the EU, with purities equal to or higher than permitted levels. In addition, selection of auxiliary substances included in our preparations has been brought in line with European legislation.

As a quality generic company, we have continuously raised the level of quality of our products by investing in development of new formulations and improvement of existing ones, as well as by providing highest possible quality of sources of active substances.

Responsible business operation

Since the business activity we are engaged in is a high risk activity, we use significant funds and efforts to implement the latest technologies and standards in every aspect of our business operation and thus efficiently manage the identified risks.

By using a manufacturing process for production of quality plant protection products, at adequate prices, in compliance with safety measures and health protection, as well as protection of the environment, we demonstrate our responsible treatment of agricultural producers, population, our employees, shareholders and the community we belong to.

Seasonal character of business

Plant protection products are mostly sold within the period of March to May, when they are mostly applied. By the end of June, the company usually earns 90% of the total annual sales of plant protection products.

The beginning and the end of season for use of plant protection products, as well as the intensity of their use, is directly influenced by the weather conditions. It may happen that adverse weather conditions during one year cause the lack of use of a preparation, whereas during the following year the same preparation is used to the fullest extent. For this reason, achieved performance and related trends should be viewed within a broader context.

Another limitation to the use of preparations is related to timeframe. Most preparations may be applied only until a certain point in the course of plant development, e.g. until the first leaf develops. If the preparation is not sold within this limited timeframe (and applied to the plants), it remains in stock until the following year.

Business cycle of the company starts in September, when the production for next seasons starts, and ends in August the following year. Due to above timeframes, our business policy requires that we start each season with ready inventories of finished products. For this reason, the last quarter of a calendar year is always marked by intensive procurement and manufacturing activities, which is why our stock levels at year-end are extremely high.

Strategic directions

Our primary strategic objective is to become a significant participant in the regional market of plant protection products. To achieve this, it is necessary to make interim registration files in accordance with the EU regulations for a selected group of products. This will create the conditions for export to the neighbouring countries, but at the same time ensure the survival in the domestic market, given that the European regulations concerning registration of the plant protection products should be applied in Serbia in the near future.

Strategic aim of our company to make an interim sustainable product portfolio in the EU environment, includes the following steps:

- Select about 20 own products that have a future from the perspective of quality of the active substance, market potential and profitability,
- Ensure registration files for the selected products,
- Increase sources of income through export into the EU market.



A strategy formulated in this way requires high investments (about EUR 15 million) into a high risk and long term project of creating registration files. Such strategic commitment will certainly require significant changes in both our medium term and our operational business activities. Our production portfolio will gradually narrow down, as individual authorizations for selling of products for which we will not create registration files expire. Currently, the last selling authorizations expire in 2026.

Further development of the company in the domestic market we see in the diversification of our business in order to achieve synergy with the business activities of our customers and end-users of plant protection products. In other words, diversification will be applied only within agribusiness. Purchase of farming land and organization of agricultural production represent some of the possible forms of implementation of this strategy.

Risk management

Risk management process in our company is formally regulated by the Risk Management Methodology, which is adopted by the Board of Directors. This document defines the form and methodology of the risk management process, as well as the contents and methodology of the Risk register management. Risk portfolio included in the risk management process is designed so that the risks are classified into four main groups, according to the base model of company's targets: strategic, reporting, compliance and operational targets.

The most significant inherent risks are those which are included in the risk management process and are subject to our intensive internal controls:

- Strategic
 - Amendment of legislation in the field of production and trade of plant protection products in Serbia;
 - Entry into the EU market (registration and commercial aspects);
 - Relations with customers in the domestic market (business linking trend)
- Operational
 - Risks in the production process – technological security and reliability, occupational safety, environmental protection;
 - Risks in the application of our products – efficiency of products, safe use, environmental protection, health protection of consumers of agricultural products;
 - Collection of receivables from customers;
 - Adequate staff and key employees;
 - Financial risks.

As a significant source of independent and objective assurance, particularly as regards the issues of management of key operational risks and related internal controls, the Board of Directors considers and uses reports, findings and recommendations of the internal audit function in the implementation of processes within its competence, with the aim of improving these processes and insurance of the overall efficiency of the Company.

Financial risk management

Financial risks are reviewed on a timely basis and primarily are avoided by decreasing the Company's exposure to these risks. Established methodology of the process of financial risks management aims to reduce the potential negative impacts on the financial operations to a minimum in the situation of unpredictable financial markets.

The Company does not use special financial instruments in order to avoid the impact of financial risks on business, since such financial instruments are not widely used, nor is there an organised market for such instruments in the Republic of Serbia.

The Company's risk register identifies the following financial risks:

- Market risks
 - Foreign currency risk
 - Risk of changes in interest rates
 - Price risk
- Credit risk,
- Liquidity risk.

Exposure to currency risk is reflected in liabilities towards foreign suppliers (USD, EUR), loan liabilities, as well as cash and cash equivalents. The risks relating to the impact of changes in exchange rate of the national currency is neutralized through natural hedging of sales prices of finished goods that are adjusted according to changes in the exchange rate. In addition, risk management instruments are used such as depositing funds in



RSD with foreign currency clause, which helps to reduce the negative effect of exchange rate differences related to the depreciation of the national currency.

Exposure to changes in interest rates is analysed within the loan process in banks and free funds investments. The exposure to this risk is not significant, as the Company has a high level of liquidity, thus the revenues and cash flows are largely independent of changes in interest rates.

The greatest exposure to price risk is related to the import of raw materials and it is associated with exposure to foreign currency risk. In addition to the adjustment of sales prices of finished products, the Company implements other measures to reduce or eliminate the impact of this risk to the business, which are generally associated with long-term planning processes of procurement and contracting long term business relationship with foreign suppliers with more favourable payment terms.

Exposure to credit risk is largely related to bad debt receivables. To minimize the impact of this risk, the Company has developed a methodology for determination of credit limits on the basis that defines the level of exposure towards certain customers, as well as to identify cases where it is necessary to obtain specific collaterals from the customers.

Exposure to liquidity risk is reduced by maintaining an appropriate level of cash reserves, continuous monitoring of projected and actual cash flow, as well as by maintaining an appropriate relationship between maturity of financial assets and liabilities. This type of monitoring includes monitoring of the liabilities settlement, compliance with the terms of the contract, compliance with internally set goals, and is based on daily cash flow projections based on which decisions are made regarding the possible use of external loans for what we provide adequate bank financing sources while maintaining the level of unused credit line, so as not to exceed the credit limit allowed by banks.

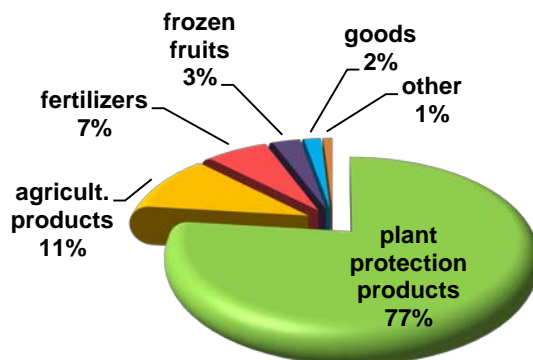
Financial risk management strategy is based on reducing their impact on the Company's financial performance. On the basis of periodic assessment of exposure to the inherent risks within this group, as well as the evaluation of existing internal controls, the Company estimates that the residual financial risks are on acceptable levels and/or that the system of internal controls related to this risk group is very efficient.

A more detailed description and analysis of the impact of individual risk within this group can be found in the notes to the financial statements, in the section Financial instruments and risk management objectives.



4 BUSINESS PERFORMANCE IN 2016

Gross sales by type of product



Sales of plant protection products

Gross sales in 2016 by application:

APPLICATION	tons	%	EUR	%
INSECTICIDES	811	21%	7.324.376	22%
HERBICIDES	2.348	60%	17.076.421	51%
FUNGICIDES	691	18%	8.770.096	26%
RODENTICIDES	4	0,1%	23.511	0,1%
ADJUVANT	28	0,7%	203.293	0,6%
DDD	4	0,1%	128.803	0,4%
TOTAL	3.886	100%	33.526.500	100%

Gross sales in 2016 by brand:

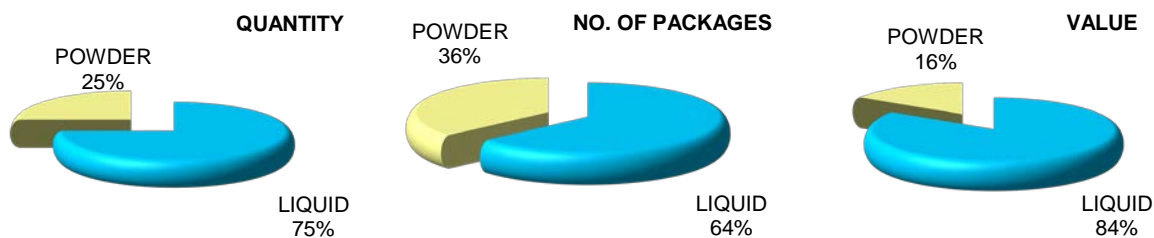
BRAND	tons	%	EUR	%
OWN	3.674	95%	30.716.997	92%
PARTNERS	212	5%	2.809.503	8%
TOTAL	3.886	100%	33.526.500	100%

Gross sales in 2016 by market:

MARKET	tons	%	EUR	%
LOCAL	3.616	93%	32.097.661	96%
FOREIGN	271	7%	1.428.839	4%
TOTAL	3.886	100%	33.526.500	100%

**Manufacturing of plant protection products**Product range in 2016 by type of production:

Type of production	No. of preparations	%	No. of packages in thousands	%	tons	%
OWN FORMULATIONS	63	80%	5.371	94%	4.067	95%
FORMULATIONS WITH FOREIGN PARTNERS	2	3%	36	1%	37	1%
FINISHED PRODUCTS OF FOR. PARTNERS	14	18%	290	5%	173	4%
Total	79	100%	5.696	100%	4.277	100%

Product range in 2016 by product form:**Development activities**Registration of plant protection products in the domestic market

Development activities related to the domestic market include finding generic active substances which are sustainable in terms of the EU regulations and which have market potential, finding adequate sources (manufacturers), mastering the formulation of finished products based on these active substances under the laboratory conditions and preparation of necessary documents for the registration in Serbia. Formulations for four new products were developed in 2016, which will be under the registration process in the domestic market in 2017.

In 2016, we have started the process of registration for 8 products developed in the previous period. However, as the competent body of the Ministry of Agriculture made a break of several months in its work, there was a stay and delays in issuing of the Marketing Authorization for plant protection products. In 2016/2017, we received (or expect to receive it a very short time before the beginning of the 2017 sales season) the authorizations for only four new products under our brand:

- **Fungicides:**
Galileo (Dithianon 700 g/kg, WG),
Atlas (Cyprodinil 375 g/kg + Fludioxonil 250 g/kg, WG),
- **Insecticide:**
Kulisa (Clothianidin 500 g/kg, WP),
Triton (Emamectin benzoate 9,5 g/l, EC)

Registration of plant protection products in the EU market

In the fall of 2016, we received EU registrations for three of our products:

- Talisman (Nicosulfuron 40 g/L OD), herbicide for elimination of grass weeds in corn – the registration obtained for the Central Zone;
- Mural (Dicamba 480 g/L SL), herbicide for elimination of broadleaf weeds in corn – the registration obtained for the Central Zone;
- Harpun (a.m. Pyriproxyfen 100 g/L EC), insecticide for elimination of pests in apple and pear orchards - the registration obtained for the Central Zone;
- Harpun for use in greenhouses, insecticide for elimination of pests in cucumber and tomatoes – This registration is valid for the entire territory of the EU, as it is used indoors.



Immediately after obtaining the registration, we started the procedures for national registration in the countries of interest in the Central EU zone, as well as in other areas for Harpoon, which is used in greenhouses. We hope that in most countries the administrative registration procedures will be completed on time, in order to have products in the market for the season of 2017.

All three products for outdoor use are also in the process of registration in the South EU registration zone and we expect that during 2017 we will have all three registrations in this zone as well, which would create the preconditions for us to enter these markets in the season of 2018.

During 2016, we were actively engaged in education of our employees, in order to be able to manage such complex and demanding projects. The biggest problem is the fact that not a single institution in our country is involved in these activities, and we gain all the experience and knowledge through cooperation with foreign partners. Great significance in this process is our company's membership in the European Crop Care Association (ECCA), as it provides great opportunities for cooperation and exchange of experience with companies of similar profile. In November 2016, our company hosted the traditional annual meeting of ECCA members, which was dedicated to novelties in the EU regulations and the problems faced by generic companies when registering their products.

The complexity and riskiness of this process are also reflected in the fact that, out of three new EU project that we started in 2016, we concluded to continue only one in 2017, and that for the other two we need to wait development of events related to the EU regulations.

All activities related to EU registration files take place in cooperation with authorized companies from abroad. The required tests were conducted in accredited laboratories in Great Britain, France, the Netherlands and Germany, and experiments of biological efficacy in Hungary, Romania, Croatia, Greece, France and Spain. Total costs on this basis in 2016 amounted to around EUR 500,000.

Investment activities

In 2016, there were no significant investment activity. A significant investment, started back in 2014, was completed – reconstruction of a warehouse of flammable products. The warehouse building is one of the most modern of its kind in our country, made fully in compliance with legal requirements and global trends in this field.

Specification of investments in 2016:

Reconstruction of the warehouse of flammable raw materials	235,000 €
Production equipment	65,000 €
Other equipment	138,000 €
Infrastructural works	92,000 €
<i>Total</i>	<i>530,000 €</i>

Investments related to production equipment were related to the overhaul and improvement of the existing production capacities, as well as the purchase of new production and laboratory equipment. Other equipment includes equipment that is not directly related to production, such as video surveillance equipment, IT equipment, freight vehicles, etc.

Environmental protection

Our company has established and certified Environmental Management System in accordance with the requirements of ISO 14001:2004 standard. This system is based on the identification of environmental aspects and defining of control procedures over any environmental impacts in order to reduce the risk to the lowest possible level.

All identified significant environmental aspects are the subject of regular monitoring and measurement, in accordance with legal regulations. Pursuant to the defined plans and programmes of monitoring in cooperation with the authorised companies, we conduct regular measurements of emissions of harmful substances into the air, ambient air quality testing, as well as wastewater testing.

Aim of the systematic approach in this area is to enable monitoring and measurement in a controlled manner in order to monitor the impact of environmental protection, control over operations and compliance with general and specific objectives, not only in the area of environmental protection, but also occupational safety and health and fire protection.



EMAS registration

As a part of the project "Law enforcement in the field of control of industrial pollution, prevention of chemical accidents and implementation of the EMAS system" which was funded by the EU, and implemented by the Ministry of Agriculture and Environmental Protection of the Republic of Serbia, our company was one of three Serbian companies, which were selected to participate in the project. The main objective of the project is to prepare the company for the introduction and registration of the environmental management system in accordance with EU Regulation 1221/2009 EMAS III. There is not any company in our country which has EMAS, nor is there an institutional framework for the registration in the country.

As a new experience, but also as a challenge, this was an opportunity to improve already existing system of environmental protection management. Specific improvements were achieved in the field of identification of aspects, especially indirect aspects, defining and monitoring of environmental indicators, monitoring of EU legislation etc.

We plan to have our EMAS system verified, when all preconditions are met, by the assessor from Austria, which has adopted legislation that prescribes EMAS registration in countries that are not EU members. As a precondition for verification is the amendment of our Law on Environmental Protection to formalize and define the role of our Ministry in the verification process.

Protection from chemical accidents

In accordance with the prescribed criteria relating to the type and quantity of hazardous materials with which we operate, our company is classified as a SEVESO operator of a higher order, so we were obliged to produce documents relating to the establishment of a system for the management of protection against chemical accident (Safety Report and Accident Protection Plan). In January 2014, as the first SEVESO operator in Serbia to fulfill its legal obligations on this basis, we received the approval from the competent Ministry for the mentioned documents.

For the purpose of control and reducing the risk of chemical accidents, defined measures of prevention are being carried out, monitoring and analysis of the situation, managing changes that may lead to increased risk, as well as regular education of employees through trainings and exercises - simulations of chemical accidents.

Waste management

In the production process we generate a significant amount of non-hazardous and hazardous waste which is managed in accordance with the adopted Plan of waste management. This plan enables the proper waste management, which includes identification of waste types, method and place of its generation. Each type of waste is treated in accordance with its characteristics. The basic principle is that waste is sorted at the source. Non-hazardous waste is separately collected and recycled and hazardous waste is disposed of in an adequate manner in cooperation with the authorized operators.

In 2016 we recycled approx. 12 tonnes of non-hazardous process waste. We also disposed of approx. 105 tonnes of hazardous process waste, part of which was exported to treatment (incineration), and part was disposed in Serbia.

Management of packaging waste

Indirect aspect and/or environmental impact of waste management is very important for all companies which are involved in the production and in the placement of plant protection products.

Our company generates a significant quantity of packaging in the Serbian market, mainly through shipment of finished products, thus the company recognized its role in solving this problem and founded the company ENVIPACK d.o.o. in order to establish the system for controlled collection and management of packaging waste from the plant protection products throughout the country.

In 2016 ENVIPACK collected from the end-users and disposed of 35.3 tons of empty containers issued by our company. 62 tons of packaging materials for the production of PPPs were disposed from the location of our company in 2016.

Specification of direct costs related to environmental protection in 2016:

Monitoring and measurement of environmental aspects	5,000 €
Export of hazardous waste for incineration	70,000 €
Disposal of packaging waste from the field and location	95,000 €
Regular fee for packaging waste management	4,000 €
<i>Total</i>	<i>174,000 €</i>

**Significant transactions with related parties**

During reporting year there were no significant transactions with related parties.

Operation of Cold Storage Division

We have been processing frozen fruit, mainly raspberry since 2007, when we bought the cold storage from the previous owner in the village Stupčevići, Municipality of Arilje.

The area surrounding Arilje (western Serbia) is famous for its quality raspberry, with an average yield far above both Serbian and European average. Current storage capacity of cold storages within this area equals about 45,000 tons, far above the production capacity (about 15.000 tons), which is why the competition for raw materials is strong and often unfair. Season for procurement of fresh raspberries in this area starts by mid June and ends in about 45 days.

Our cold storage has two chambers, with a total storage capacity of about 440 tons of frozen fruit and two tunnels for freezing fresh fruit with a total capacity of about 20 tons/ 24h. Procured quantities are frozen and processed, most often in the form of "rollend" variety of raspberry (whole, undamaged berries) and "crumble" variety (ground frozen raspberry). Almost all of the processed products are exported to West European markets.

Due to bad weather conditions in 2016, yield and quality of Willamette, the most widespread variety of raspberries, was worse than last year. The purchase prices of the yield in 2016 were higher by about 10%, while export prices in the second half of the year dropped significantly. It is expected that large quantities of frozen raspberries of the yield of 2016 will remain unsold and that most of the cold storage operators will be in a difficult financial situation before the beginning of the new season. In 2016, we purchased 297 tons of fresh raspberries, which is 24% less than the quantity bought last year. By the end of the 2016 calendar year, we exported about 40% of the fruit, and the rest is planned to be implemented by the beginning of the new purchase season (June 2017).

If the business year is viewed as a period from June of one year to May of next year, our cold storage revenues from sales of frozen fruit in last five years (in €) are as follows:

	2012	2013	2014	2015	2016*
Raspberry	1.618.614	1.724.763	3.218.787	1.134.137	922.574
Other fruits	51.552	312.656	105.550	0	0
<i>Total(€)</i>	<i>1.670.166</i>	<i>2.037.419</i>	<i>3.324.337</i>	<i>1.134.137</i>	<i>922.574</i>

For 2016 we have given revenue projections, since the sale of the available quantities still has not been finished.

Agricultural production

We based the agricultural production for the yield of 2016 on our 655 ha of agricultural land in Ugrinovci and Bečmen, as well as the additional 515 ha on which we agreed joint production with our partners (mainly seed production). As in previous years, our range of agricultural products included seed wheat and mercantile wheat, mercantile corn and mercantile sunflower.

By the end of 2016 calendar year, we sold the entire yield of sunflower and maize, while about 60% of the available quantity of mercantile wheat, and around 4% of wheat seeds, have remained in stock.

The table below shows the results of agricultural production of the yield of 2016, by culture.

	ha	Tones	Revenues EUR
Mercantile wheat	384	2,783	337,800
Mercantile sunflower	156	481	137,800
Mercantile corn	150	820	90,000
Seed wheat	480	3,314	1,057,200
Total	1,170	7,398	1,622,800

We should keep in mind that we use part of seed wheat for our own needs, i.e. for establishing of agricultural production for the next season, so that the total yield of 3,314 tons, shown in the table, is not the one that is available for sale.

The presented revenues from sales in the table above are partly the actually achieved quantity (sunflower, corn, sold quantities of wheat), and partly an estimate according to current market prices.



Operation of ENVIPACK

ENVIPACK, a limited liability company, operates as an operator with the integral license for collection and transportation of hazardous and non-hazardous waste. The company was founded in 2012 and it is 100% in our ownership. Since we generate a significant amount of packaging waste annually (mostly through sold finished products – plant protection products), and since in Serbia there was not any operator who was involved in disposal of this waste, we decided to found a company which would offer a systematic solution to this problem.

In order to establish an efficient system for collection and disposal of packaging waste from the plant protection products, ENVIPACK defined the ECO model, which is based on the proper waste management in all phases of its use by all participants in the application chain of plant protection products (importers, producers, end-users). The starting point of the ECO model is the legislation, but also experience and recommendations of the EU and neighbouring countries were used.

The basic objectives of ENVIPACK are as follows:

- Establishment of a large number of collection sites and their furnishing with special bags for collection of waste packaging,
- Collection of maximum quantity of generated packaging waste,
- Raising environmental awareness of all participants in the chain.

The established system enables all manufacturers, importers and distributors of plant protection products to meet legal obligations and meet their customers' needs regarding the transportation of packaging waste. Moreover, this system enables a specific solution for packaging waste management to the end-users of products i.e. farmers.

Total number of locations for collection of PPPs waste packaging was increased from 128 in 2015 to 151 in 2016.

The total amount of collected and disposed waste in 2016 was 332 tonnes, which is 31.5 tonnes (10.5%) more than in 2015, when a total of 301 tonnes of waste was disposed. The structure of collected and disposed waste in 2016:

- 89.4 t of PPPs packaging waste on collection locations (an increase of 29% compared to 2015),
- 44.8 t of packaging waste of raw materials for the production of PPPs - industrial packaging waste (decrease of 8% compared to 2015),
- 171 tonnes of waste from other industries (rubber, paints and varnishes, pharmaceutical, food, etc.) which is an increase of 18% compared to 2015,
- 26.9 tonnes of non-hazardous waste (paper, metal, plastics), which is decrease of 28.5% compared to 2015.

Based on the results, ENVIPACK provided the system development, achieved the stability as a provider of waste management and recognition in the field.



5 FINANCIAL PERFORMANCE IN 2016

The results presented in this section are derived from the financial statements for statistical purposes. There is a probability that the presented indicators will undergo changes until the preparation of the final financial statements for 2016.

We should also keep in mind that the present financial statements have not yet been subject to audit.

BALANCE SHEET

(in EUR)

	2014	2015	2016
ASSETS			
(PP&E)	15.067.985	15.562.813	15.090.437
Intangible assets	38.429	22.927	13.192
LT financial placements	141.144	2.169.013	1.670.674
<i>Fixed assets</i>	15.247.558	17.754.753	16.774.304
accrued revenues	565.231	484.549	651.243
Inventory and advanced payments	12.132.849	12.909.508	14.786.062
Receivables	4.478.194	4.019.074	2.979.031
ST financial placements	15.494.646	14.739.665	18.264.763
Cash and cash equivalents	2.276.286	2.308.271	2.104.806
<i>Current assets</i>	34.947.206	34.461.066	38.785.904
<i>Deferred tax assets</i>	210.083	211.094	206.956
Total assets	50.404.847	52.426.913	55.767.164
Off-balance sheet assets	2.386.255	3.421.539	1.495.331

Total receivables, including those impaired, are on the lower level than as on 31 December 2015 by 147.5 thousand EUR (2%). Taking into account that revenues from sale in 2016 grew by EUR 480.5 thousand (2%) compared to 2015, it can be concluded that the sales policy in 2016 resulted in more efficient collection.

Short-term financial placements are related to fixed-term RSD and foreign currency funds, as well as a part, i.e. installment of a long-term loan that will mature in less than one year.



(in EUR)

	2014	2015	2016
EQUITY AND LIABILITIES			
Shareholders' equity	14.965.986	29.082.403	28.519.005
Other equity	0	0	0
Reserves	7.257.540	6.904.172	7.121.283
Revaluation surplus	233.390	213.049	203.802
Un-realized gains on shares trading	0	0	0
Un-realized losses on shares trading	26	25	19
Retained earnings	21.487.597	11.991.629	17.015.324
<i>Equity</i>	43.944.487	48.191.229	52.859.396
LT reserved funds	0	0	0
LT Debt	0	0	0
Trade payables	2.399.468	3.133.291	1.901.121
ST financial liabilities	2.949.551	0	0
Tax payable	231.923	305.046	134.477
Other ST liabilities	879.418	797.348	872.169
Current (ST) liabilities	6.460.360	4.235.684	2.907.767
<i>Liabilities and reserved funds</i>	6.460.360	4.235.684	2.907.767
Total equity and liabilities	50.404.847	52.426.913	55.767.163
Off-balance sheet liabilities	2.386.255	3.421.539	1.495.331

Given that our business cycle begins in September of the previous year, the outstanding liabilities to suppliers as of 31 December are not a true indicator of our operating activities. Purchase of imported raw materials, which accounts for the vast majority of our total procurement, is not carried out at a steady pace. We invest maximum effort to take advantage of favorable market trends, both on the world market of raw materials, and the domestic foreign exchange market, and to procure raw materials at the right time. For this reason, the amounts of liabilities from operations can vary significantly from year to year, which is seen in the example of the last three years.

Other current liabilities - for the most part they are related to the obligations to employees, for payment of bonuses, which was realized in January 2017.

**Profit and loss account**

(in EUR)

	2014	2015	2016
OPERATING REVENUES			
Sales	30.601.657	31.177.551	31.658.110
Other operating revenues	643.420	575.709	489.571
<i>Total operating revenues</i>	<i>31.245.077</i>	<i>31.753.260</i>	<i>32.147.681</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	3.767.105	3.535.957	3.667.266
Cost of material	12.705.966	14.255.488	13.043.941
Change in inventory value	614.666	-1.218.145	-448.765
Salaries/Other personal expenses	3.108.230	3.252.033	3.392.213
Amortization expense	666.718	612.501	658.820
Other operating expenses	3.511.048	4.024.143	3.608.159
<i>Total operating expenses</i>	<i>24.373.732</i>	<i>24.461.977</i>	<i>23.921.635</i>
OPERATING PROFIT	6.871.345	7.291.283	8.226.046
Other revenues	4.954.487	4.859.698	4.772.084
Other expenses	4.653.513	4.196.946	4.854.152
Earnings before tax (EBT)	7.172.319	7.954.036	8.143.979
Tax	715.505	798.151	826.801
NET PROFIT	6.456.814	7.155.885	7.317.178

PROFIT STRUCTURE	IN EUR			
	2014	2015	2016	16 / 15
Gross profit	14.217.982	15.232.497	15.923.858	105%
Gross profit margin	46%	48%	50%	
Operating profit	6.871.342	7.291.283	8.226.046	113%
Operating profit margin	22%	23%	26%	
EBITDA	7.538.060	7.903.784	8.884.866	112%
EBITDA margin	24%	25%	28%	
EBT	7.172.315	7.954.036	8.143.979	102%
Net profit	6.456.814	7.155.886	7.317.178	102%

**Structure of income and expenses**

REVENUES STRUCTURE	EUR						
	2014	%	2015	%	2016	%	16/15
OPERATING REVENUES	31.245.077	86%	31.753.260	87%	32.147.678	87%	101%
Sales revenues	30.601.657		31.177.551		31.658.107		102%
<i>plant protection products</i>	22.438.963		22.946.780		24.641.147		107%
<i>cold-storage</i>	2.670.256		2.206.393		977.300		44%
<i>agriculture</i>	1.461.153		2.037.301		1.724.310		85%
<i>goods</i>	4.031.286		3.987.077		4.315.349		108%
Other operating revenues	643.420		575.709		489.571		85%
FINANCIAL REVENUES	1.969.021	5%	899.987	2%	827.157	2%	92%
Interests received	496.368		489.883		290.190		59%
Exchange rate changes & Currency clause	1.458.647		408.853		536.202		131%
Other financial revenues	14.006		1.251		764		61%
ASSETS VALUATION ADJUSTMENTS	0		0		0		
OTHER REVENUES	2.985.465	8%	3.959.714	11%	3.944.930	11%	100%
Property and equipment sale & Surpluses	22.394		93.681		99.904		107%
Revenues from previous years	2.893.927		3.797.924		3.800.450		100%
Other revenues	69.144		68.109		44.576		65%
TOTAL REVENUES	36.199.564	100%	36.612.962	100%	36.919.766	100%	101%

Revenues from sales of the most profitable segment of our portfolio, plant protection products, grew 7% compared to last year. The growth was mainly achieved on products that are under our own brand, which caused a significant increase in gross profit, as well as profitability.

As expected, revenues from sales of frozen products were lower than last year, because there was no financing activity of purchasing raspberries with other cold storages, and in our cold storage we bought smaller amounts of fresh fruit.

Since in 2015 we achieved an exceptionally good yield of seed wheat that we could not sell in full in autumn 2015, in 2016 we started production on a smaller scale. Unfavorable weather conditions at the time of sowing of mercantile wheat this year have caused smaller quantities of sown area under wheat, i.e. lower demand for seed material. For these reasons, income from the sale of agricultural products in 2016 is lower compared to last year.



EXPENSES STRUCTURE	IN EUR						
	2014	%	2015	%	2016	%	16/15
OPERATING EXPENSES	24.373.732	84%	24.461.977	85%	23.921.636	83%	98%
Cost of material	12.705.966		14.255.488		13.043.941		92%
Cost of goods sold (COGS)	3.767.105		3.535.957		3.667.266		104%
Income from the use of own products	60.653		52.538		38.620		74%
Change in inventory value	614.666		-1.218.145		-448.765		
Other materials	171.406		239.579		216.922		91%
Fuel and energy costs	282.398		263.325		271.892		103%
Salaries, contributions	3.108.230		3.252.033		3.392.213		104%
Production services	2.528.694		2.908.100		2.533.895		87%
Amortization expense	666.718		612.501		658.820		108%
Immaterial costs	589.203		665.677		624.071		94%
FINANCIAL EXPENSES	318.799	1%	390.764	1%	242.967	1%	62%
Interests paid	99.364		75.729		53		0%
Exchange rate changes & Currency clause	219.435		315.035		165.858		53%
Other financial expenses	0		0		77.057		
IMPAIRMENT COSTS	4.221.464	15%	3.630.356	13%	4.518.475	16%	124%
Impairment assets	0		7.985		3.515		
Impairment receivables	4.221.464		3.622.371		4.514.960		125%
OTHER EXPENSES	113.251	0%	175.826	1%	92.712	0%	53%
Disposals & Deficits	45.181		93.123		40.583		44%
Other expenses	68.070		82.703		52.129		63%
TOTAL EXPENSES	29.027.245	100%	28.658.923	100%	28.775.790	100%	100%

Costs of raw materials decreased significantly in the cold storage segment, which was reflected in the overall decline in the cost of materials. In the largest segment, plant protection products, the cost of materials is at the level of last year.

Production services costs are lower due to the reduced volume of production of seed wheat.

The amount of impaired receivables relates to all outstanding trade receivables, which, as at 31 December, were older than 60 days. Given the growth in income from sales of plant protection products, particularly in the area of direct customers, i.e. agricultural producers, is expected that the collection takes place with a delay.

**Ratio analysis**

RATIO	CALCULATION	2014	2015	2016
Return on equity (ROE)	$\frac{\text{Net profit}}{\text{Shareholders' equity}}$	14,7%	14,8%	13,8%
Return on Assets (ROA)	$\frac{\text{Net profit}}{\text{Total Assets}}$	12,8%	13,6%	13,1%
Equity to equity and liabilities	$\frac{\text{Equity+long-term provisions}}{\text{Total equity and liabilities}}$	87,2%	91,9%	94,8%
Total debt to equity and liabilities	$\frac{\text{Total debt}}{\text{Total equity and liabilities}}$	12,8%	8,1%	5,2%
Long-term debt to total equity and liabilities	$\frac{\text{Equity+LT provisions+LT debt}}{\text{Total equity and liabilities}}$	87,2%	91,9%	94,8%
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	5,41	8,14	13,34
First liquidity ratio	$\frac{\text{Cash}}{\text{Short-term Liabilities}}$	0,35	0,54	0,72
Second liquidity ratio	$\frac{\text{Current assets - inventory}}{\text{Current Liabilities}}$	3,53	5,09	8,25
Net current assets (in 000 EUR)	$\text{Current assets - Current Liabilities}$	28.487	30.225	35.878
Net current asset turnover	$\frac{\text{Operating income}}{\text{Net current assets}}$	1,10	1,05	0,90
Receivables turnover ratio (RT)	$\frac{\text{Total net sales}}{\text{Receivables}}$	8,55	7,53	9,18
Receivables turnover days (RTD)	$\frac{\text{Days in the year}}{\text{Receivables turnover}}$	43	48	40
Inventory turnover ratio for produced goods (IT)	$\frac{\text{Cost of goods sold}}{\text{Inventory}}$	1,96	1,92	1,73
Inventory turnover days ratio for produced goods (ITD)	$\frac{\text{Days in the year}}{\text{Inventory turnover}}$	187	191	212
Inventory turnover ratio for other goods (IT)	$\frac{\text{Cost of goods sold}}{\text{Inventory}}$	5,94	5,19	2,94
Inventory turnover days ratio for other goods (ITD)	$\frac{\text{Days in the year}}{\text{Inventory turnover}}$	62	71	125



6 SHARES OF GALENIKA - FITOFARMACIJA A.D.

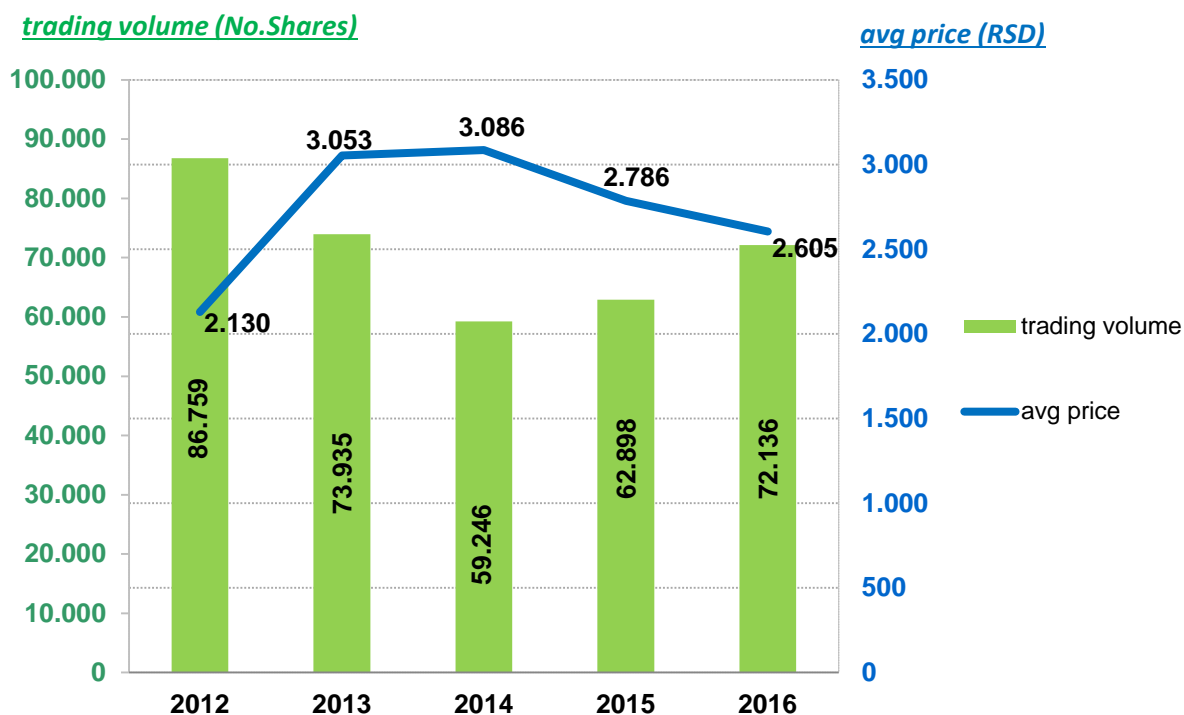
Share capital of Galenika Fitofarmacija a.d. is divided into 2.640.000 ordinary shares (BELEX: FITO), with RSD 1.330,00 par value.

FITO shares have been traded on the Belgrade Stock Exchange since 2001, firstly based on the prevailing price method, and then from 2005 based on the continuous method.

Based on the decision of the General Meeting from 28 October 2011, split of the shares was carried out in November 2011, so that each of the earlier 440,000 shares with a nominal value of RSD 2,660 was replaced by two new shares with a nominal value of RSD 1,330. This has changed the values of all the historical statistical data and indicators that are directly related to the number of shares, and which refer to the years before 2011.

Share trading statistics in last five years

	Price per share (RSD)			Trading volume		At December 31		Market capitalization at Dec 31 (EUR)
	max	min	avg	shares	RSD	No. Shares	price(RSD)	
2012	2.820	1.820	2.130	86.759	184.774.906	1.320.000	2.500	29.018.642
2013	3.300	2.350	3.053	73.935	225.750.925	1.320.000	2.961	34.093.235
2014	3.750	2.550	3.086	59.246	182.839.914	1.320.000	3.321	36.241.581
2015	4.990	1.950	2.786	62.898	175.230.139	2.640.000	2.375	51.551.435
2016	3.000	2.195	2.605	72.136	187.936.508	2.640.000	2.720	58.157.174



**Indicators**

INDICATOR NAME	DESCRIPTION	dec.31, 2014	dec.31, 2015	dec.31, 2016
EPS Earnings per share	Earnings per share (EUR)	4,89	2,74	2,77
PE Price-earings ratio	Share market price / earnings per share	5,79	7,26	7,97
PB Price-book value	Share market price / ABV	0,85	1,08	1,10
ROE Return on equity	Return on equity	14,69	14,85	13,84
ABV Adjusted book value	EUR	33,29	18,28	20,02
Market capitalization	EUR	36.241.581	51.551.435	58.157.174

Dividend paid in last ten years

Date of Shareholders meeting	For year	RSD / share	Total		new issue
			RSD	EUR	
June 22, 2007	2006	67,5	53.621.595	658.587	0,10
June 20, 2008	2007	67,5	59.400.000	741.911	
June 23, 2009	2008	72,5	63.800.000	684.874	
June 18, 2010	2009	114	100.320.000	967.176	
June 17, 2011	2010	140	123.200.000	1.218.201	
October 28, 2011					0,50
June 25, 2012	2011	145	191.400.000	1.678.843	
June, 28, 2013	2012	160	211.200.000	1.849.849	
June, 26, 2014	2013	152	200.640.000	1.736.011	
June, 26, 2015	2014	152	200.640.000	1.666.657	1,00
June, 24, 2016	2015	80	211.200.000	1.706.152	

Dividend in RSD is stated in gross amount.

The column „new issue" is referring to the increase of capital from Company's own resources, by converting part of the retained earnings into the share capital and by issuing new shares without a public offer, for distribution to existing shareholders. Expressed as a number of newly issued shares per existing share.



7 BUSINESS PLAN FOR 2017

Our long-term business policy, whose main characteristics are consistent, systematic and serious business approach, has led to the fact that we are now one of the few successful manufacturing companies in Serbia, which is in its business philosophy and strategy of the leading domestic companies. Such a way of doing business we intend to continue in the coming years. Our policy will be based on the full responsibility of the users of our products, partners, employees, shareholders, government authorities and all other stakeholders.

In accordance with our strategy, we have defined the main business directions in which our operations will be conducted:

- “European direction” - providing the prerequisites for international business activities of our Company.
- “Local direction” – further improvement of business efficiency in the primary area of operations.
- Further expanding of subsidiary activities, as a support to business activities in the “local direction”.

In 2017, we are planning the first sale of our three products that we have registered in the EU. Revenues are planned conservatively, because our company is unknown in the target markets, the offered portfolio is modest and also that we cannot plan with certainty the duration of the administrative process of obtaining permits from the national ministries. In 2017 we expect to obtain registration in the South EU registration zone for our three products, so that in the second half of 2017 we will be dealing with marketing activities in the target countries of South Zone.

In 2017, we plan to start preparation of registration documents according to the EU criteria for at least two new products. These activities will take place in parallel with the previously initiated registration of a new product, for which the submission of the registration application to the EU is planned for the first quarter of 2018.

For the purpose of further expansion of the area of GLP tests, for 2017 we plan activities on securing the prerequisites for this expansion – renovation of laboratory space, purchase of necessary equipment and training of employees.

For the season of 2017, we plan an increase in sales of plant protection products in the local market by 8%, primarily in the group of our own brands. Given the general situation in Serbian agriculture, this plan is ambitious and its realization would be a challenge for us. Also, the big challenge will be maintaining the profitability of our portfolio, given the competition in the market, movements in exchange rates and increasing costs of logistics.

The organization of agricultural production is an activity that naturally arises as a solution to achieve additional connection with the business activities of our customers who are directly related to agricultural production (large agricultural farms, organizers of agricultural production). Besides basing of agricultural production on our 655 ha, regular planned activity also includes contracting and joint production of seed wheat with our business partners who have their own agricultural land.

In order to further strengthen the primary business segment, we also plan further development of trade activities, through the representations and / or distribution of raw materials for agricultural production, primarily for plant nutrition products and seeds.

Operating plan

Our business year lasts from September of the previous year until August the following year. That is why our plans for a calendar year have always had an element of uncertainty in planning for period September – December of the following year, because it directly depends on realization of sales in a season. In this plan, period September – December 2017 was planned under the assumption that sales plan for 2017 season has been achieved, i.e. that in September 2017 there is no stock of finished products to be carried forward into season 2018, but that everything needs to be produced.

There is a high probability that the production plan for period September – December 2017, and therefore the plan of respective costs, will undergo significant changes when it is finally defined, in July 2017.



In EUR

Item	2015	2016	plan 2017	17/16
I. OPERATING REVENUES	31.753.260	32.147.681	37.397.269	116%
1. Sales of goods	4.090.305	4.365.182	6.954.364	159%
2. Sales of products	27.087.246	27.292.928	30.248.305	111%
3. Services rendered	336.619	116.141	0	0%
4. Other operating revenues	239.090	373.431	194.600	52%
II. OPERATING EXPENSES	16.520.765	16.223.823	20.886.767	129%
1. Costs of goods sold (COGS)	3.535.957	3.667.265	6.131.392	167%
2. Costs of raw material	14.255.488	13.043.944	13.738.387	105%
3. Income from the use of own products	52.538	38.622	40.915	106%
4. Change in inventory value	-1.218.143	-448.765	1.057.903	
III. GROSS PROFIT	15.232.495	15.923.858	16.510.502	104%
IV. OTHER OPERATING EXPENSES	7.941.214	7.697.816	8.313.498	108%
1. Costs of other material	239.579	216.922	223.733	103%
2. Costs of fuel and energy	263.325	271.894	252.560	93%
3. Salaries / Other personal expenses	3.252.033	3.392.212	3.450.605	102%
4. Costs of production services	2.908.100	2.533.896	2.982.059	118%
5. Amortization expense	612.501	658.824	667.728	101%
6. Non-production costs	665.677	624.068	736.813	118%
V. OPERATING PROFIT	7.291.281	8.226.042	8.197.005	100%

The planned sales revenue in 2017 structure is as follows:

- *Finished products in the local market, 3.15 billion RSD.* Revenue growth is mainly planned on the products of our own trademark.
- *Finished products in the international market, worth € 2 million.* For the first time we have planned revenues from selling the three EU registered products (amount of 640.000 €) and this amount represent planned revenue growth in this segment.
- *Revenue from sales of agricultural products in the amount of 280 million RSD.* This group includes agricultural products from our country, as well as the products that are the result of joint production with our partners (mercantile goods and seeds). This revenue is planned on the basis of the value of unsold goods from the yields of 2016 as of 31 December 2016, and the assumption that all agricultural products generation of the yields of 2017 will be sold by the end of the calendar year.
- *Revenue from sales of frozen fruits, in the amount of € 835.000.* This is the only revenue segment where decline is planned. Despite the fact that increase of purchased quantities is planned, the overall negative financial result is expected because of significant decline of exporting prices.
- *Revenue from sales of goods in the amount of 870 million RSD.* This group of products also includes merchandise that we place in the market as representatives or distributors (plant nutrition products and seeds), as well as various types of commercial goods that we purchase in compensation deals, in order to collect our receivables.

Costs of raw materials, as well purchase value of goods sold, are planned on the basis of known values or estimates of purchasing prices of raw materials and goods, as well as on the basis of the assessment of the exchange rate of RSD against EUR and USD in 2017.

Change of value of inventory has been estimated based on the structure of the planned sales and production in 2017 and it will be subject to change, especially in the last quarter, when the final production plan for this period will be defined.

Other operating expenses have been planned in proportion to the volume of production and sales, as well as the expected inflation for 2017. The most important items in this group of costs are salaries (346 million RSD); production services for agricultural production (130 million RSD); research and product registration services (80 million RSD) and marketing services (63 million RSD).

Scenario analysis

Risks that may adversely affect the financial plan for 2017 are mainly those from the group of operational risks (failed sales plan, inadequate pricing, foreign currency risk, bad debt).

The most significant impact on our business is certainly a failed sales plane of plant protection products in the domestic market, as well as the reduction of sale prices for this group of products due to the competitive pressure. The text below shows the illustrative impact of these two risks.

Option I

This option considers the plan achievement regarding domestic sales of pesticides in 90% value and quantity scope.

Option II

This is the most pessimistic option – it considers achievement of the Option I scenario and average net prices 5% lower than the planned ones.

In EUR

I t e m	plan 2017	option I	opt I / plan	option II	opt II / plan
I. OPERATING REVENUES	37.397.269	34.887.880	93%	33.758.648	90%
1. Sales of goods	6.954.364	6.954.368	100%	6.954.368	100%
2. Sales of products	30.248.305	27.738.912	92%	26.609.680	88%
3. Services rendered	0	0		0	
4. Other operating revenues	194.600	194.600	100%	194.600	100%
II. OPERATING EXPENSES	20.886.767	19.498.984	93%	19.498.984	93%
1. Costs of goods sold (COGS)	6.131.392	6.131.392	100%	6.131.392	100%
2. Costs of raw material	13.738.387	13.738.384	100%	13.738.384	100%
3. Income from the use of own products	40.915	40.912	100%	40.912	100%
4. Change in inventory value	1.057.903	-329.880		-329.880	
III. GROSS PROFIT	16.510.502	15.388.896	93%	14.259.664	86%
IV. OTHER OPERATING EXPENSES	8.313.498	8.313.504	100%	8.313.504	100%
1. Costs of other material	223.733	223.736	100%	223.736	100%
2. Costs of fuel and energy	252.560	252.560	100%	252.560	100%
3. Salaries / Other personal expenses	3.450.605	3.450.608	100%	3.450.608	100%
4. Costs of production services	2.982.059	2.982.056	100%	2.982.056	100%
5. Amortization expense	667.728	667.728	100%	667.728	100%
6. Non-production costs	736.813	736.816	100%	736.816	100%
V. OPERATING PROFIT	8.197.005	7.075.392	86%	5.946.160	73%

The said variant of business result should be taken as a rough illustration of influence of risk factors on company's operating results. It is certain that, in case some of the identified risks should materialize, we would change our business policy in accordance with market conditions, and in this way try to minimize negative influences on our operations.



8 CURRENT OPERATIONS IN 2017

As of the date of this report, our operations were conducted within the scope of planned activities.



III STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF ANNUAL REPORT



Financial Report 2016, according to the best of our knowledge, have been prepared with the application of relevant International Financial Reporting Standards and give us a true and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity.

Annual Report 2016, according to the best of our knowledge, give us credible review of the development, operating results and financial position, as well as a credible description of the expected development of the Company, the most significant risks and uncertainties which the Company's operations are exposed.

Chief Corporate Affairs Officer,
M.Sc. Slavica Pekovic

Chief Executive Officer,
B.Sc.Ecc. Dragan Nenadovic



**V DECISION OF SUPERVISORS ON THE ADOPTION
OF THE ANNUAL REPORT
(NOTE)**

**VI DECISION ON PROFIT DISTRIBUTION
OR LOSS COVERING
(NOTE)**



Note:

The Annual Report was approved by Board of Directors, on meeting held on April 27, 2017.

The Annual Report was not adopted by supervisors, General Meeting, because the Annual General Meeting has not held yet.

The Annual General Meeting will make a decision on profit distribution.

The Company will issue a decision on the adoption of the Annual Report for 2016 and a decision on profit distribution for 2016 after the date of the General Meeting.

Chief Corporate Affairs Officer,
M.Sc. Slavica Pekovic

Chief Executive Officer,
B.Sc.Ecc. Dragan Nenadovic