

GALENKA – FITOFARMACIJA A.D.
Batajnicky drum bb
11080 Zemun
MB 07725531
PIB 100001046

ANNUAL REPORT 2018

GALENKA – FITOFARMACIJA A.D.



Dear shareholders,

Here is Annual Report 2018, 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 2018 was not adopted because the Annual General Meeting has not held yet.

The Annual General Meeting is planned on second half of June 2019.

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I FINANCIAL REPORT 2018

**BALANCE SHEET (IN 000 RSD)**

	2016	2017	2018
ASSETS			
Property, plant, equipment and natural assets	1.857.903	1.839.735	1.875.190
Intangible assets	1.624	1.001	5.409
LT financial placements	205.690	121.784	277.933
<i>Fixed assets</i>	<i>2.065.217</i>	<i>1.962.520</i>	<i>2.158.532</i>
Prepaid tax, other expenses and accrued revenues	80.180	186.591	150.538
Inventory and advanced payments	1.820.429	1.962.824	2.221.081
Receivables	366.772	538.964	711.932
ST financial placements	2.248.719	2.185.935	2.361.043
Cash and cash equivalents	259.139	488.204	323.297
<i>Current assets</i>	<i>4.775.239</i>	<i>5.362.518</i>	<i>5.767.890</i>
<i>Deferred tax assets</i>	<i>25.480</i>	<i>26.783</i>	<i>26.653</i>
Total assets	6.865.936	7.351.821	7.953.075
Off-balance sheet assets	184.102	71.103	155.299
EQUITY AND LIABILITIES			
Shareholders' equity	3.511.200	3.511.200	3.511.200
Other equity	0	0	0
Reserves	876.757	921.801	959.572
Revaluation surplus	25.092	25.022	23.406
Un-realized gains on shares trading	0	0	0
Un-realized gains on shares trading	2	2	2
Retained earnings	2.094.891	2.573.040	3.077.394
<i>Equity</i>	<i>6.507.938</i>	<i>7.031.061</i>	<i>7.571.570</i>
LT reserved funds	0	0	0
LT Debt	0	0	0
Liabilities from business operations and received advances, deposits and caution maney	234.062	212.725	261.605
ST financial liabilities	0	0	0
Liabilities for VAT, accrued expenses and other tax	16.557	4.996	11.173
Other ST liabilities	107.380	103.039	108.727
<i>Current (ST) liabilities</i>	<i>357.998</i>	<i>320.760</i>	<i>381.505</i>
<i>Liabilities and reserved funds</i>	<i>357.998</i>	<i>320.760</i>	<i>381.505</i>
Total equity and liabilities	6.865.936	7.351.821	7.953.075
Off-balance sheet liabilities	184.102	71.103	155.299

**BALANCE SHEET (IN EUR)**

	2016	2017	2018
ASSETS			
Property, plant and equipment (PP&E)	15.090.437	15.162.230	15.854.947
Intangible assets	13.192	8.250	45.734
LT financial placements	1.670.674	1.003.686	2.349.959
<i>Fixed assets</i>	<i>16.774.304</i>	<i>16.174.167</i>	<i>18.250.639</i>
revenues	651.243	1.537.795	1.272.816
Inventory and advanced payments	14.786.062	16.176.672	18.779.493
Receivables	2.979.031	4.441.888	6.019.467
ST financial placements	18.264.763	18.015.448	19.962.886
Cash and cash equivalents	2.104.806	4.023.548	2.733.512
<i>Current assets</i>	<i>38.785.904</i>	<i>44.195.351</i>	<i>48.768.174</i>
<i>Deferred tax assets</i>	<i>206.956</i>	<i>220.733</i>	<i>225.352</i>
Total assets	55.767.164	60.590.250	67.244.165
Off-balance sheet assets	1.495.331	585.996	1.313.071
EQUITY AND LIABILITIES			
Shareholders' equity	28.519.005	28.937.659	29.687.600
Other equity	0	0	0
Reserves	7.121.283	7.597.050	8.113.292
Revaluation surplus	203.802	206.220	197.900
Un-realized gains on shares trading	0	0	0
Un-realized losses on shares trading	19	16	19
Retained earnings	17.015.324	21.205.785	26.019.721
<i>Equity</i>	<i>52.859.396</i>	<i>57.946.697</i>	<i>64.018.494</i>
LT reserved funds	0	0	0
LT Debt	0	0	0
Trade payables	1.901.121	1.753.179	2.211.900
ST financial liabilities	0	0	0
Tax payable	134.477	41.175	94.469
Other ST liabilities	872.169	849.199	919.298
<i>Current (ST) liabilities</i>	<i>2.907.767</i>	<i>2.643.553</i>	<i>3.225.668</i>
<i>Liabilities and reserved funds</i>	<i>2.907.767</i>	<i>2.643.553</i>	<i>3.225.668</i>
Total equity and liabilities	55.767.163	60.590.250	67.244.162
Off-balance sheet liabilities	1.495.331	585.996	1.313.071

**INCOME STATEMENT (IN 000 RSD)**

	2016	2017	2018
OPERATING REVENUES			
Sales	3.897.680	3.962.212	4.122.939
Other operating revenues	60.275	38.636	30.554
<i>Total operating revenues</i>	<i>3.957.955</i>	<i>4.000.848</i>	<i>4.153.493</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	451.506	436.109	474.222
Cost of material	1.605.943	1.583.919	1.782.662
Change in inventory value	-55.251	-19.026	-141.811
Salaries/Other personal expenses	417.642	425.174	460.675
Amortization expense	81.113	81.966	79.403
Other operating expenses	444.229	482.589	557.079
<i>Total operating expenses</i>	<i>2.945.181</i>	<i>2.990.730</i>	<i>3.212.230</i>
OPERATING PROFIT	1.012.774	1.010.118	941.263
Other revenues	587.529	558.969	541.374
Other expenses	597.633	692.276	602.832
Earnings before tax (EBT)	1.002.670	876.811	879.806
Tax	101.794	121.406	133.659
NET PROFIT	900.876	755.405	746.147

**INCOME STATEMENT (IN EUR)**

	2016	2017	2018
OPERATING REVENUES			
Sales	31.658.110	32.654.687	34.859.924
Other operating revenues	489.571	318.417	258.338
<i>Total operating revenues</i>	<i>32.147.681</i>	<i>32.973.104</i>	<i>35.118.262</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	3.667.266	3.594.203	4.009.603
Cost of material	13.043.941	13.053.912	15.072.610
Change in inventory value	-448.765	-156.806	-1.199.025
Salaries/Other personal expenses	3.392.213	3.504.087	3.895.060
Amortization expense	658.820	675.522	671.358
Other operating expenses	3.608.159	3.977.271	4.710.165
<i>Total operating expenses</i>	<i>23.921.635</i>	<i>24.648.189</i>	<i>27.159.772</i>
OPERATING PROFIT	8.226.046	8.324.915	7.958.490
Other revenues	4.772.084	4.606.760	4.577.380
Other expenses	4.854.152	5.705.416	5.097.011
Earnings before tax (EBT)	8.143.979	7.226.260	7.438.858
Tax	826.801	1.000.571	1.130.102
NET PROFIT	7.317.178	6.225.689	6.308.755

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

in 2018 118,27 RSD/EUR
in 2017 121,34 RSD/EUR
in 2016 123,12 RSD/EUR

**STRUCTURE OF REVENUES, EXPENSES AND PROFITS**

REVENUES STRUCTURE	In 000 RSD						
	2016	%	2017	%	2018	%	18/17
OPERATING REVENUES	3.957.955	87,1%	4.000.848	87,7%	4.153.493	88,5%	104%
Sales revenues	3.897.680		3.962.212		4.122.939		104%
<i>plant protection products</i>	3.033.766		3.120.546		3.244.207		104%
<i>cold-storage</i>	120.323		89.161		41.749		47%
<i>agriculture</i>	212.293		252.862		282.186		112%
<i>goods</i>	531.297		499.643		554.797		111%
Other operating revenues	60.275		38.636		30.554		79%
FINANCIAL REVENUES	101.838	2,2%	49.177	1,1%	73.884	1,6%	150%
Interests received	35.728		22.175		49.010		221%
Exchange rate changes & Currency clause	66.016		27.002		24.772		92%
Other financial revenues	94		0		102		
ASSETS VALUATION ADJUSTMENTS	467.903	10,3%	494.346	10,8%	443.799	9,5%	90%
OTHER REVENUES	17.788	0,4%	15.446	0,3%	23.691	0,5%	153%
Property and equipment sale & Surpluses	12.300		2.885		6.770		235%
Other revenues	5.488		12.561		16.920		135%
TOTAL REVENUES	4.545.484	100%	4.559.817	100%	4.694.867	100%	103%

REVENUES STRUCTURE	In EUR						
	2016	%	2017	%	2018	%	18/17
OPERATING REVENUES	32.147.678	87,1%	32.973.104	87,7%	35.118.265	88,5%	107%
Sales revenues	31.658.107		32.654.687		34.859.927		107%
<i>plant protection products</i>	24.641.147		25.718.074		27.430.144		107%
<i>cold-storage</i>	977.300		734.825		352.996		48%
<i>agriculture</i>	1.724.310		2.083.968		2.385.914		114%
<i>goods</i>	4.315.349		4.117.819		4.690.873		114%
Other operating revenues	489.571		318.417		258.338		81%
FINANCIAL REVENUES	827.157	2,2%	405.294	1,1%	624.700	1,6%	154%
Interests received	290.190		182.758		414.385		227%
Exchange rate changes & Currency clause	536.202		222.536		209.453		94%
Other financial revenues	764		0		862		
ASSETS VALUATION ADJUSTMENTS	3.800.450	10,3%	4.074.167	10,8%	3.752.372	9,5%	92%
OTHER REVENUES	144.480	0,4%	127.300	0,3%	200.307	0,5%	157%
Property and equipment sale & Surpluses	99.904		23.777		57.245		241%
Other revenues	44.576		103.522		143.062		138%
TOTAL REVENUES	36.919.766	100%	37.579.864	100%	39.695.644	100%	106%



EXPENSES STRUCTURE	In 000 RSD						
	2016	%	2017	%	2018	%	18/17
OPERATING EXPENSES	2.945.182	83,1%	2.990.730	81,2%	3.212.230	84,2%	107%
Cost of material	1.605.943		1.583.919		1.782.662		113%
Cost of goods sold (COGS)	451.506		436.109		474.222		109%
Income from the use of own products	4.755		9.544		9.900		104%
Change in inventory value	-55.251		-19.026		-141.811		
Other materials	26.707		25.004		32.491		130%
Fuel and energy costs	33.475		35.775		42.514		119%
Salaries, contributions	417.642		425.174		460.675		108%
Production services	311.968		336.053		372.606		111%
Amortization expense	81.113		81.966		79.403		97%
Immaterial costs	76.834		95.301		119.368		125%
FINANCIAL EXPENSES	29.914	0,8%	236.310	6,4%	40.844	1,1%	17%
Interests paid	7		191		1.386		727%
Exchange rate changes & Currency clause	20.420		236.119		39.458		17%
Other financial expenses	9.487		0		0		
IMPAIRMENT COSTS	556.305	15,7%	450.416	12,2%	544.030	14,3%	121%
Impairment assets,placements, shares	433		0		4.240		
Impairment losses	555.872		450.416		539.790		120%
OTHER EXPENSES	11.415	0,3%	5.551	0,2%	17.957	0,5%	324%
Disposals & Deficits	4.996		3.431		11.356		331%
Other expenses	6.418		2.120		6.601		311%
TOTAL EXPENSES	3.542.815	100%	3.683.006	100%	3.815.061	100%	104%

EXPENSES STRUCTURE	In EUR						
	2016	%	2017	%	2018	%	18/17
OPERATING EXPENSES	23.921.636	83,1%	24.648.188	81,2%	27.159.772	84,2%	110%
Cost of material	13.043.941		13.053.912		15.072.610		115%
Cost of goods sold (COGS)	3.667.266		3.594.203		4.009.603		112%
Income from the use of own products	38.620		78.655		83.708		106%
Change in inventory value	-448.765		-156.807		-1.199.025		
Other materials	216.922		206.071		274.713		133%
Fuel and energy costs	271.892		294.838		359.463		122%
Salaries, contributions	3.392.213		3.504.087		3.895.060		111%
Production services	2.533.895		2.769.589		3.150.427		114%
Amortization expense	658.820		675.522		671.358		99%
Immaterial costs	624.071		785.428		1.009.270		128%
FINANCIAL EXPENSES	242.967	0,8%	1.947.553	6,4%	345.340	1,1%	18%
Interests paid	53		1.571		11.718		746%
Exchange rate changes & Currency clause	165.858		1.945.982		333.622		17%
Other financial expenses	77.057		0		0		
IMPAIRMENT COSTS	4.518.475	15,7%	3.712.116	12,2%	4.599.840	14,3%	124%
Impairment assets,placements, shares	3.515		0		35.851		
Impairment receivables	4.514.960		3.712.116		4.563.988		123%
OTHER EXPENSES	92.712	0,3%	45.747	0,2%	151.831	0,5%	332%
Disposals & Deficits	40.583		28.276		96.018		340%
Other expenses	52.129		17.470		55.813		319%
TOTAL EXPENSES	28.775.790	100%	30.353.604	100%	32.256.783	100%	106%



PROFIT STRUCTURE	In 000 RSD			
	2016	2017	2018	18 / 17
Gross profit	1.960.512	2.009.390	2.048.320	102%
Gross profit margin	50%	50%	49%	
Operating profit	1.012.774	1.010.118	941.263	93%
Operating profit margin	26%	25%	23%	
EBITDA	1.093.886	1.092.083	1.020.666	93%
EBITDA margin	28%	27%	25%	
EBT	1.002.670	876.811	879.806	100%
Net profit	900.876	755.405	746.147	99%

PROFIT STRUCTURE	In EUR			
	2016	2017	2018	18 / 17
Gross profit	15.923.858	16.560.449	17.318.782	105%
Gross profit margin	50%	50,2%	49,3%	
Operating profit	8.226.046	8.324.915	7.958.490	95,6%
Operating profit margin	26%	25,2%	22,7%	
EBITDA	8.884.866	9.000.437	8.629.848	96%
EBITDA margin	28%	27%	25%	
EBT	8.143.979	7.226.260	7.438.858	103%
Net profit	7.317.178	6.225.689	6.308.755	101%



II AUDITORS REPORT 2018
INDEPENDENT AUDITOR: PKF d.o.o.,
Belgrade, ID No. 08752524

„GALENKA – FITOFARMACIJA“ AD, Beograd

Independent Auditor's Report for 2018

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT**TO THE SHAREHOLDERS AND GENERAL MANAGER „GALENKA - FITOFARMACIJA" a.d.,
Beograd**

We have audited the accompanying financial statements of the company „GALENKA - FITOFARMACIJA" a.d., Beograd, (hereinafter referred to as the „Company") which comprise balance sheet as of December 31st 2018, and the income statement, statement of changes in equity, report on other comprehensive income and cash flow statement for the year ended and a summary of significant accounting policies contained in the Notes to the regular annual financial report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Law and accounting regulations prevailing in Republic of Serbia and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Law on Auditing and audit standards applicable in 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 auditor's judgment, including the assessment of the risk of material misstatement of the financial statement, 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 purposes 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.

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

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pkf.rs I mat br 08752524 I PIB 102397694 I t.r. 285-2011000000084-52 Sberbank I sifra delatnosti 6920

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the „GALENKA – FITOFARMACIJA“ a.d., Beograd as of December 31st 2018, its financial performance and cash flow for the year ended in accordance with Accounting Law and accounting regulations prevailing in Republic of Serbia.

Report on other legal and regulatory requirements

The Company is responsible for the preparation of the Annual Business Report, in accordance with the requirements of the Accounting Act of the Republic of Serbia (Official Gazette of the Republic of Serbia number 62/2013 and 30/2018). Our responsibility is to express an opinion on the compliance of the Annual Business Report with the financial statements for the business year 2018. In this regard, our actions are carried out in accordance with international auditing standards 720 - *Auditor's responsibility in relation to other information in documents containing financial statements that were subject of auditing*, and we are limited on the assessment of conformity of the Annual Business report with the financial statements.

In our opinion, the accounting information shown in the annual business report is, in all material matters, is consistent with the Company's financial statements for the year ended December 31st, 2018.

Other questions

Financial reports of the Company for year 2017 were audited by another auditor, which in its Report of April 19th 2018 expressed his opinion without the reserve on these financial statements.

Belgrade, April 12th 2019

Petar Grubor

Certified auditor



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III BUSINESS REPORT 2018



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.



2018 OVERVIEW

In order to get a realistic picture of the sales results achieved in 2018 — making them comparable with the previous 2017 year — it must be noted that the average exchange rate of the RSD against the EUR in 2018 was lower by 3 RSD/EUR than the one in 2017, as well as that 83% of our total sales are sales in foreign currency (currency clause in domestic transactions and exports). Furthermore, considering that our sales season is tied to the first half of the year (when the RSD was considerably weaker in 2017), this difference between the exchange rates in invoiced transactions is even greater in our financial records and stands at 4.63 RSD/EUR. In the second half of 2017, the RSD was strengthening against the euro, and at year-end 2017, our books showed unusually high negative exchange rate differences, which were absent in 2018. Because of these facts, the achieved results should be analysed using comparative balance sheet items expressed in euros.

The weather conditions at the beginning of 2018 were quite unfavourable for agricultural production, causing a delay of the season longer than one month, which later led to the absence of some treatments with plant protection products that could not be compensated during the season. In spite of that, our plant protection products (PPPs) sales in the domestic market saw a 3% growth (comparing the numbers in euros).

Last year also brought the first considerable revenue from the sale of EU registered products. A revenue of EUR 1.8 million was generated by exporting our four EU registered products across ten countries. Our total revenue from PPP exports — together with exports to Bosnia — amounted to EUR 3.3 million, an increase of 96% compared with 2017.

The 7% growth of total sales revenues (in euros) in our main segment — plant protection products — did not reflect much on profitability growth. One of the reasons is the fact that the Chinese raw material (active ingredients) market remains unstable, and procurement from this country makes up 75% of the value of our company's total procurement of raw materials. Despite all implemented risk mitigation measures, the average purchasing prices of raw materials from China are 17% higher compared with last year. The second reason for lower profitability is reflected in the strong generic competition on the Serbian market of plant protection products, which forces us to keep lowering our selling prices.

In addition to seeing the first considerable revenue from our four EU registered products, 2018 is significant also in that we obtained EU registrations for another four of our products, meaning that now we have a total of eight different products that are EU registered. Our results in EU registration and sales are very encouraging, which gives us confidence that we are able to overcome this business challenge. The professional experience acquired pertaining to EU registration of plant protection products represents our competitive advantage also in the domestic market, and we hope to be able to benefit from it in the right way in the years preceding Serbia's accession to the European Union.

In order to increase the efficiency of process management, at year-end 2018 we made a change to our organisational structure by launching a new department — Development Department. Because of the increasing complexity, as well as the increasing volume of business activities that used to be distributed between the Sales Department and the Marketing Department, we launched another department so as to redistribute the existing responsibilities between three new divisions. We expect the new organisational structure to bring about improvement at both the operational and the managerial levels.

Our financial results in 2018 include:

- Growth of total sales revenues in RSD by 4% (by RSD 161 million) — or 7% in EUR (EUR 2.2 million);
- Increase in gross operating profit in RSD by 2% (by RSD 39 million) — or 5% in EUR (EUR 758,000);
- Decrease in the gross operating profit margin by 0.9 percentage points (from 50.2% to 49.3%);
- Decrease in the operating profit in RSD by 7% (by RSD 69 million) — or 4% in EUR (EUR 367,000);
- Decrease in the operating profit margin by 2.5 percentage points (from 25.2% to 22.7%);

Maintaining the net profit at approximately the same level (decrease in RSD of 1%, growth in EUR of 1%).



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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, 2018
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:	PKF d.o.o., Belgrade, ID No.: 08752524

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 6,58% 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 2018:

No. of shareholders by share in capital	No. of entities		No. shares		% of total issued	
	local	foreign	local	foreign	local	foreign
0% to 5%	1.161	46	783.574	79.608	29,68%	3,02%
5% to 10%	4		768.326		29,10%	
10% to 25%	2		1.008.492		38,20%	
Total:	1.213		2.640.000		100%	

Type of shareholder	No. shares	%
Owned by individuals	1.335.081	50,57%
Owned by legal entities	722.996	27,39%
Joint (custody) account	581.923	22,04%
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.	BDD M&V Investments ad Beograd	228.116	8,64%
4.	BDD M&V Investments ad Beograd	220.677	8,36%
5.	Puhar Nedeljko	168.583	6,39%
6.	Nenadovic Dragan	150.950	5,72%
7.	Mikend d.o.o.	100.554	3,81%
8.	Komp. Dunav osiguranje a.d.o.	72.026	2,73%
9.	Sempiola Invest Limited	56.328	2,13%
10.	Akcionarski fond ad Beograd	32.832	1,24%
	Total:	2.038.558	77,22%

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			876
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

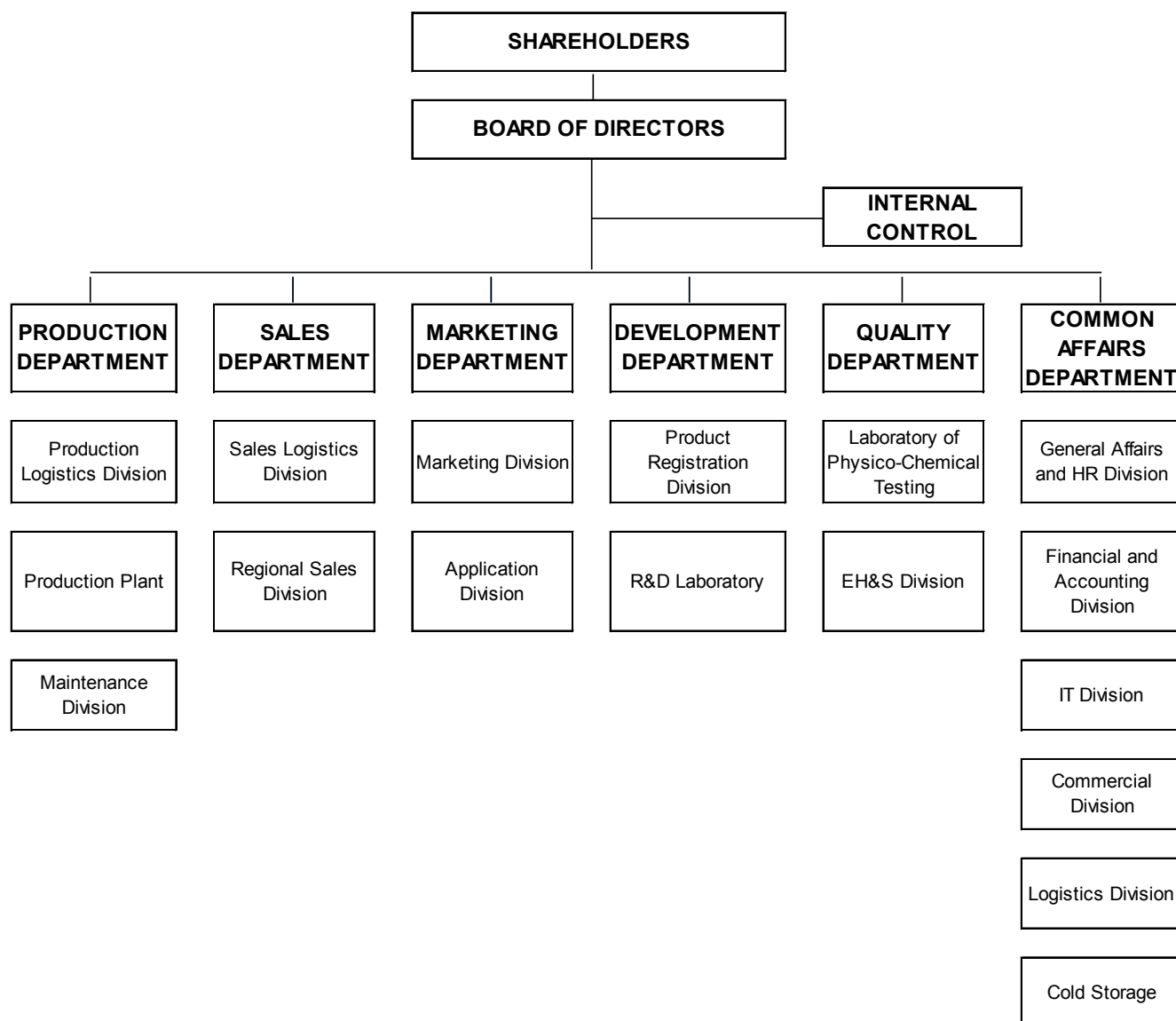
The building in Ruma was bought at the beginning of 2007, in a procedure of enforced collection of tax debt from the taxpayer „Zorka – Zaštita bilja“ a.d. from Šabac, conducted by the Serbian Tax Administration – Branch of the Town of Ruma. The plant facility has not been put into operation.

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	Ownership
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



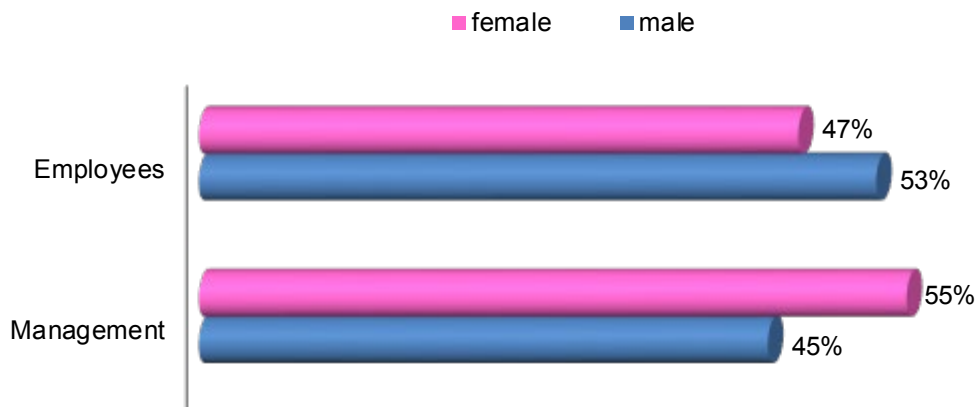
**Employee qualifications**

The table below shows the qualification and age structure of employees as of 31 December 2018.

Org. unit / Qualifications		I	II,III	IV	V,VI	VII,VIII	Total
Management activities		0	0	0	0	3	3
Quality Department		0	0	4	0	10	14
Production Department		2	13	27	3	6	51
Sales and App. Department		0	0	2	1	26	29
Marketing Department		0	0	0	2	13	15
Development Department		0	0	2	0	11	13
Common Affairs Department		3	4	15	7	17	46
GENDER	F	0	0	10	7	40	57
	M	5	17	40	6	46	114
TOTAL		5	17	50	13	86	171
%		3%	10%	29%	8%	50%	100%
Average age		45	41	43	48	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. 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.

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: four 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 2018 retained on the same level, at approx. value 100 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 2018 in the Serbian market was approx. 1.300. This number was reduced by 13 during the year, since some active substances were banned. The greatest number of registered products is owned by foreign generic companies (52.1%), then research and development companies (24.4%) and domestic manufacturers (23.5%). Our company, as the largest domestic manufacturer in the Serbian market participates with 136 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 1,5 million €, 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.

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 the field of plant protection products and pesticide residues, our Ministry has previously conducted two Twinning projects (in 2013 and 2018), both related to active substances. The results of these projects are that official List of approved active substances in Serbia is adjusting with the EU List on regular basis and that Serbia has officially authorised persons for performing the tasks of assessing active substances (checking whether chemical composition and associated impurities of active substance comply with the EU specifications).

These activities are very important from the perspective of safety of produced food and environmental protection, because our Ministry ensured prerequisites 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. The Association assessed the previously achieved results of the Twinning projects 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 structure and management of key employees' development;
 - 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.

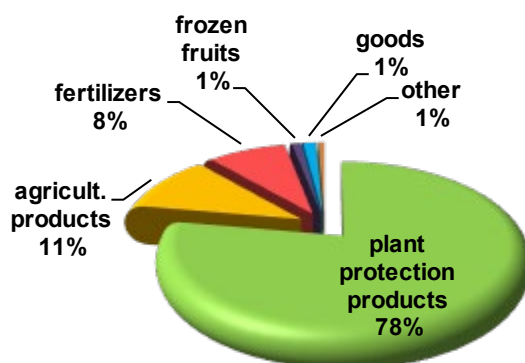
Financial risk management strategy is based on reducing their impact on the Company's financial performance. On the basis of periodic assessment of exposure to the inherent risks within this group, as well as the evaluation of existing internal controls, the Company estimates that the residual financial 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 2018

Gross sales by type of product



Sales of plant protection products

Gross sales by application:

APPLICATION	tons	%	EUR	%
INSECTICIDES	883	20%	7.557.334	21%
HERBICIDES	2.741	64%	19.533.782	55%
FUNGICIDES	658	15%	7.988.145	23%
RODENTICIDES	1	0,0%	4.492	0,0%
ADJUVANT	29	0,7%	219.482	0,6%
DDD	4	0,1%	92.883	0,3%
TOTAL	4.317	100%	35.396.118	100%

Gross sales by brand:

BRAND	tons	%	EUR	%
OWN	4.137	96%	32.955.251	93%
PARTNERS	180	4%	2.440.867	7%
TOTAL	4.317	100%	35.396.118	100%

Gross sales by market:

MARKET	tons	%	EUR	%
LOCAL	3.904	90%	32.160.324	91%
FOREIGN	412	10%	3.235.794	9%
TOTAL	4.317	100%	35.396.118	100%

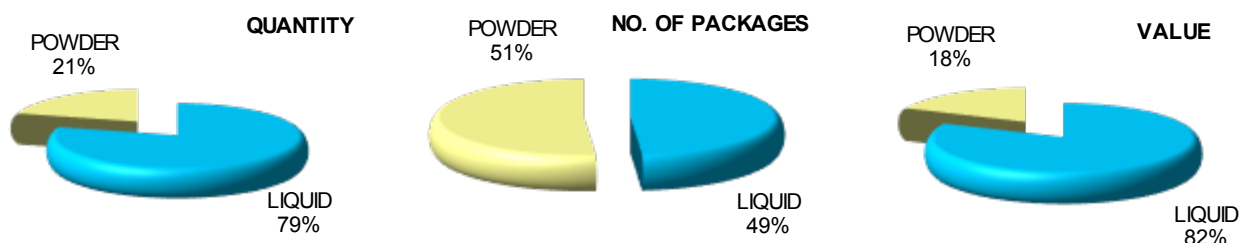


Manufacturing of plant protection products

Product range by type of production:

Type of production	No. of preparations	%	No. of packages in thousands	%	tons	%
OWN FORMULATIONS	64	76%	5.531	86%	4.060	94%
FORMULATIONS WITH FOREIGN PARTNERS	1	1%	25	0%	26	1%
FINISHED PRODUCTS OF FOR. PARTNERS	19	23%	905	14%	210	5%
Total	84	100%	6.460	100%	4.297	100%

Product range 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 five new products were developed in 2018, which will be under the registration process in the domestic market in 2019.

In 2018/2019, we received (or expect to receive it a very short time before the beginning of the 2019 sales season) the authorizations for the following new products under our brand:

- **Herbicides:**
Spektrum (fluazifop-p-ethyl 150 g/l, EC)
- **Fungicides:**
Duplex D (Chlorothalonil 540 g/l + Difenconazole 47 g/l, EC)
Luminis (boscalid 267 g/kg + Pyraclostrobin 67g/kg, WG)
Imperium (Flutriafol 250 g/l, EC)
- **Insecticides:**
Abastate S (Abamectin 18 g/l, EC) - improved formulation of product Abastate
Asteria WG (Thiamethoxam 250 g/kg, WG)
Tekton (Tefluthrin 15 g/kg, GR)
- **Fertilizers:**
MagSul fort 0-0-0+16MgO+13S (nutritional element magnesium as MgO 16% and Sulphur as S 13% or as SO₃ 32.45%)
MKP fort 0:52:34 (nutritional element Phosphorus as P₂O₅, 52% and Potassium as K₂O, 34%)
Microcare fort Fe EDDHA 6% (nutritional element iron – Fe, 6%)

Registration of plant protection products in the EU market

During 2018 we have obtained the EU registration in the Central Registration Zone for four more products of ours, so the total number of our products with EU registrations is eight:

- **Herbicides:**
Talisman (nicosulfuron 40 g/l, OD)



- Mural (dicamba 480 g/l, SL)
- Basar (s-metolachlor 960 g/l, EC)
- Bonaca (fluroxypyr-meptyl 360 g/l, EC) – registered in 2018
- *Fungicides:*
 - Avalon (pyrimethanil 400 g/l, SC) – registered in 2018
 - Promesa (azoxystrobin 250 g/l, SC) – registered in 2018
- *Insecticides:*
 - Harpun (pyriproxyfen 100 g/l, EC)
 - Polux (delthametrin 25 g/l, EC) – registered in 2018

During the year we also 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, for above mentioned eight products we have obtained a total of 43 national registrations in 15 countries (Austria, Slovenia, Hungary, Romania, Croatia, Bulgaria, Albania, Macedonia, Greece, Cyprus, Ireland, Belgium, Spain, Great Britain and UAE).

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

During 2018, 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 2018 amounted to around EUR 500,000.

Investment activities

The most important investment in 2018 pertains to the reconstruction and remodelling of our business complex buildings in Ruma, which resulted in a modern storage space of 2,600 square metres tailored to our needs for storage of plant protection and nutrition products. The warehouse capacity is around 1,250 pallet spaces, which translates to around 650 tonnes of stored goods. The investment's total value stands at around EUR 550,000.

A significant investment in the last year's plan was related to the extension of GLP accreditation of the laboratory for physical and chemical testing worth EUR 775,000, but it was not carried out because of a delay in administrative permits for building reconstruction.

Environmental protection

Our company has established and certified Environmental Management System in accordance with the requirements of ISO 14001 standard. Certification of the system was made at the beginning of 2018 in order to new version standard (ISO 14001:2015) compliance confirmation. 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 polluting substances emissions into the air, as well as wastewater and underground water testing.

The 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 at the beginning of 2019.

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.

127 tonnes of hazardous waste from production process was disposed in 2018, as well as 1,6 tonnes of products which becomes special waste stream after usage. 29.6 tonnes of non-hazardous waste were 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 2018 ENVIPACK collected from the end-users and disposed of 41 tons of empty containers issued by our company, which is lower by 6% than previous year. 49 tons of packaging materials for the production of PPPs were disposed from the location of our company in 2018, which is higher by 32% than previous year when 37 t were disposed.

Specification of direct costs related to environmental protection in 2018:

Monitoring and measurement of environmental aspects	4.400 €
Air pollution protection	3.830 €
Disposal of hazardous waste from production process	35.400 €
Disposal of packaging waste from the field and location	91.500 €
Regular fee for packaging waste management	7.270 €
Wastewater treatment (Feasibility study)	4.500 €
Total	146.900 €



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.

The year 2018 was a difficult one for the Serbian raspberry sector because the weather conditions were extremely unfavourable and reduced the quality — and, in turn, the purchasing price — of fresh raspberries, to extremely low levels. Combined with the fact that we have been witnessing a decline in the frozen raspberries demand on the European market over the last three years, this clearly shows that this branch of the Serbian economy is in a major crisis. As in the past year, it is expected that large quantities of the frozen raspberries from the 2018 crops will remain unsold and that most cold storage operators will be in a tough financial situation before the new season starts.

In 2018, we bought 360 tonnes of fresh raspberries in our cold storage, and the quality was its worst since we started this business. Because of the 2017 stock rollover and the poor quality of 2018 raspberries, by the end of the calendar year 2018 we sold absolutely none of the new raspberries quantities, which means that we will very likely not be able to buy any fresh raspberries in 2019. The financial plan for 2019 is based on the assumption that we will sell all the frozen raspberries that was in stock at the end of 2018 and that there will be no new purchasing.

Agricultural production

We based the agricultural production for the yield of 2018 on our 655 ha of agricultural land in Ugrinovci and Bečmen, as well as the additional 923 ha on which we agreed joint production with our partners (mainly seed production). We produced seed and mercantile wheat, mercantile sunflower and oilseed rape.

By the end of 2018 calendar year, we sold the entire yield of sunflower and oilseed rape, while about 64% of the available quantity of mercantile wheat, and around 20% of wheat seeds, have remained in stock.

The table below shows the results of agricultural production of the yield of 2018, by culture.

	ha	Tones	Revenues EUR
Mercantile wheat	326	1,922	325,000
Mercantile sunflower	206	609	148,000
Oilseed rape	156	494	149,000
Seed wheat	890	5,940	2,187,000
Total	1,578	8,965	2,809,000

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 5,940 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, 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 182 in 2017 to 220 in 2018.

The total amount of collected and disposed waste in 2018 was 373.5 tonnes, which is higher by 12.7% then last year. The structure of collected and disposed waste in 2018:

- 137 t of PPPs packaging waste on collection locations (an increase of 6% compared to 2017),
- 109 t of packaging waste of raw materials for the production of PPPs - industrial packaging waste (increase by 84% compared to 2017),
- 7.5 tonnes of chemical waste from PPP (decrease of 53% compared with 2017),
- 55 tonnes of packaging waste from other industries (rubber, paints and varnishes, pharmaceutical, food, etc.) which is an increase of 55% compared to 2017,
- 53 tonnes of hazardous industrial waste (oil-soot mix, cloth/filters, contaminated soil, stone wool, chemical waste), which is a decrease of 25% compared with 2017,
- 7 tonnes of waste oil, which is 35% less than in 2017,
- 5 tonnes of non-hazardous waste (paper, metal, plastics), which is decrease of 37% compared to 2017.

In the course of 2018, we continued to work with farmers' associations and agricultural professional services, with a view to developing the system and education of PPP users. Furthermore, we launched cooperation with veterinary pharmaceuticals producers, which will enable to expand the ENVIPACK system to include also livestock farms.



5 FINANCIAL PERFORMANCE IN 2018

BALANCE SHEET

(in EUR)

	2016	2017	2018
ASSETS			
Property, plant and equipment (PP&E)	15.090.437	15.162.230	15.854.947
Intangible assets	13.192	8.250	45.734
LT financial placements	1.670.674	1.003.686	2.349.959
<i>Fixed assets</i>	<i>16.774.304</i>	<i>16.174.167</i>	<i>18.250.639</i>
revenues	651.243	1.537.795	1.272.816
Inventory and advanced payments	14.786.062	16.176.672	18.779.493
Receivables	2.979.031	4.441.888	6.019.467
ST financial placements	18.264.763	18.015.448	19.962.886
Cash and cash equivalents	2.104.806	4.023.548	2.733.512
<i>Current assets</i>	<i>38.785.904</i>	<i>44.195.351</i>	<i>48.768.174</i>
<i>Deferred tax assets</i>	<i>206.956</i>	<i>220.733</i>	<i>225.352</i>
Total assets	55.767.164	60.590.250	67.244.165
Off-balance sheet assets	1.495.331	585.996	1.313.071

LT financial placements increased at the end of 2018 thanks to investments in money market fund units.

Inventory and advanced payments are higher than last year, mostly because of the raw materials inventory. The raw materials inventory value is high in part because of the earlier purchase of the raw materials for the 2019 sales season, as well as because of the fact that the purchasing prices of raw materials are higher.

The trend of harder collection of receivables continued in 2018, which is a results of the tough financial situation in the Serbian agricultural sector. We estimate that the procedures for verifying buyers' creditworthiness and securing receivables, which we apply as a mandatory part of the sales process, are efficient and that the reported receivables carry no significant risk of non-payment.

ST financial placements pertain to term deposits in foreign currencies and in dinars, as well as to a part — an instalment — of a long-term loan that will become due in less than a year.



(in EUR)

	2016	2017	2018
EQUITY AND LIABILITIES			
Shareholders' equity	28.519.005	28.937.659	29.687.600
Other equity	0	0	0
Reserves	7.121.283	7.597.050	8.113.292
Revaluation surplus	203.802	206.220	197.900
Un-realized gains on shares trading	0	0	0
Un-realized losses on shares trading	19	16	19
Retained earnings	17.015.324	21.205.785	26.019.721
<i>Equity</i>	52.859.396	57.946.697	64.018.494
LT reserved funds	0	0	0
LT Debt	0	0	0
Trade payables	1.901.121	1.753.179	2.211.900
ST financial liabilities	0	0	0
Tax payable	134.477	41.175	94.469
Other ST liabilities	872.169	849.199	919.298
<i>Current (ST) liabilities</i>	2.907.767	2.643.553	3.225.668
<i>Liabilities and reserved funds</i>	2.907.767	2.643.553	3.225.668
Total equity and liabilities	55.767.163	60.590.250	67.244.162
Off-balance sheet liabilities	1.495.331	585.996	1.313.071

Our operating liabilities increased in the segment of liabilities towards suppliers from the country, and this increase is mostly caused by uneffected compensations with the partners that are also our buyers.

Other current liabilities - for the most part they are related to the obligations to employees, for payment of bonuses, which was realized in January 2019.

**Profit and loss account**

(in EUR)

	2016	2017	2018
OPERATING REVENUES			
Sales	31.658.110	32.654.687	34.859.924
Other operating revenues	489.571	318.417	258.338
<i>Total operating revenues</i>	<i>32.147.681</i>	<i>32.973.104</i>	<i>35.118.262</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	3.667.266	3.594.203	4.009.603
Cost of material	13.043.941	13.053.912	15.072.610
Change in inventory value	-448.765	-156.806	-1.199.025
Salaries/Other personal expenses	3.392.213	3.504.087	3.895.060
Amortization expense	658.820	675.522	671.358
Other operating expenses	3.608.159	3.977.271	4.710.165
<i>Total operating expenses</i>	<i>23.921.635</i>	<i>24.648.189</i>	<i>27.159.772</i>
OPERATING PROFIT	8.226.046	8.324.915	7.958.490
Other revenues	4.772.084	4.606.760	4.577.380
Other expenses	4.854.152	5.705.416	5.097.011
Earnings before tax (EBT)	8.143.979	7.226.260	7.438.858
Tax	826.801	1.000.571	1.130.102
NET PROFIT	7.317.178	6.225.689	6.308.755

PROFIT STRUCTURE	EUR			
	2016	2017	2018	18 / 17
Gross profit	15.923.858	16.560.449	17.318.782	105%
Gross profit margin	50%	50,2%	49,3%	
Operating profit	8.226.046	8.324.915	7.958.490	95,6%
Operating profit margin	26%	25,2%	22,7%	
EBITDA	8.884.866	9.000.437	8.629.848	96%
EBITDA margin	28%	27%	25%	
EBT	8.143.979	7.226.260	7.438.858	103%
Net profit	7.317.178	6.225.689	6.308.755	101%

**Structure of income and expenses**

REVENUES STRUCTURE	EUR						
	2016	%	2017	%	2018	%	18/17
OPERATING REVENUES	32.147.678	87,1%	32.973.104	87,7%	35.118.265	88,5%	107%
Sales revenues	31.658.107		32.654.687		34.859.927		107%
<i>plant protection products</i>	24.641.147		25.718.074		27.430.144		107%
<i>cold-storage</i>	977.300		734.825		352.996		48%
<i>agriculture</i>	1.724.310		2.083.968		2.385.914		114%
<i>goods</i>	4.315.349		4.117.819		4.690.873		114%
Other operating revenues	489.571		318.417		258.338		81%
FINANCIAL REVENUES	827.157	2,2%	405.294	1,1%	624.700	1,6%	154%
Interests received	290.190		182.758		414.385		227%
Exchange rate changes & Currency clause	536.202		222.536		209.453		94%
Other financial revenues	764		0		862		#DIV/0!
ASSETS VALUATION ADJUSTMENTS	3.800.450	10,3%	4.074.167	10,8%	3.752.372	9,5%	92%
OTHER REVENUES	144.480	0,4%	127.300	0,3%	200.307	0,5%	157%
Property and equipment sale & Surpluses	99.904		23.777		57.245		241%
Other revenues	44.576		103.522		143.062		138%
TOTAL REVENUES	36.919.766	100%	37.579.864	100%	39.695.644	100%	106%

Sales revenues of the most profitable segment of our portfolio — plant protection products — grew by 4% in RSD, or 7% in EUR, in comparison with the previous year. The growth mainly pertains to our own brand products, which prompted growth of our gross profit. However, because of the already mentioned facts, we were unable to maintain gross profitability at the same level as in the previous years.

Sales revenues of cold-storage were at their lowest in the last ten years, due to the lack of launching our goods on the European market.

In the agricultural products group, seed wheat's value was dominant, having a sales growth of 15% compared with the previous year.

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



EXPENSES STRUCTURE	IN EUR						
	2016	%	2017	%	2018	%	18/17
OPERATING EXPENSES	23.921.636	83,1%	24.648.188	81,2%	27.159.772	84,2%	110%
Cost of material	13.043.941		13.053.912		15.072.610		115%
Cost of goods sold (COGS)	3.667.266		3.594.203		4.009.603		112%
Income from the use of own products	38.620		78.655		83.708		106%
Change in inventory value	-448.765		-156.807		-1.199.025		
Other materials	216.922		206.071		274.713		133%
Fuel and energy costs	271.892		294.838		359.463		122%
Salaries, contributions	3.392.213		3.504.087		3.895.060		111%
Production services	2.533.895		2.769.589		3.150.427		114%
Amortization expense	658.820		675.522		671.358		99%
Immaterial costs	624.071		785.428		1.009.270		128%
FINANCIAL EXPENSES	242.967	0,8%	1.947.553	6,4%	345.340	1,1%	18%
Interests paid	53		1.571		11.718		746%
Exchange rate changes & Currency clause	165.858		1.945.982		333.622		17%
Other financial expenses	77.057		0		0		
IMPAIRMENT COSTS	4.518.475	15,7%	3.712.116	12,2%	4.599.840	14,3%	124%
Impairment assets, placements, shares	3.515		0		35.851		
Impairment receivables	4.514.960		3.712.116		4.563.988		123%
OTHER EXPENSES	92.712	0,3%	45.747	0,2%	151.831	0,5%	332%
Disposals & Deficits	40.583		28.276		96.018		340%
Other expenses	52.129		17.470		55.813		319%
TOTAL EXPENSES	28.775.790	100%	30.353.604	100%	32.256.783	100%	106%

The increase in the cost of production services was seen mostly in services related to agricultural production, as well as transportation services.

In immaterial costs, the highest growth was seen in non-production services (consulting services, especially those pertaining to EU registration and sales, costs of physical and technical security and fire protection, etc.).

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.

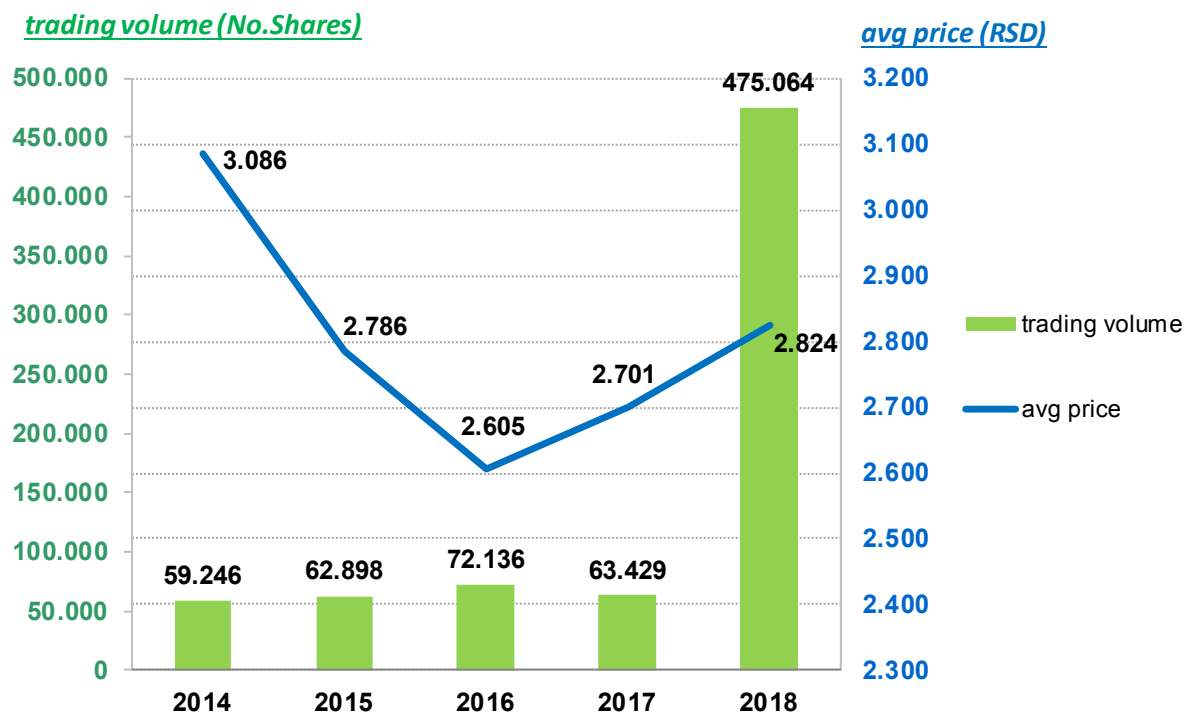
Share capital of Galenika Fitofarmacija a.d. is divided into 2.640.000 ordinary shares (BELEX: FITO), with RSD 1.330,00 par value.

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)	
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
2018	3.265	2.700	2.824	475.064	1.341.800.681	2.640.000	2.700	60.307.324



**Indicators**

INDICATOR NAME	DESCRIPTION	dec.31, 2016	dec.31, 2017	dec.31, 2018
EPS Earnings per share	Earnings per share (EUR)	2,77	2,36	2,39
PE Price-earings ratio	Share market price / earnings per share	7,97	9,93	9,55
PB Price-book value	Share market price / ABV	1,10	1,07	0,94
ROE Return on equity	Return on equity	13,84	10,74	9,85
ABV Adjusted book value	EUR	20,02	21,95	24,25
Market capitalization	EUR	58.157.174	63.307.749	60.307.324

Dividend paid in last ten years

Date of Shareholders meeting	For year	RSD / share	Total		new issue
			RSD	EUR	
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	
June, 27, 2018	2017	80	211.200.000	1.788.904	

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 2019

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 2019, we plan an increase in sales of plant protection products in the local market by 11%, 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.

The planned export of our EU registered products for 2019 is EUR 2.4 million. Just like last year, our revenue plans are conservative, considering that our company is unknown on the targeted markets, that the offered range is modest, and that the duration of the administrative registration procedure cannot be predicted with certainty in some countries. That is why our plans include a total of six products in thirteen different markets, although we have eight EU registered products in fifteen different markets.

In 2019, we expect to obtain registrations for three products, whose documentation was submitted in 2018, while in our development plan for EU registrations in 2019 includes two new projects. Throughout the year, we will be investing intensive efforts in obtaining registrations in all EU countries of interest, which involves a number of professional and administrative activities in order to meet the requirements of each individual country's registration authorities. We expect to appear on the EU market with eleven products in our portfolio in the 2020 season.

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 2019 was planned under the assumption that sales plan for 2019 season has been achieved, i.e. that in September 2019 there is no stock of finished products to be carried forward into season 2020, but that everything needs to be produced.

There is a high probability that the production plan for period September – December 2019, and therefore the plan of respective costs, will undergo significant changes when it is finally defined, in July 2019.



In 000 RSD

Item	2017	2018	plan 2019	19/18
I. OPERATING REVENUES	4.000.848	4.153.493	4.921.138	118%
1. Sales of goods	510.665	558.190	782.332	140%
2. Sales of products	3.451.547	3.564.749	4.136.250	116%
3. Services rendered	12.573	4.444	0	0%
4. Other operating revenues	26.062	26.110	2.556	10%
II. OPERATING EXPENSES	1.991.457	2.105.173	2.747.896	131%
1. Costs of goods sold (COGS)	436.109	474.222	647.887	137%
2. Costs of raw material	1.583.919	1.782.662	1.797.022	101%
3. Income from the use of own products	9.544	9.900	13.007	131%
4. Change in inventory value	-19.026	-141.811	315.993	
III. GROSS PROFIT (I-II)	2.009.390	2.048.320	2.173.242	106%
IV. OTHER OPERATING EXPENSES	999.273	1.107.057	1.245.302	112%
1. Costs of other material	25.004	32.491	30.781	95%
2. Costs of fuel and energy	35.775	42.514	42.526	100%
3. Salaries / Other personal expenses	425.174	460.675	489.941	106%
4. Costs of production services	336.053	372.606	480.939	129%
5. Amortization expense	81.966	79.403	79.142	100%
6. Non-production costs	95.301	119.368	121.973	102%
V. OPERATING PROFIT (III-IV)	1.010.118	941.263	927.941	99%

The planned sales revenue structure is as follows:

- *Products in the local market, 3.1 billion RSD.* Revenue growth is mainly planned on the products of our own trademark.
- *Products in the international market, worth € 4 million:* € 2.4 million is worth sales plan for EU registered products and € 1.6 million is worth export plan for Bosnia. Planned revenue growth in this segment is 23%.
- *Revenue from sales of agricultural products in the amount of 398 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 2018 as of 31 December 2018, and the assumption that all agricultural products generation of the yields of 2019 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 € 850.000.* This revenue is planned on the basis of the value of unsold quantities by the end of 2018.
- *Revenue from sales of goods in the amount of 782 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 2019.

Change of value of inventory has been estimated based on the structure of the planned sales and production in 2019 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 2019. The most important items in this group of costs are salaries (403 million RSD); production services for agricultural production (186 million RSD); research and product registration services (139 million RSD), transport (50 million RSD) and marketing services (48 million RSD).

Scenario analysis

Risks that may adversely affect the financial plan for 2019 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 000 RSD

Item	plan 2019	option I	opt I / plan	option II	opt II / plan
I. OPERATING REVENUES	4.921.138	4.605.411	94%	4.463.334	91%
1. Sales of goods	782.332	782.332	100%	782.332	100%
2. Sales of products	4.136.250	3.820.523	92%	3.678.446	89%
3. Services rendered	0	0		0	
4. Other operating revenues	2.556	2.556	100%	2.556	100%
II. OPERATING EXPENSES	2.747.896	2.565.839	93%	2.565.839	93%
1. Costs of goods sold (COGS)	647.887	647.887	100%	647.887	100%
2. Costs of raw material	1.797.022	1.797.022	100%	1.797.022	100%
3. Income from the use of own products	13.007	13.007	100%	13.007	100%
4. Change in inventory value	315.993	133.937		133.937	
III. GROSS PROFIT (I-II)	2.173.242	2.039.572	94%	1.897.495	87%
IV. OTHER OPERATING EXPENSES	1.245.302	1.211.485	97%	1.211.485	97%
1. Costs of other material	30.781	30.781	100%	30.781	100%
2. Costs of fuel and energy	42.526	42.526	100%	42.526	100%
3. Salaries / Other personal expenses	489.941	488.731	100%	488.731	100%
4. Costs of production services	480.939	455.139	95%	455.139	95%
5. Amortization expense	79.142	79.142	100%	79.142	100%
6. Non-production costs	121.973	115.166	94%	115.166	94%
V. OPERATING PROFIT (III-IV)	927.941	828.087	89%	686.010	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 2019

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 2018, 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 2018, according to the best of our knowledge, give us credible review of the development, operating results and financial position, as well as a credible description of the expected development of the Company, the most significant risks and uncertainties which the Company's operations are exposed.

Chief Corporate Affairs Officer,
M.Sc. Slavica Pekovic

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



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

VI DECISION ON PROFIT DISTRIBUTION OR LOSS COVERING (NOTE)



Note:

The Annual Report was approved by Board of Directors, on meeting held on April 22, 2019.

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 2018 and a decision on profit distribution for 2018 after the date of the General Meeting.

Chief Corporate Affairs Officer,
M.Sc. Slavica Pekovic

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