

GALENKA – FITOFARMACIJA A.D.
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PIB 100001046

ANNUAL REPORT 2017

GALENKA – FITOFARMACIJA A.D.



Dear shareholders,

Here is Annual Report 2017, prepared in accordance with Art.50 of the Capital Market Low („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 2017 was not adopted because the Annual General Meeting has not held yet.

The Annual General Meeting is planned on second half of June 2018.

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I FINANCIAL REPORT 2017

**BALANCE SHEET (IN 000 RSD)**

	2015	2016	2017
ASSETS			
Property, plant, equipment and natural assets	1,878,942	1,857,903	1,839,735
Intangible assets	2,768	1,624	1,001
LT financial placements	261,871	205,690	121,784
<i>Fixed assets</i>	<i>2,143,581</i>	<i>2,065,217</i>	<i>1,962,520</i>
Prepaid tax, other expenses and accrued revenues	58,501	80,180	186,591
Inventory and advanced payments	1,558,601	1,820,429	1,962,824
Receivables	485,234	366,772	538,964
ST financial placements	1,779,561	2,248,719	2,185,935
Cash and cash equivalents	278,684	259,139	488,204
<i>Current assets</i>	<i>4,160,581</i>	<i>4,775,239</i>	<i>5,362,518</i>
<i>Deferred tax assets</i>	<i>25,486</i>	<i>25,480</i>	<i>26,783</i>
Total assets	6,329,648	6,865,936	7,351,821
Off-balance sheet assets	413,092	184,102	71,103
EQUITY AND LIABILITIES			
Shareholders' equity	3,511,200	3,511,200	3,511,200
Other equity	0	0	0
Reserves	833,560	876,757	921,801
Revaluation surplus	25,722	25,092	25,022
Un-realized gains on shares trading	0	0	0
Un-realized gains on shares trading	3	2	2
Retained earnings	1,447,783	2,094,891	2,573,040
<i>Equity</i>	<i>5,818,262</i>	<i>6,507,938</i>	<i>7,031,061</i>
LT reserved funds	0	0	0
LT Debt	0	0	0
Liabilities from business operations and received advances, deposits and caution maney	378,291	234,062	212,725
ST financial liabilities	0	0	0
Liabilities for VAT, accrued expenses and other tax	36,829	16,557	4,996
Other ST liabilities	96,266	107,380	103,039
<i>Current (ST) liabilities</i>	<i>511,386</i>	<i>357,998</i>	<i>320,760</i>
<i>Liabilities and reserved funds</i>	<i>511,386</i>	<i>357,998</i>	<i>320,760</i>
Total equity and liabilities	6,329,648	6,865,936	7,351,821
Off-balance sheet liabilities	413,092	184,102	71,103

**BALANCE SHEET (IN EUR)**

	2015	2016	2017
ASSETS			
Property, plant and equipment (PP&E)	15,562,813	15,090,437	15,162,230
Intangible assets	22,927	13,192	8,250
LT financial placements	2,169,013	1,670,674	1,003,686
<i>Fixed assets</i>	<i>17,754,753</i>	<i>16,774,304</i>	<i>16,174,167</i>
revenues	484,549	651,243	1,537,795
Inventory and advanced payments	12,909,508	14,786,062	16,176,672
Receivables	4,019,074	2,979,031	4,441,888
ST financial placements	14,739,665	18,264,763	18,015,448
Cash and cash equivalents	2,308,271	2,104,806	4,023,548
<i>Current assets</i>	<i>34,461,066</i>	<i>38,785,904</i>	<i>44,195,351</i>
<i>Deferred tax assets</i>	<i>211,094</i>	<i>206,956</i>	<i>220,733</i>
Total assets	52,426,913	55,767,164	60,590,250
Off-balance sheet assets	3,421,539	1,495,331	585,996
EQUITY AND LIABILITIES			
Shareholders' equity	29,082,403	28,519,005	28,937,659
Other equity	0	0	0
Reserves	6,904,172	7,121,283	7,597,050
Revaluation surplus	213,049	203,802	206,220
Un-realized gains on shares trading	0	0	0
Un-realized losses on shares trading	25	19	16
Retained earnings	11,991,629	17,015,324	21,205,785
<i>Equity</i>	<i>48,191,229</i>	<i>52,859,396</i>	<i>57,946,697</i>
LT reserved funds	0	0	0
LT Debt	0	0	0
Trade payables	3,133,291	1,901,121	1,753,179
ST financial liabilities	0	0	0
Tax payable	305,046	134,477	41,175
Other ST liabilities	797,348	872,169	849,199
<i>Current (ST) liabilities</i>	<i>4,235,684</i>	<i>2,907,767</i>	<i>2,643,553</i>
<i>Liabilities and reserved funds</i>	<i>4,235,684</i>	<i>2,907,767</i>	<i>2,643,553</i>
Total equity and liabilities	52,426,913	55,767,163	60,590,250
Off-balance sheet liabilities	3,421,539	1,495,331	585,996

**INCOME STATEMENT (IN 000 RSD)**

	2015	2016	2017
OPERATING REVENUES			
Sales	3,764,153	3,897,680	3,962,212
Other operating revenues	69,507	60,275	38,636
<i>Total operating revenues</i>	<i>3,833,660</i>	<i>3,957,955</i>	<i>4,000,848</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	426,906	451,506	436,109
Cost of material	1,721,105	1,605,943	1,583,919
Change in inventory value	-147,070	-55,251	-19,026
Salaries/Other personal expenses	392,627	417,642	425,174
Amortization expense	73,949	81,113	81,966
Other operating expenses	485,846	444,229	482,589
<i>Total operating expenses</i>	<i>2,953,363</i>	<i>2,945,181</i>	<i>2,990,730</i>
OPERATING PROFIT	880,297	1,012,774	1,010,118
Other revenues	586,725	587,529	558,969
Other expenses	506,709	597,633	692,276
Earnings before tax (EBT)	960,313	1,002,670	876,811
Tax	96,363	101,794	121,406
NET PROFIT	863,950	900,876	755,405

**INCOME STATEMENT (IN EUR)**

	2015	2016	2017
OPERATING REVENUES			
Sales	31,177,551	31,658,110	32,654,687
Other operating revenues	575,709	489,571	318,417
<i>Total operating revenues</i>	<i>31,753,260</i>	<i>32,147,681</i>	<i>32,973,104</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	3,535,957	3,667,266	3,594,203
Cost of material	14,255,488	13,043,941	13,053,912
Change in inventory value	-1,218,145	-448,765	-156,806
Salaries/Other personal expenses	3,252,033	3,392,213	3,504,087
Amortization expense	612,501	658,820	675,522
Other operating expenses	4,024,143	3,608,159	3,977,271
<i>Total operating expenses</i>	<i>24,461,977</i>	<i>23,921,635</i>	<i>24,648,189</i>
OPERATING PROFIT	7,291,283	8,226,046	8,324,915
Other revenues	4,859,698	4,772,084	4,606,760
Other expenses	4,196,946	4,854,152	5,705,416
Earnings before tax (EBT)	7,954,036	8,143,979	7,226,260
Tax	798,151	826,801	1,000,571
NET PROFIT	7,155,885	7,317,178	6,225,689

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

in 2017 121,34 RSD/EUR
in 2016 123,12 RSD/EUR
in 2015 120,73 RSD/EUR

**STRUCTURE OF REVENUES, EXPENSES AND PROFITS**

REVENUES STRUCTURE	In 000 RSD						
	2015	%	2016	%	2017	%	17/16
OPERATING REVENUES	3,833,660	86.7%	3,957,955	87.1%	4,000,848	87.7%	101%
Sales revenues	3,764,153		3,897,680		3,962,212		102%
<i>plant protection products</i>	2,770,429		3,033,766		3,120,546		103%
<i>cold-storage</i>	266,384		120,323		89,161		74%
<i>agriculture</i>	245,969		212,293		252,862		119%
<i>goods</i>	481,371		531,297		499,643		94%
Other operating revenues	69,507		60,275		38,636		64%
FINANCIAL REVENUES	108,658	2.5%	101,838	2.2%	49,177	1.1%	48%
Interests received	59,145		35,728		22,175		62%
Exchange rate changes & Currency clause	49,362		66,016		27,002		41%
Other financial revenues	151		94		0		
ASSETS VALUATION ADJUSTMENTS	458,534	10.4%	467,903	10.3%	494,346	10.8%	106%
OTHER REVENUES	19,533	0.4%	17,788	0.4%	15,446	0.3%	87%
Property and equipment sale & Surpluses	11,310		12,300		2,885		23%
Other revenues	8,223		5,488		12,561		229%
TOTAL REVENUES	4,420,385	100%	4,545,484	100%	4,559,817	100%	100%

REVENUES STRUCTURE	In EUR						
	2015	%	2016	%	2017	%	17/16
OPERATING REVENUES	31,753,260	86.7%	32,147,678	87.1%	32,973,104	87.7%	103%
Sales revenues	31,177,551		31,658,107		32,654,687		103%
<i>plant protection products</i>	22,946,780		24,641,147		25,718,074		104%
<i>cold-storage</i>	2,206,393		977,300		734,825		75%
<i>agriculture</i>	2,037,301		1,724,310		2,083,968		121%
<i>goods</i>	3,987,077		4,315,349		4,117,819		95%
Other operating revenues	575,709		489,571		318,417		65%
FINANCIAL REVENUES	899,987	2.5%	827,157	2.2%	405,294	1.1%	49%
Interests received	489,883		290,190		182,758		63%
Exchange rate changes & Currency	408,853		536,202		222,536		42%
Other financial revenues	1,251		764		0		0%
ASSETS VALUATION ADJUSTMENTS	3,797,924	10.4%	3,800,450	10.3%	4,074,167	10.8%	107%
OTHER REVENUES	161,790	0.4%	144,480	0.4%	127,300	0.3%	88%
Property and equipment sale & Surpluses	93,681		99,904		23,777		24%
Other revenues	68,109		44,576		103,522		232%
TOTAL REVENUES	36,612,962	100%	36,919,766	100%	37,579,864	100%	102%



EXPENSES STRUCTURE	In 000 RSD						
	2015	%	2016	%	2017	%	17/16
OPERATING EXPENSES	2,953,363	85.4%	2,945,182	83.1%	2,990,730	81.2%	102%
Cost of material	1,721,105		1,605,943		1,583,919		99%
Cost of goods sold (COGS)	426,906		451,506		436,109		97%
Income from the use of own products	6,343		4,755		9,544		201%
Change in inventory value	-147,070		-55,251		-19,026		
Other materials	28,925		26,707		25,004		94%
Fuel and energy costs	31,792		33,475		35,775		107%
Salaries, contributions	392,627		417,642		425,174		102%
Production services	351,103		311,968		336,053		108%
Amortization expense	73,949		81,113		81,966		101%
Immaterial costs	80,369		76,834		95,301		124%
FINANCIAL EXPENSES	47,178	1.4%	29,914	0.8%	236,310	6.4%	790%
Interests paid	9,143		7		191		2932%
Exchange rate changes & Currency clause	38,035		20,420		236,119		1156%
Other financial expenses	0		9,487		0		
IMPAIRMENT COSTS	438,303	12.7%	556,305	15.7%	450,416	12.2%	81%
Impairment assets	964		433		0		
Impairment losses	437,339		555,872		450,416		81%
OTHER EXPENSES	21,228	0.6%	11,415	0.3%	5,551	0.2%	49%
Disposals & Deficits	11,243		4,996		3,431		69%
Other expenses	9,985		6,418		2,120		33%
TOTAL EXPENSES	3,460,072	100%	3,542,815	100%	3,683,006	100%	104%

EXPENSES STRUCTURE	In EUR						
	2015	%	2016	%	2017	%	17/16
OPERATING EXPENSES	24,461,977	85.4%	23,921,636	83.1%	24,648,188	81.2%	103%
Cost of material	14,255,488		13,043,941		13,053,912		100%
Cost of goods sold (COGS)	3,535,957		3,667,266		3,594,203		98%
Income from the use of own products	52,538		38,620		78,655		204%
Change in inventory value	-1,218,145		-448,765		-156,807		
Other materials	239,579		216,922		206,071		95%
Fuel and energy costs	263,325		271,892		294,838		108%
Salaries, contributions	3,252,033		3,392,213		3,504,087		103%
Production services	2,908,100		2,533,895		2,769,589		109%
Amortization expense	612,501		658,820		675,522		103%
Immaterial costs	665,677		624,071		785,428		126%
FINANCIAL EXPENSES	390,764	1.4%	242,967	0.8%	1,947,553	6.4%	802%
Interests paid	75,729		53		1,571		2975%
Exchange rate changes & Currency clause	315,035		165,858		1,945,982		1173%
Other financial expenses	0		77,057		0		
IMPAIRMENT COSTS	3,630,356	12.7%	4,518,475	15.7%	3,712,116	12.2%	82%
Impairment assets	7,985		3,515		0		
Impairment receivables	3,622,371		4,514,960		3,712,116		82%
OTHER EXPENSES	175,826	0.6%	92,712	0.3%	45,747	0.2%	49%
Disposals & Deficits	93,123		40,583		28,276		70%
Other expenses	82,703		52,129		17,470		34%
TOTAL EXPENSES	28,658,923	100%	28,775,790	100%	30,353,604	100%	105%



PROFIT STRUCTURE	In 000 RSD			
	2015	2016	2017	17 / 16
Gross profit	1,839,062	1,960,512	2,009,390	102%
Gross profit margin	48%	50%	50%	
Operating profit	880,297	1,012,774	1,010,118	100%
Operating profit margin	23%	26%	25%	
EBITDA	954,246	1,093,886	1,092,083	100%
EBITDA margin	25%	28%	27%	
EBT	960,313	1,002,670	876,811	87%
Net profit	863,950	900,876	755,405	84%

PROFIT STRUCTURE	In EUR			
	2015	2016	2017	17 / 16
Gross profit	15,232,497	15,923,858	16,560,449	104%
Gross profit margin	48%	49.5%	50.2%	
Operating profit	7,291,283	8,226,046	8,324,915	101.2%
Operating profit margin	23%	25.6%	25.2%	
EBITDA	7,903,784	8,884,866	9,000,437	101%
EBITDA margin	25%	28%	27%	
EBT	7,954,036	8,143,979	7,226,260	89%
Net profit	7,155,885	7,317,178	6,225,689	85%



II AUDITORS REPORT 2017
INDEPENDENT AUDITOR: UHY REVIZIJA d.o.o.,
Belgrade, ID No. 17082175

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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, 2017, 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 accompanying 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, 2017, 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 Annual business report of the Company. The management of the Company is responsible for the preparation and presentation of the 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 Annual business report with the financial statements for the 2017. In this respect, our procedures are limited to assessing compliance of accounting information contained in the Annual business report with the financial statements. Accordingly, our procedures did not include a review of other information contained in the 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 2017.

Belgrade, April 19, 2018



Mira Krža

Mira Krža
Certified Auditor



III BUSINESS REPORT 2017



MORE THAN 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.
2016	First EU registrations were obtained for plant protection products Laboratory for physical and chemical testing was certified for its established quality system according to the OECD Principles on Good Laboratory Practice (GLP).
2017	First sales of EU registered products on foreign markets Completed first GLP study for sponsor from EU.



2017 OVERVIEW

The year behind us is very specific in terms of the factors that influenced both the result of sales in the domestic market, and the net financial result, on which realistically we did not have influence.

Weather conditions in the first half of the year were favourable for the timely sowing of spring crops and the standard use of plant protection products (PPP) for most of the agricultural products and plants, and the sales in this most important segment of ours had good results. Revenues of sale of PPP increased by 11% compared to the first half of 2016. However, the second half of the year as marked by a long-lasting drought that caused the absence of use of total herbicides in the usual extent, so we ended the year with a growth in sale of PPP sales by only 2% in the domestic market.

Another important factor that influenced our financial result is the exchange rate of RSD against € and \$. The strengthening of the Serbian currency resulted in an unprecedented high amount of negative exchange rate differentials and the effects of currency clause of as much as RSD 236 million (€ 1.9 million). The exchange differences are related to the conversion of all balance positions in foreign currencies and their reduction to the amount in RSD by applying the exchange rate at the time of the reduction. The effects of currency clause are related to the relationships with domestic counterparties that are contracted in foreign currencies (usually €), expressed at the exchange rate of RSD, which is also converted at the day of the reduction.

The previous year was also marked by a major disruption in the Chinese market of raw materials (active substances) for the production of PPP, due to the implementation of measures of the Chinese government to reduce environmental pollution. As a result of these activities, many Chinese factories have been closed, either temporarily or permanently, which caused great shortages and, consequently, price increases. In the fall of 2017, this crisis escalated so much that a psychosis was created, in which it was only important to provide the necessary quantities of raw materials, regardless of the price. Our business strategy, to send orders to our suppliers early in the season, turned out to be excellent, because we managed to obtain most of the raw materials at relatively favourable prices, taking into account all the circumstances.

The year 2017 brought us the first revenues from the so-called EU strategic direction of our business. The smallest significance in this activity is currently related to revenues from sale of PPP with EU registrations (€ 170,000), but more importantly, we have emerged on the demanding EU market of plant protection products and have gained additional experience and confidence in this area. During 2017, the Laboratory for Physical and Chemical Testing had the first commercial work to prepare a GLP study of five production batches for an external contracting authority, which was completed in accordance with the required quality standard. Just like in the case of sale of PPP with EU registrations, the realized revenue is in the shadow of the gained experience and confidence in the work.

At the end of 2017, we received the EU registration for one more product of ours, herbicide for application in corn and sunflower, Basar (active substance S-metolachlor). At the same time, during the year we intensively worked on obtaining national registrations in the countries of interest, so that we enter into the 2018 sales season with 30 national registrations in 10 countries. The planned income from export of our four EU registered products is € 1.85 million.

On the commercially most important field, sale of plant protection products in the domestic market, we have achieved satisfactory results, taking into account all the circumstances. The planned sales policy has been fully implemented and the most important marketing goals have been achieved. Taking into account the fact that our sales prices were on the average lower by 3% compared to the prices in the season of 2016, the growth in revenues from the sale of PPP, as well as gross profit and profit margin, are considered a success.

Our financial results, recalculated by average exchange rate of RSD against €, in 2017 are:

- Growth in total sales revenues by 3% (by € 997,000);
- Growth in gross profit by 4% (by € 637,000);
- Growth in the margin of gross operating profit by 0.7 percentage points (from 49.5% to 50.2%);
- Growth in operating profit by 1% (by € 99,000);
- Decrease in operating profit margin by 0.4 percentage points (from 25.6% to 25.2%);
- Growth in financial expenses (negative exchange rate differentials and effects of currency clause) by 702% (€ 1.7 million);
- Decrease in profit before tax by 11% (by € 918,000) with simultaneous growth in income tax due to the lack of tax incentives that decreased the amount of taxes in the previous years;
- Decrease in net profit by 15% (by € 1,1 million).



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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, 2017
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 20801115, 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 5,69% 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 end of the year 2017:

No. of shareholders by share in capital	No. of entities		No. shares		% of total issued	
	local	foreign	local	foreign	local	foreign
0% to 5%	1,195	64	916,654	395,321	34.72%	14.97%
5% to 10%	2		319,533		12.10%	
10% to 25%	2		1,008,492		38.20%	
Total:	1,263		2,640,000		100%	

Type of shareholder	No. shares	%
Owned by individuals	1,357,904	51.44%
Owned by legal entities	1,037,596	39.30%
Joint (custody) account	244,500	9.26%
Total:	2,640,000	100%

Top ten shareholders by number of shares and votes:

No.	Shareholder	No. shares	%
1	Vojinović Zivorad	569,196	21.56%
2	Agromarket d.o.o.	439,296	16.64%
3	Puhar Nedeljko	168,583	6.39%
4	Nenadovic 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	Societe Generale banka Srbija - kastodi račun - FO	65,899	2.50%
	Total:	1,844,940	69.88%

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 Batajnicki drum bb. Company owns facilities at following locations:

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

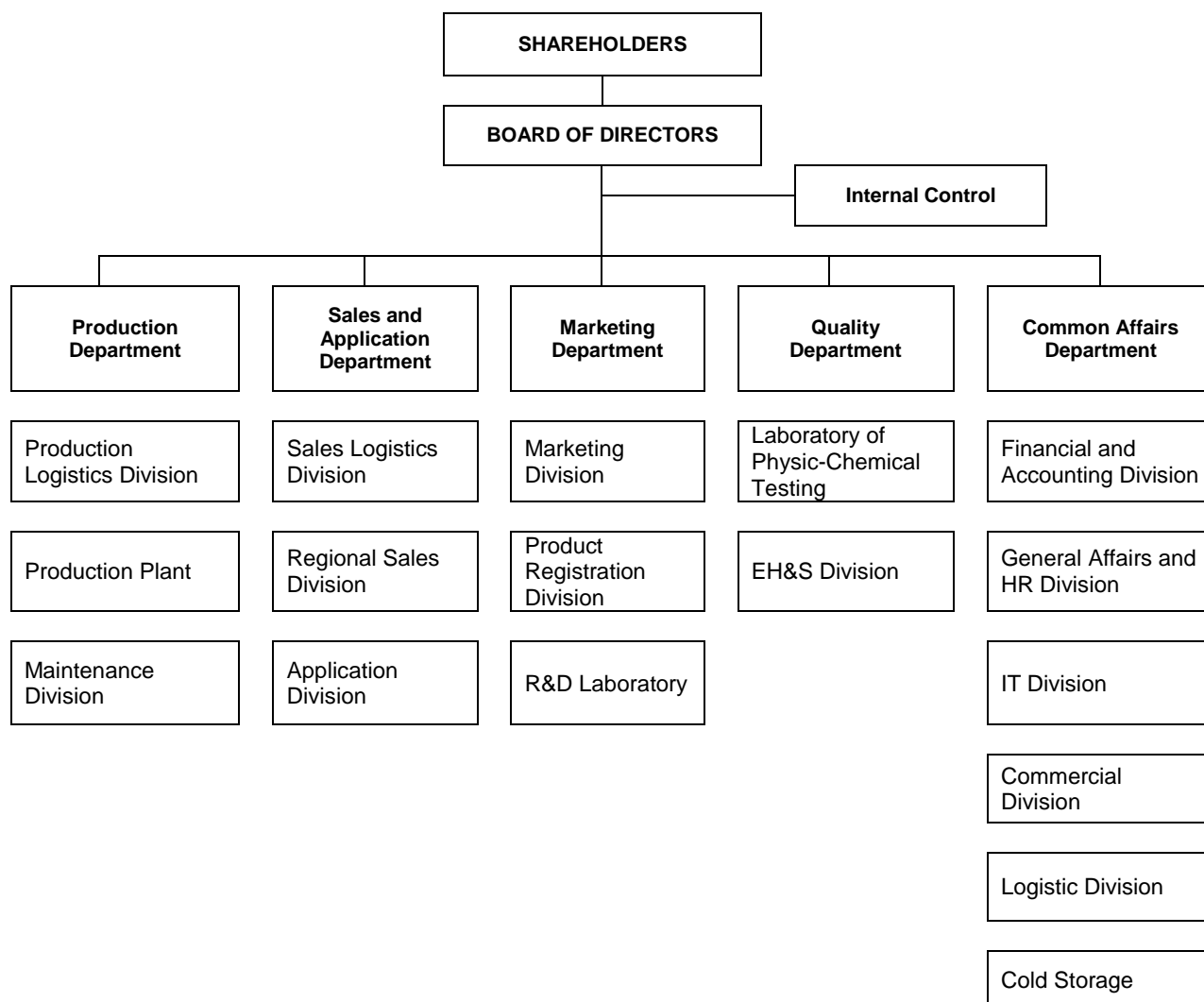
The building in Ruma was bought at the beginning of 2007, in a procedure of enforced collection of tax debt from the taxpayer „Zorka – Zaštita bilja“ a.d. from Šabac, conducted by the Serbian Tax Administration – Branch of the Town of Ruma. The plant facility has not been put into operation.

Land (including land covered with buildings):

Location	Designated use	Surface in m ²	Note
Zemun, Batajnicki 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



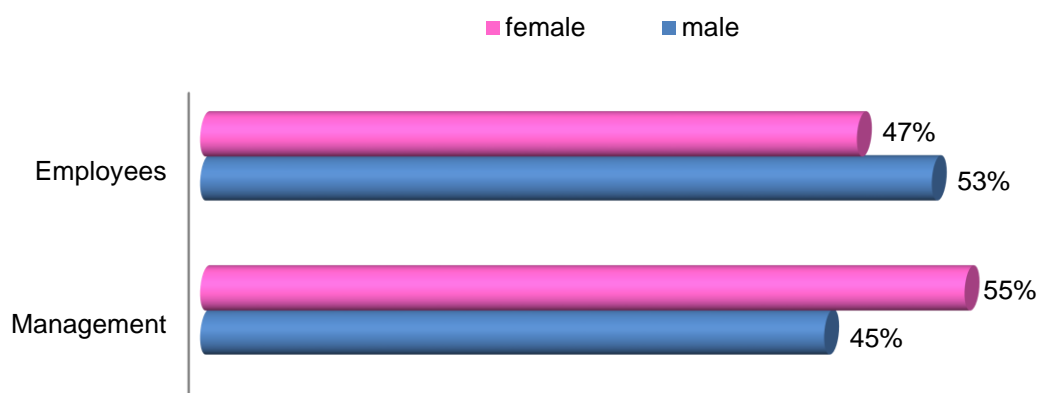
**Employee qualifications**

The table below shows the qualification and age structure of employees as of 31 December 2017.

Org. unit / Qualifications	I	II,III	IV	V,VI	VII, VIII	Total	
Management activities	0	0	0	0	4	4	
Quality Department	0	0	4	0	10	14	
Production Department	2	12	27	3	7	51	
Sales and App. Department	0	0	2	2	30	34	
Marketing Department	0	0	2	0	15	17	
Common Affairs Department	3	4	15	7	18	47	
GENDER	F	0	0	11	7	39	57
	M	5	16	39	5	45	110
TOTAL		5	16	50	12	84	167
%		3%	10%	30%	7%	50%	100%
Average age		42	42	43	51	43	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 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 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 fluctuation.

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 revaluation 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.

Thus far, the market of plant protection products has been dominated by six major R&D companies, but this structure has been changed due to the takeover of Monsanto by Bayer, Syngenta by ChemChina, as well as the merger of companies Dow Agroscience and DuPont. Now it can be said that four major R&D companies dominate the world market and have about a half of the market share, such as Syngenta/ChemChina, Bayer CropScience/Monsanto, BASF, Dow AgroSciences/Du Pont. The largest generic companies are: Adama (former Makhteshim Agan), Platform, Amvac, Isagro, Nufarm, United Phosphorus Limited (UPL), etc.

The global market of plant protection products in 2016 was worth around USD 50 billion, and if the use of pesticides for non-agricultural purposes is taken into account, this value is around USD 56 billion (at the time of preparation of this report the data for 2017 was not available). China, France, Germany, India and the USA have the highest consumption of agrochemicals.

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 in 2017 retained on the same level, at 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 2017 in the Serbian market was approx. 1.250. The greatest number of registered products is owned by foreign generic companies (51.5%), then research and development companies (24.1%) and domestic manufacturers (24.4%). Our company, as the largest domestic manufacturer in the Serbian market participates with 138 products or with 45% 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.

In order for the process of harmonizing the legislation of the candidate countries to be as efficient as possible, the European Union finances various projects to support local institutions to strengthen administrative capacities (the so-called Twinning projects). In particular in the field of plant protection products and pesticide residues, our Ministry has previously conducted one Twinning project, the final result of which was defining the list of permitted active substances in Serbia, which is in compliance with the one in force in the EU. A second twinning project is currently being implemented. It started in October 2016, under the leadership of the regulatory body of the United Kingdom and the Czech Republic. The aim of this project is to train responsible persons in our country to perform the tasks of assessing active substances, i.e. whether their chemical composition and associated impurities comply with the EU specifications.

These activities are very important from the perspective of safety of produced food and environmental protection, because at the end of the second Twinning project, our Ministry will ensure that all PPP that are used in agricultural production in our country contain only those active substances which in their chemical composition (purity and associated impurities) comply with EU regulations. Ultimately, these activities provide a stable export potential of the Serbian agrarian sector.

The association of domestic producers of plant protection products, which operates under the auspices of the Serbian Chamber of Commerce, and of which our company is a member, seeks to be an equal and constructive partner to the Ministry in this process of harmonization, especially through active engagement in the Twinning project. The Association assessed the previously achieved results of the Twinning project as very useful for the domestic industry, because a regulatory improvement has been achieved with minimum harmful consequences for the current operations of its members. On the other hand, the Association insists on the facts that Serbia is not obliged to apply the harmonized legal regulations in this area until it becomes a member of the EU and that there are economically very justified reasons to act in this way.



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 products has been brought in line with European legislation.

As a quality generic company, we are continuously raising 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 responsibility towards agricultural producers, population, our employees, shareholders and the community we belong to.

Seasonal character of business

Plant protection products (PPP) 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 PPPs.

The beginning and the end of season for use of PPP, 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 particular PPP, whereas during the following year the same PPP 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 PPPs is related to timeframe. Most PPPs may be applied only until a certain point in the course of plant development, e.g. until the first leaf develops. If the PPP 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 – 20 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.

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;
 - Relations with customers in the domestic market (business linking trend);
 - Relations with key suppliers from abroad.
- Operational
 - Risks in the production process – technological security and reliability, occupational health and safety;
 - Risks in the application of our products – efficiency of products, safe use, health protection of consumers of agricultural products;
 - Environmental protection;
 - EU registration and sales process management;
 - 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.

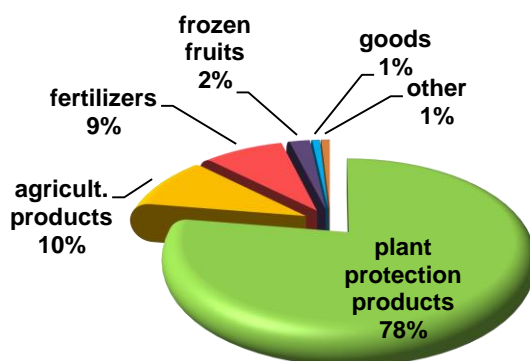
Financial risk management strategy is based on reducing their impact on the Company's financial performance. On the basis of periodic assessment of exposure to the inherent risks within this group, as well as the evaluation of existing internal controls, the Company estimates that the residual financial 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 2017

Gross sales by type of product



Sales of plant protection products

Gross sales in 2017 by application:

APPLICATION	tons	%	EUR	%
INSECTICIDES	961	25%	7,874,484	23%
HERBICIDES	2,181	56%	17,485,987	50%
FUNGICIDES	712	18%	9,034,103	26%
RODENTICIDES	3	0.1%	16,485	0.0%
ADJUVANT	32	0.8%	234,307	0.7%
DDD	3	0.1%	98,285	0.3%
TOTAL	3,892	100%	34,743,651	100%

Gross sales in 2017 by brand:

BRAND	tons	%	EUR	%
OWN	3,704	95%	32,115,336	92%
PARTNERS	188	5%	2,628,315	8%
TOTAL	3,892	100%	34,743,651	100%

Gross sales in 2017 by market:

MARKET	tons	%	EUR	%
LOCAL	3,589	92%	33,093,608	95%
FOREIGN	303	8%	1,650,043	5%
TOTAL	3,892	100%	34,743,651	100%

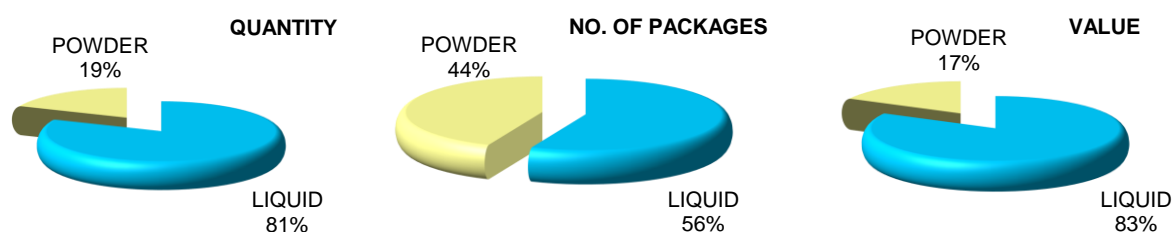


Manufacturing of plant protection products

Product range in 2017 by type of production:

Type of production	No. of preparations	%	No. of packages in thousands	%	tons	%
OWN FORMULATIONS	60	78%	6,165	93%	3,866	94%
FORMULATIONS WITH FOREIGN PARTNERS	2	3%	49	1%	49	1%
FINISHED PRODUCTS OF FOR. PARTNERS	15	19%	399	6%	182	4%
Total	77	100%	6,613	100%	4,097	100%

Product range in 2017 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 2017, which will be under the registration process in the domestic market in 2018.

In 2017/2018, we received (or expect to receive it a very short time before the beginning of the 2018 sales season) the authorizations for the following new products under our brand:

- **Herbicides:**
Rezon plus (S-metolachlor 312,5 g/l + terbuthylazine 187,5 g/l, SC)
- **Fungicides:**
Nukleus (chlorothalonil 500 g/l + metalaxyl-M 37,5 g/l, SC)
Legat SP (fosetyl-aluminium 800 g/kg, SP)
Duplex T (chlorothalonil 540 g/l + thiophanate-methyl 225 g/l, SC)
- **Insecticides:**
Galition forte (chlorpyrifos 75 g/kg + cypermethrin 8 g/kg, GR)
- **Fertilizers:**
Foligal cink 700 (nutrient zinc (Zn) 40% (w/w) i.e. 70% (w/v))
Foligal bor 150 (nutrient boron (B) 10.8% (w/w) i.e. 15% (w/v))
Foligal magnezijum 500 (nutrient magnesium (Mg) 34.5% (w/w) i.e. 50% (w/v))
Foligal mangan 500 (nutrient manganese (Mn) 27.4% (w/w) i.e. 50% (w/v))
- **Biocides:**
Muver (thiamethoxam 100 g/kg + (Z)-9-Tricosene 0.5 g/kg, WG)
Nadzor 10 WP (lambda-cyhalothrin 100 g/kg, WP)
Kontakt (deltamethrin 25 g/l + piperonyl butoxide 225 g/l, EC)

Registration of plant protection products in the EU market

At the end of 2017, we received the EU registration in the Central Registration Zone for one more product of ours, the Basar herbicide (s-metolachlor 960 g/l, EC), for eradication of weeds in corn and sunflower. For our three products already registered in the EU, in the Central Registration Zone, registrations were also obtained in



the Southern Zone in 2017. Also, during the year we had intensive activities to obtain national registrations in countries of interest in both EU registration zones, as well as in other countries where the EU file is necessary for the registration of products.

So far, we have obtained a total of 30 national registrations in 10 countries (Austria, Slovenia, Hungary, Romania, Croatia, Bulgaria, Albania, Macedonia, Greece and Cyprus).

In accordance with the plan of registration activities, applications for EU registration were completed and submitted for two more products in the Central Registration Zone in the previous year. Based on previous experience, we expect to obtain one registration by the end of 2018 and the second one in 2019.

During 2017, we continued to be 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.

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 2017 amounted to around EUR 500,000.

Investment activities

In 2017 there were no significant investment activity. There was significant planned investment activity, regarding widening of GLP accreditation scope, at the amount of 775,000 €, but this activity was not started due to delay of obtaining administrative permission for reconstruction.

Specification of investments in 2017:

Production equipment	310,000 €
Other equipment	116,000 €
Infrastructural works	37,000 €
<i>Total</i>	<i>463,000 €</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 standard. During 2017 we were working on our system's adjustment to the new requirements of ISO 14001:2015 standard. We are expecting certification and new version standard compliance confirmation at the beginning of 2018. 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 fulfil its legal obligations on this basis, we received the approval from the competent Ministry for the mentioned documents. We started the revision process of these documents in 2017 and are expecting the approval during 2018.

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.

105 tonnes of hazardous waste from production process was disposed in 2017, as well as 2 tonnes of products which becomes special waste stream after usage. 24.6 tonnes of non-hazardous waste was recycled in 2017.

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 2017 ENVIPACK collected from the end-users and disposed of 43.6 tons of empty containers issued by our company, which is higher by 23,5% than previous year. 37 tons of packaging materials for the production of PPPs were disposed from the location of our company in 2017, which is lower by 40,3% than previous year when 62 t were disposed.

Specification of direct costs related to environmental protection in 2017:

Monitoring and measurement of environmental aspects	5,000 €
Disposal of hazardous waste from production process	46,000 €
Disposal of packaging waste from the field and location	99,000 €
Regular fee for packaging waste management	4,000 €
Total	154,000 €

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.

Yield of Willamette, the most widespread variety of raspberries, was in 2017 at the same level as in the last year, while good weather conditions resulted in higher quality. Business environment for cold storage operators are very unfavourable in last two years, because demand for frozen fruit on European market, as well as selling prices, has significantly dropped. Like in previous year, it is expected that large quantities of frozen raspberries of the yield of 2017 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 2017, we purchased 311 tons of fresh raspberries, which is 4,5% more than the quantity bought last year. The purchase prices of the yield in 2017 were lower by about 33%, as well as average export prices. By the end of the 2017 calendar year, we exported about 35% of the fruit, and the rest is planned to be implemented by the beginning of the new purchase season (June 2018).

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:

	2013	2014	2015	2016	2016*
Raspberry	1,725,000	3,219,000	1,134,000	962,700	780,000
Other fruits	312,500	105,500	0	0	12,000
<i>Total(€)</i>	<i>2,037,500</i>	<i>3,324,500</i>	<i>1,134,000</i>	<i>962,700</i>	<i>792.000</i>

For 2017 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 2017 on our 655 ha of agricultural land in Ugrinovci and Bečmen, as well as the additional 637 ha on which we agreed joint production with our partners (mainly seed production). We produced seed wheat, mercantile wheat, mercantile corn, mercantile sunflower and oilseed rape.

By the end of 2017 calendar year, we sold the entire yield of sunflower, maize and oilseed rape, while about 62% of the available quantity of mercantile wheat, and around 3% of wheat seeds, have remained in stock.

The table below shows the results of agricultural production of the yield of 2017, by culture.

	ha	Tones	Revenues EUR
Mercantile wheat	362	2,661	396,000
Mercantile sunflower	58	117	35,500
Mercantile corn	206	457	63,000
Oilseed rape	62	299	94,500
Seed wheat	604	4,204	1,380,000
Total	1,292	7,738	1,969,000

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 4,204 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, oilseed rape, 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 151 in 2016 to 182 in 2017.

The total amount of collected and disposed waste in 2017 was 331 tonnes, which is similar amount as it was in the 2016. The structure of collected and disposed waste in 2017:

- 141 t of PPPs packaging waste on collection locations (an increase of 58% compared to 2016),
- 47 t of packaging waste of raw materials for the production of PPPs - industrial packaging waste (increase of 5% compared to 2016),
- 16 tonnes of pesticide waste from collection locations (not collected in 2016),
- 119 tonnes of waste from other industries (rubber, paints and varnishes, pharmaceutical, food, etc.) which is an decrease of 30% compared to 2016,
- 8 tonnes of non-hazardous waste (paper, metal, plastics), which is decrease of 71% compared to 2016.

The most significant activities in the previous year were renewal of the operating license and implementation of the ISO 9001 standards. Also, the planned activity of education of PPP users continued, in cooperation with associations of farmers and agricultural professional services. In this way, the acquired positions on the market were retained and the possibilities for further business improvement were accomplished.



5 FINANCIAL PERFORMANCE IN 2017

All results presented in this section are recalculated in EUR, using average exchange rate of RSD against EUR in reporting year.

BALANCE SHEET

(in EUR)

	2015	2016	2017
ASSETS			
Property, plant and equipment (PP&E)	15.562.813	15.090.437	15.162.230
Intangible assets	22.927	13.192	8.250
LT financial placements	2.169.013	1.670.674	1.003.686
<i>Fixed assets</i>	17.754.753	16.774.304	16.174.167
Prepaid tax, other expenses and accrued revenues	484.549	651.243	1.537.795
Inventory and advanced payments	12.909.508	14.786.062	16.176.672
Receivables	4.019.074	2.979.031	4.441.888
ST financial placements	14.739.665	18.264.763	18.015.448
Cash and cash equivalents	2.308.271	2.104.806	4.023.548
<i>Current assets</i>	34.461.066	38.785.904	44.195.351
<i>Deferred tax assets</i>	211.094	206.956	220.733
Total assets	52.426.913	55.767.164	60.590.250
Off-balance sheet assets	3.421.539	1.495.331	585.996

Inventories and advances were higher by RSD 142 million (8%), for the most part because of the inventory of materials. Different procurement dynamics, due to the unstable situation in the market of raw materials in China and the favourable exchange rate of the RSD against the USD, caused the inventory of materials at the end of the year to be at a higher level than usual.

Total receivables, including those impaired, are about 8,1 million EUR and are higher than total receivables on 31 December 2016 by 648 thousand EUR. Taking into account that revenues from sale in 2017 grew compared to 2016, as well as generally bad financial situation in Serbian agriculture, it can be concluded that collection of receivables in 2017 was on satisfactory level.

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



(in EUR)

	2015	2016	2017
EQUITY AND LIABILITIES			
Shareholders' equity	29.082.403	28.519.005	28.937.659
Other equity	0	0	0
Reserves	6.904.172	7.121.283	7.597.050
Revaluation surplus	213.049	203.802	206.220
Un-realized gains on shares trading	0	0	0
Un-realized losses on shares trading	25	19	16
Retained earnings	11.991.629	17.015.324	21.205.785
<i>Equity</i>	48.191.229	52.859.396	57.946.697
LT reserved funds	0	0	0
LT Debt	0	0	0
Trade payables	3.133.291	1.901.121	1.753.179
ST financial liabilities	0	0	0
Tax payable	305.046	134.477	41.175
Other ST liabilities	797.348	872.169	849.199
Current (ST) liabilities	4.235.684	2.907.767	2.643.553
<i>Liabilities and reserved funds</i>	4.235.684	2.907.767	2.643.553
Total equity and liabilities	52.426.913	55.767.163	60.590.250
Off-balance sheet liabilities	3.421.539	1.495.331	585.996

Other current liabilities - for the most part they are related to the obligations to employees, for payment of bonuses, which was realized in January 2018.

**Profit and loss account**

(in EUR)

	2015	2016	2017
OPERATING REVENUES			
Sales	31.177.551	31.658.110	32.654.687
Other operating revenues	575.709	489.571	318.417
<i>Total operating revenues</i>	<i>31.753.260</i>	<i>32.147.681</i>	<i>32.973.104</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	3.535.957	3.667.266	3.594.203
Cost of material	14.255.488	13.043.941	13.053.912
Change in inventory value	-1.218.145	-448.765	-156.806
Salaries/Other personal expenses	3.252.033	3.392.213	3.504.087
Amortization expense	612.501	658.820	675.522
Other operating expenses	4.024.143	3.608.159	3.977.271
<i>Total operating expenses</i>	<i>24.461.977</i>	<i>23.921.635</i>	<i>24.648.189</i>
OPERATING PROFIT	7.291.283	8.226.046	8.324.915
Other revenues	4.859.698	4.772.084	4.606.760
Other expenses	4.196.946	4.854.152	5.705.416
Earnings before tax (EBT)	7.954.036	8.143.979	7.226.260
Tax	798.151	826.801	1.000.571
NET PROFIT	7.155.885	7.317.178	6.225.689

PROFIT STRUCTURE	IN EUR			
	2015	2016	2017	17 / 16
Gross profit	15.232.497	15.923.858	16.560.449	104%
Gross profit margin	48%	49,5%	50,2%	
Operating profit	7.291.283	8.226.046	8.324.915	101,2%
Operating profit margin	23%	25,6%	25,2%	
EBITDA	7.903.784	8.884.866	9.000.437	101%
EBITDA margin	25%	28%	27%	
EBT	7.954.036	8.143.979	7.226.260	89%
Net profit	7.155.885	7.317.178	6.225.689	85%

Until this year, our company used tax incentive up to the maximum extent permitted by tax regulations, and so the calculated income tax was significantly lower than the prescribed rate of 15%. In the calculation of corporate income tax for 2017 we no longer had unused tax credit that would reduce our tax liability, and as the result, despite the profit before tax being lower by 13%, the calculated income tax is higher by 20% than in the last year.

**Structure of income and expenses**

REVENUES STRUCTURE	EUR						
	2015	%	2016	%	2017	%	17/16
OPERATING REVENUES	31.753.260	86,7%	32.147.678	87,1%	32.973.104	87,7%	103%
Sales revenues	31.177.551		31.658.107		32.654.687		103%
<i>plant protection products</i>	22.946.780		24.641.147		25.718.074		104%
<i>cold-storage</i>	2.206.393		977.300		734.825		75%
<i>agriculture</i>	2.037.301		1.724.310		2.083.968		121%
<i>goods</i>	3.987.077		4.315.349		4.117.819		95%
Other operating revenues	575.709		489.571		318.417		65%
FINANCIAL REVENUES	899.987	2,5%	827.157	2,2%	405.294	1,1%	49%
Interests received	489.883		290.190		182.758		63%
Exchange rate changes & Currency	408.853		536.202		222.536		42%
Other financial revenues	1.251		764		0		0%
ASSETS VALUATION ADJUSTMENTS	3.797.924	10,4%	3.800.450	10,3%	4.074.167	10,8%	107%
OTHER REVENUES	161.790	0,4%	144.480	0,4%	127.300	0,3%	88%
Property and equipment sale & Surpluses	93.681		99.904		23.777		24%
Other revenues	68.109		44.576		103.522		232%
TOTAL REVENUES	36.612.962	100%	36.919.766	100%	37.579.864	100%	102%

Revenues from sales of the most profitable segment of our portfolio, plant protection products, grew 3% compared to last year. The growth was mainly achieved on products that are under our own brand, which caused an increase in gross profit, as well as keeping gross margin on same level.

As expected, revenues from sales of frozen products were lower than last year, as selling prices on European market were lower.

In agriculture products group, seed wheat is dominant culture. Sales of this culture in calendar year 2016 was lower than usual, because of unfavourable weather conditions, and recovered in 2017.

Assets valuation adjustments are linked to collected receivables which was impaired in previous years.



EXPENSES STRUCTURE	IN EUR						
	2015	%	2016	%	2017	%	17/16
OPERATING EXPENSES	24.461.977	85,4%	23.921.636	83,1%	24.648.188	81,2%	103%
Cost of material	14.255.488		13.043.941		13.053.912		100%
Cost of goods sold (COGS)	3.535.957		3.667.266		3.594.203		98%
Income from the use of own products	52.538		38.620		78.655		204%
Change in inventory value	-1.218.145		-448.765		-156.807		
Other materials	239.579		216.922		206.071		95%
Fuel and energy costs	263.325		271.892		294.838		108%
Salaries, contributions	3.252.033		3.392.213		3.504.087		103%
Production services	2.908.100		2.533.895		2.769.589		109%
Amortization expense	612.501		658.820		675.522		103%
Immaterial costs	665.677		624.071		785.428		126%
FINANCIAL EXPENSES	390.764	1,4%	242.967	0,8%	1.947.553	6,4%	802%
Interests paid	75.729		53		1.571		2975%
Exchange rate changes & Currency clause	315.035		165.858		1.945.982		1173%
Other financial expenses	0		77.057		0		
IMPAIRMENT COSTS	3.630.356	12,7%	4.518.475	15,7%	3.712.116	12,2%	82%
Impairment assets	7.985		3.515		0		
Impairment receivables	3.622.371		4.514.960		3.712.116		82%
OTHER EXPENSES	175.826	0,6%	92.712	0,3%	45.747	0,2%	49%
Disposals & Deficits	93.123		40.583		28.276		70%
Other expenses	82.703		52.129		17.470		34%
TOTAL EXPENSES	28.658.923	100%	28.775.790	100%	30.353.604	100%	105%

Operating expenditures were at the expected level and ranged within the last year's limits, except in the position of cost of production services, which were higher due to the increased volume of production of seed wheat and in the position of intangible costs, due to the increased volume of consultancy services (mostly related to EU registrations and marketing in the EU markets).

Negative exchange rate differences and the effects of currency clauses have an extremely high value in 2017, due to the strengthening of the RSD against EUR and USD during the year. The table below shows the average RSD rates at the beginning and end of the year.

	EUR	USD
January 01 2017	123.4723	117.1353
December 31 2017	118.4727	99.1155
total	-4.9996	-18.0198

Such trends in middle exchange rates had a major impact on the balance sheet positions expressed in foreign currencies (foreign currency deposits, liabilities and receivables from foreign partners), as well as on RSD positions with currency clause (liabilities and receivables from partners in the country).

The amount of impaired receivables relates to outstanding trade receivables, which, as at 31 December, were older than 60 days.



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.

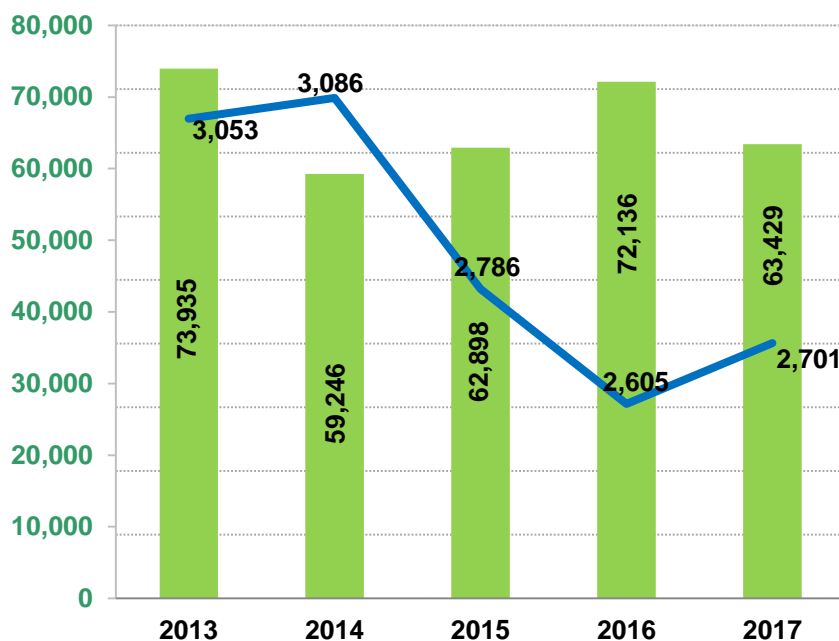
FITO shares have been traded on the Belgrade Stock Exchange since 2001, firstly based on the prevailing price method, and then from 2005 based on the continuous method.

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)	
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
2017	2,900	2,500	2,701	63,429	171,317,063	2,640,000	2,841	63,307,749

trading volume (No.Shares)



avg price (RSD)



**Indicators**

INDICATOR NAME	DESCRIPTION	dec.31, 2015	dec.31, 2016	dec.31, 2017
EPS Earnings per share	Earnings per share (EUR)	2,71	2,77	2,36
PE Price-earings ratio	Share market price / earnings per share	7,26	7,97	9,93
PB Price-book value	Share market price / ABV	1,08	1,10	1,07
ROE Return on equity	Return on equity	14,85	13,84	10,74
ABV Adjusted book value	EUR	18,25	20,02	21,95
Market capitalization	EUR	51.551.435	58.157.174	63.307.749

Dividend paid in last ten years

Date of Shareholders meeting	For year	RSD / share	Total		new issue
			RSD	EUR	
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	
June, 23, 2017	2016	86	227,040,000	1,864,738	

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 2018

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:

- “Local direction” – further improvement of business efficiency in the primary area of operations, on local market.
- “European direction” - development of international business activities (registration, marketing and sales of plant protection products on EU markets).
- Further expanding of subsidiary activities, as a support to business activities in the “local direction”.

For the season of 2018, we plan an increase in sales of plant protection products in the local market by 7%, 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 and increasing business costs.

Regarding the appearance in the EU markets, the year of 2018 should be much more successful, because with our three products we will appear in almost all markets of interest, and in some of them we will also have the latest, fourth product in our offer. Just like last year, revenues were planned conservatively, since our company is unknown in the target markets and since the offered portfolio is limited.

In addition to completing the registration process for our four products in the countries of interest, for the year 2018, we are planning to complete the documentation and submit applications for registration for another three new products for which registration documents were prepared last year. The development plan for EU registration in 2018 includes three new projects.

In order to further expand the areas of GLP testing, for 2018, activities are planned to provide preconditions for this expansion – adaptation of laboratory premises, procurement of necessary equipment and training of employees. This activity was planned for 2017, but did not commence due to delays in providing administrative preconditions.

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 2018 was planned under the assumption that sales plan for 2018 season has been achieved, i.e. that in September 2018 there is no stock of finished products to be carried forward into season 2019, but that everything needs to be produced.

There is a high probability that the production plan for period September – December 2018, and therefore the plan of respective costs, will undergo significant changes when it is finally defined, in July 2018.



In RSD

Item	2016	2017	plan 2018	18/17
I. OPERATING REVENUES	3.957.955	4.000.848	4.796.721	120%
1. Sales of goods	537.432	510.665	811.109	159%
2. Sales of products	3.360.248	3.451.547	3.962.212	115%
3. Services rendered	14.299	12.573	0	0%
4. Other operating revenues	45.976	26.062	23.400	76%
II. OPERATING EXPENSES	1.997.443	1.991.457	2.606.807	130%
1. Costs of goods sold (COGS)	451.506	436.109	685.299	158%
2. Costs of raw material	1.605.943	1.583.919	1.667.674	104%
3. Income from the use of own products	4.755	9.544	5.788	61%
4. Change in inventory value	-55.251	-19.026	259.623	
III. GROSS PROFIT	1.960.512	2.009.390	2.189.915	109%
IV. OTHER OPERATING EXPENSES	947.739	999.273	1.139.942	115%
1. Costs of other material	26.707	25.004	29.725	112%
2. Costs of fuel and energy	33.475	35.775	39.221	122%
3. Salaries / Other personal expenses	417.642	425.174	440.808	105%
4. Costs of production services	311.968	336.053	447.858	135%
5. Amortization expense	81.113	81.966	83.954	102%
6. Non-production costs	76.834	95.301	98.377	103%
V. OPERATING PROFIT	1.012.774	1.010.118	1.049.972	103%

The planned sales revenue in 2018 structure is as follows:

- *Finished products in the local market, 3.1 billion RSD.* Revenue growth is mainly planned on the products of our own trademark.
- *Finished products in the international market, worth € 3.3 million:* € 1.85 million is worth sales plan for EU registered products and € 1.45 million is worth export plan for Bosnia. Planned revenue growth in this segment is 88%.
- *Revenue from sales of agricultural products in the amount of 354 million RSD.* This group includes agricultural products from our land, 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 2017 as of 31 December 2017, and the assumption that all agricultural products generation of the yields of 2017 will be sold by the end of the calendar year except mercantile wheat, which is planned to be sold at amount of 50%.
- *Revenue from sales of frozen fruits, in the amount of € 923.000.* This revenue is planned on the basis of the value of unsold quantities by the end of 2017 and expected purchase of fresh raspberries in 2018.
- *Revenue from sales of goods in the amount of 811 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 2018.

Change of value of inventory has been estimated based on the structure of the planned sales and production in 2018 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 2018. The most important items in this group of costs are salaries (382 million RSD); production services for agricultural production (182 million RSD); research and product registration services (112 million RSD) and marketing services (54 million RSD).

Scenario analysis

Risks that may adversely affect the financial plan for 2018 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 RSD

Item	plan 2018	option I	opt I / plan	option II	opt II / plan
I. OPERATING REVENUES	4.796.721	4.486.372	94%	4.346.715	91%
1. Sales of goods	811.109	811.109	100%	811.109	100%
2. Sales of products	3.962.212	3.651.863	92%	3.512.206	89%
3. Services rendered	0	0		0	
4. Other operating revenues	23.400	23.400	100%	23.400	100%
II. OPERATING EXPENSES	2.606.807	2.432.899	93%	2.432.899	93%
1. Costs of goods sold (COGS)	685.299	685.299	100%	685.299	100%
2. Costs of raw material	1.667.674	1.667.674	100%	1.667.674	100%
3. Income from the use of own products	5.788	5.788	100%	5.788	100%
4. Change in inventory value	259.623	85.714		85.714	
III. GROSS PROFIT	2.189.915	2.053.473	94%	1.913.816	87%
IV. OTHER OPERATING EXPENSES	1.139.942	1.139.943	100%	1.139.943	100%
1. Costs of other material	29.725	29.725	100%	29.725	100%
2. Costs of fuel and energy	39.221	39.221	100%	39.221	100%
3. Salaries / Other personal expenses	440.808	440.808	100%	440.808	100%
4. Costs of production services	447.858	447.858	100%	447.858	100%
5. Amortization expense	83.954	83.954	100%	83.954	100%
6. Non-production costs	98.377	98.377	100%	98.377	100%
V. OPERATING PROFIT	1.049.972	913.530	87%	773.873	74%

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 2018

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



IV STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF ANNUAL REPORT



Financial Report 2017, 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 2017, 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 Nenadovi



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 25, 2018.

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 2017 and a decision on profit distribution for 2017 after the date of the General Meeting.

Chief Corporate Affairs Officer,
M.Sc. Slavica Pekovic

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