

GALENKA – FITOFARMACIJA A.D.

Batajnicky drum bb

11080 Zemun

ID No. 07725531

VAT No. 100001046

ANNUAL REPORT 2019

GALENKA – FITOFARMACIJA A.D.



Dear shareholders,

Here is Annual Report 2019, prepared in accordance with Art.50 of the Capital Market Law („Official Gazette of RS”, no. 31/2011, 112/2015 and 108/16) and in accordance with the Rules on the content, form and the way of publication annual, six-month and quarterly reports of public companies („Official Gazette of RS”, no. 14/2012, 5/2015 and 24/2017).

Annual Report 2019 was not adopted because the Annual General Meeting has not been held yet.

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1. FINANCIAL REPORT 2019

**BALANCE SHEET (IN 000 RSD)**

	2017	2018	2019
ASSETS			
Property, plant, equipment and natural assets	1,839,735	1,875,190	1,702,490
Intangible assets	1,001	5,409	3,913
LT financial placements	121,784	277,933	277,264
<i>Fixed assets</i>	<i>1,962,520</i>	<i>2,158,532</i>	<i>1,983,667</i>
Prepaid tax, other expenses and accrued revenues	186,591	150,538	125,668
Inventory and advanced payments	1,962,824	2,221,081	2,255,847
Receivables	538,964	711,932	796,890
ST financial placements	2,185,935	2,361,043	2,789,958
Cash and cash equivalents	488,204	323,297	421,954
<i>Current assets</i>	<i>5,362,518</i>	<i>5,767,890</i>	<i>6,390,317</i>
<i>Deferred tax assets</i>	<i>26,783</i>	<i>26,653</i>	<i>29,692</i>
Total assets	7,351,821	7,953,075	8,403,676
Off-balance sheet assets	71,103	155,299	66,564
EQUITY AND LIABILITIES			
Shareholders' equity	3,511,200	3,511,200	3,511,200
Other equity	0	0	0
Reserves	921,801	959,572	996,879
Revaluation surplus	25,022	23,406	23,073
Un-realized gains on shares trading	0	0	0
Un-realized gains on shares trading	2	2	2
Retained earnings	2,573,040	3,077,394	3,517,016
<i>Equity</i>	<i>7,031,061</i>	<i>7,571,570</i>	<i>8,048,166</i>
LT reserved funds	0	0	0
LT Debt	0	0	0
Liabilities from business operations and received advances, deposits and caution maney	212,725	261,605	239,715
ST financial liabilities	0	0	0
Liabilities for VAT, accrued expenses and other tax	4,996	11,173	6,839
Other ST liabilities	103,039	108,727	108,956
<i>Current (ST) liabilities</i>	<i>320,760</i>	<i>381,505</i>	<i>355,510</i>
<i>Liabilities and reserved funds</i>	<i>320,760</i>	<i>381,505</i>	<i>355,510</i>
Total equity and liabilities	7,351,821	7,953,075	8,403,676
Off-balance sheet liabilities	71,103	155,299	66,564

**BALANCE SHEET (IN EUR)**

	2017	2018	2019
ASSETS			
Property, plant and equipment (PP&E)	15,162,230	15,854,947	14,445,951
Intangible assets	8,250	45,734	33,203
LT financial placements	1,003,686	2,349,956	2,352,638
<i>Fixed assets</i>	<i>16,174,167</i>	<i>18,250,636</i>	<i>16,831,791</i>
accrued revenues	1,537,795	1,272,816	1,066,317
Inventory and advanced payments	16,176,672	18,779,493	19,141,290
Receivables	4,441,888	6,019,467	6,761,763
ST financial placements	18,015,448	19,962,886	23,673,324
Cash and cash equivalents	4,023,548	2,733,512	3,580,360
<i>Current assets</i>	<i>44,195,351</i>	<i>48,768,174</i>	<i>54,223,054</i>
<i>Deferred tax assets</i>	<i>220,733</i>	<i>225,352</i>	<i>251,942</i>
Total assets	60,590,250	67,244,162	71,306,787
Off-balance sheet assets	585,996	1,313,071	564,804
EQUITY AND LIABILITIES			
Shareholders' equity	28,937,659	29,687,600	29,793,199
Other equity	0	0	0
Reserves	7,597,050	8,113,292	8,458,708
Revaluation surplus	206,220	197,900	195,779
Un-realized gains on shares trading	0	0	0
Un-realized losses on shares trading	16	19	17
Retained earnings	21,205,785	26,019,721	29,842,549
<i>Equity</i>	<i>57,946,697</i>	<i>64,018,494</i>	<i>68,290,217</i>
LT reserved funds	0	0	0
LT Debt	0	0	0
Trade payables	1,753,179	2,211,900	2,034,027
ST financial liabilities	0	0	0
Tax payable	41,175	94,469	58,030
Other ST liabilities	849,199	919,298	924,512
<i>Current (ST) liabilities</i>	<i>2,643,553</i>	<i>3,225,668</i>	<i>3,016,570</i>
<i>Liabilities and reserved funds</i>	<i>2,643,553</i>	<i>3,225,668</i>	<i>3,016,570</i>
Total equity and liabilities	60,590,250	67,244,162	71,306,787
Off-balance sheet liabilities	585,996	1,313,071	564,804

**INCOME STATEMENT (IN 000 RSD)**

	2017	2018	2019
OPERATING REVENUES			
Sales	3,962,212	4,122,939	4,400,960
Other operating revenues	38,636	30,554	30,201
<i>Total operating revenues</i>	<i>4,000,848</i>	<i>4,153,493</i>	<i>4,431,161</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	436,109	474,222	510,165
Cost of material	1,583,919	1,782,662	1,903,160
Change in inventory value	-19,026	-141,811	110,069
Salaries/Other personal expenses	425,174	460,675	477,886
Amortization expense	81,966	79,403	83,254
Other operating expenses	482,589	557,079	581,654
<i>Total operating expenses</i>	<i>2,990,730</i>	<i>3,212,230</i>	<i>3,666,188</i>
OPERATING PROFIT	1,010,118	941,263	764,973
Other revenues	558,969	541,374	671,202
Other expenses	692,276	602,832	627,985
Earnings before tax (EBT)	876,811	879,806	808,190
Tax	121,406	133,659	120,394
NET PROFIT	755,405	746,147	687,796

**INCOME STATEMENT (IN EUR)**

	2017	2018	2019
OPERATING REVENUES			
Sales	32,654,687	34,859,924	37,342,982
Other operating revenues	318,417	258,338	256,261
<i>Total operating revenues</i>	<i>32,973,104</i>	<i>35,118,262</i>	<i>37,599,243</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	3,594,203	4,009,603	4,328,847
Cost of material	13,053,912	15,072,610	16,148,674
Change in inventory value	-156,806	-1,199,025	933,956
Salaries/Other personal expenses	3,504,087	3,895,060	4,054,953
Amortization expense	675,522	671,358	706,426
Other operating expenses	3,977,271	4,710,165	4,935,445
<i>Total operating expenses</i>	<i>24,648,189</i>	<i>27,159,772</i>	<i>31,108,302</i>
OPERATING PROFIT	8,324,915	7,958,490	6,490,941
Other revenues	4,606,760	4,577,380	5,695,276
Other expenses	5,705,416	5,097,011	5,328,572
Earnings before tax (EBT)	7,226,260	7,438,858	6,857,646
Tax	1,000,571	1,130,102	1,021,566
NET PROFIT	6,225,689	6,308,755	5,836,080

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

- in 2019 117,85 RSD/EUR
- in 2018 118,27 RSD/EUR
- in 2017 121,34 RSD/EUR

**STRUCTURE OF REVENUES, EXPENSES AND PROFITS**

REVENUES STRUCTURE	In 000 RSD						
	2017	%	2018	%	2019	%	19/18
OPERATING REVENUES	4,000,848	87.7%	4,153,493	88.5%	4,431,161	86.8%	107%
Sales revenues	3,962,212		4,122,939		4,400,960		107%
<i>plant protection products</i>	3,120,546		3,244,207		3,411,325		105%
<i>cold-storage</i>	89,161		41,749		95,361		228%
<i>agriculture</i>	252,862		282,186		297,880		106%
<i>goods</i>	499,643		554,797		596,394		107%
Other operating revenues	38,636		30,554		30,201		99%
FINANCIAL REVENUES	49,177	1.1%	73,884	1.6%	60,860	1.2%	82%
Interests received	22,175		49,010		47,583		97%
Exchange rate changes & Currency clause	27,002		24,772		13,191		53%
Other financial revenues	0		102		86		
ASSETS VALUATION ADJUSTMENTS	494,346	10.8%	443,799	9.5%	592,224	11.6%	133%
OTHER REVENUES	15,446	0.3%	23,691	0.5%	18,118	0.4%	76%
Property and equipment sale & Surpluses	2,885		6,770		13,901		205%
Other revenues	12,561		16,920		4,217		25%
TOTAL REVENUES	4,559,817	100%	4,694,867	100%	5,102,363	100%	109%

REVENUES STRUCTURE	EUR						
	2017	%	2018	%	2019	%	19/18
OPERATING REVENUES	32,973,104	87.7%	35,118,265	88.5%	37,599,243	86.8%	107%
Sales revenues	32,654,687		34,859,927		37,342,982		107%
<i>plant protection products</i>	25,718,074		27,430,144		28,945,741		106%
<i>cold-storage</i>	734,825		352,996		809,156		229%
<i>agriculture</i>	2,083,968		2,385,914		2,527,568		106%
<i>goods</i>	4,117,819		4,690,873		5,060,516		108%
Other operating revenues	318,417		258,338		256,261		99%
FINANCIAL REVENUES	405,294	1.1%	624,700	1.6%	516,409	1.2%	83%
Interests received	182,758		414,385		403,751		97%
Exchange rate changes & Currency clause	222,536		209,453		111,928		53%
Other financial revenues	0		862		730		85%
ASSETS VALUATION ADJUSTMENTS	4,074,167	10.8%	3,752,372	9.5%	5,025,133	11.6%	134%
OTHER REVENUES	127,300	0.3%	200,307	0.5%	153,735	0.4%	77%
Property and equipment sale & Surpluses	23,777		57,245		117,953		206%
Other revenues	103,522		143,062		35,782		25%
TOTAL REVENUES	37,579,864	100%	39,695,644	100%	43,294,519	100%	109%



EXPENSES STRUCTURE	In 000 RSD						
	2017	%	2018	%	2019	%	19/18
OPERATING EXPENSES	2,990,730	81.2%	3,212,230	84.2%	3,666,188	85.4%	114%
Cost of material	1,583,919		1,782,662		1,903,160		107%
Cost of goods sold (COGS)	436,109		474,222		510,165		108%
Income from the use of own products	9,544		9,900		10,686		108%
Change in inventory value	-19,026		-141,811		110,069		
Other materials	25,004		32,491		29,995		92%
Fuel and energy costs	35,775		42,514		44,833		105%
Salaries, contributions	425,174		460,675		477,886		104%
Production services	336,053		372,606		394,177		106%
Amortization expense	81,966		79,403		83,254		105%
Immaterial costs	95,301		119,368		123,335		103%
FINANCIAL EXPENSES	236,310	6.4%	40,844	1.1%	34,157	0.8%	84%
Interests paid	191		1,386		6		0%
Exchange rate changes & Currency clause	236,119		39,458		34,151		87%
Other financial expenses	0		0		0		
IMPAIRMENT COSTS	450,416	12.2%	544,030	14.3%	586,714	13.7%	108%
Impairment assets,placements, shares	0		4,240		0		
Impairment losses	450,416		539,790		586,714		109%
OTHER EXPENSES	5,551	0.2%	17,957	0.5%	7,114	0.2%	40%
Disposals & Deficits	3,431		11,356		1,282		11%
Other expenses	2,120		6,601		5,832		88%
TOTAL EXPENSES	3,683,006	100%	3,815,061	100%	4,294,173	100%	113%

EXPENSES STRUCTURE	IN EUR						
	2017	%	2018	%	2019	%	19/18
OPERATING EXPENSES	24,648,188	81.2%	27,159,772	84.2%	31,108,302	85.4%	115%
Cost of material	13,053,912		15,072,610		16,148,674		107%
Cost of goods sold (COGS)	3,594,203		4,009,603		4,328,847		108%
Income from the use of own products	78,655		83,708		90,673		108%
Change in inventory value	-156,807		-1,199,025		933,956		
Other materials	206,071		274,713		254,513		93%
Fuel and energy costs	294,838		359,463		380,417		106%
Salaries, contributions	3,504,087		3,895,060		4,054,953		104%
Production services	2,769,589		3,150,427		3,344,667		106%
Amortization expense	675,522		671,358		706,426		105%
Immaterial costs	785,428		1,009,270		1,046,521		104%
FINANCIAL EXPENSES	1,947,553	6.4%	345,340	1.1%	289,829	0.8%	84%
Interests paid	1,571		11,718		51		0%
Exchange rate changes & Currency clause	1,945,982		333,622		289,778		87%
Other financial expenses	0		0		0		
IMPAIRMENT COSTS	3,712,116	12.2%	4,599,840	14.3%	4,978,380	13.7%	108%
Impairment assets,placements, shares	0		35,851		0		
Impairment receivables	3,712,116		4,563,988		4,978,380		109%
OTHER EXPENSES	45,747	0.2%	151,831	0.5%	60,364	0.2%	40%
Disposals & Deficits	28,276		96,018		10,878		11%
Other expenses	17,470		55,813		49,486		89%
TOTAL EXPENSES	30,353,604	100%	32,256,783	100%	36,436,874	100%	113%



PROFIT STRUCTURE	In 000 RSD			
	2017	2018	2019	19/18
Gross profit	2,009,390	2,048,320	1,918,453	94%
Gross profit margin	50%	49%	43%	
Operating profit	1,010,118	941,263	764,973	81%
Operating profit margin	25%	23%	17%	
EBITDA	1,092,083	1,020,666	848,227	83%
EBITDA margin	27%	25%	19%	
EBT	876,811	879,806	808,190	92%
Net profit	755,405	746,147	687,796	92%

PROFIT STRUCTURE	EUR			
	2017	2018	2019	19/18
Gross profit	16,560,449	17,318,782	16,278,438	94%
Gross profit margin	50%	49.3%	43.3%	
Operating profit	8,324,915	7,958,490	6,490,941	81.6%
Operating profit margin	25%	22.7%	17.3%	
EBITDA	9,000,437	8,629,848	7,197,367	83%
EBITDA margin	27%	25%	19%	
EBT	7,226,260	7,438,858	6,857,646	92%
Net profit	6,225,689	6,308,755	5,836,080	93%



2. AUDITORS REPORT 2019
INDEPENDENT AUDITOR: “UHY revizija” d.o.o.,
Belgrade, ID No. 17082175

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Shareholding Company “Galenika – Fitofarmacija”, Belgrade

Opinion

We have audited the accompanying financial statements of Shareholding Company “Galenika – Fitofarmacija”, Belgrade (hereinafter: the “Company”), which comprise the balance sheet as at December 31, 2019, and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, in all material respects, give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the accounting regulations of the Republic of Serbia.

Basis for Opinion

We conducted our audit in accordance with the standards on auditing applicable in the Republic of Serbia and the Law on Audit of the Republic of Serbia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We emphasize the following matters:

1. In accordance with the Corporate Income Tax Law of the Republic of Serbia, the annual corporate income tax return for 2019 should be submitted to the Tax authorities within 180 days from the date of expiry of the period for which the tax liability is determined. Up to the date of completion of the audit of the financial statements for 2019, from the above-mentioned reason, the Company did not submit the annual corporate income tax return. Within this period the Company is obliged to prepare and submit Transfer pricing report.
2. As disclosed in note 45 in the financial statements, as at December 31, 2019 the Company was involved in several legal suits as plaintiff and in one legal suit as defendant. The aggregate amount claimed in the legal suit filed against the Company totaled 86,161 thousand dinars. Based on the management's estimation that this legal suit will be in favor of the Company no provision has been made for losses contingent on this lawsuit in the financial statements for 2019.
3. We draw attention to note 47 in the financial statements describing management's evaluation of the actual or potential impact of the effects of the COVID-19 coronavirus on the Company.

Our opinion is not modified in respect of these matters.

(continued)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Shareholding Company "Galenika – Fitofarmacija", Belgrade
(continued)

Report on Other Legal and Regulatory Requirements

Management is responsible for preparation of an annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia, which is not an integral part of the accompanying financial statements. In accordance with the Law on Audit of the Republic of Serbia, it is our responsibility to express an opinion on the compliance of the Company's annual business report for the year 2019 with its financial statements for the same financial year. In our opinion, the financial information disclosed in the Company's annual business report for 2019 is consistent with its audited financial statements for the year ended December 31, 2019.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the questions are described below key audit matters which will be communicated in our report.

Key audit matter	Audit procedures performed
<p><u>Income from the sales recognition</u></p> <p>Accounting policies of the Company, relating to income recognition, presented in the note 3.12 to the financial statements, while income from the sales of goods and income from the sales of products and services are disclosed in details in notes 5 and 6 to the financial statements.</p> <p>Income from the sales of goods and income from the sales of products and services totaling 4,411,710 thousand dinars for, 2019 mainly relate to income realized on domestic market amounted to 3,215,600 thousand dinars.</p> <p>Accounting treatment of income from the sales of goods and income from the sales of products and services, period of recognition, we determined as a key audit matter due to the system of collection of receivables complexity.</p>	<p>Our audit approach included the following:</p> <ul style="list-style-type: none">- We performed an insight into and analysis of the Company's Internal Control/Audit report in order to realize findings and recommendations in connection with the design and implementation of controls within the process of collection of receivables.- We performed procedures, based on substantive testing and analytical procedures in order to realize:<ol style="list-style-type: none">1. Adequacy of documentation used for recording of income from the sales in the business books of the Company;2. Compliance of tax return with the recorded income from the sales in the business books of the Company; of3. Relationship between inventories of goods movements and related income recorded in the business books of the Company;4. Contracts concluded between the Company and key customers;5. Reconciliation of the receivables from key customers with the related confirmations received;6. Aging structure of the receivables from customers, impairment of receivables and collection of the receivables previously provided for;7. Recognition of income in the proper period in order to check accuracy and completeness of the recorded income.

Other Matters

The Company's financial statements as at December 31, 2018 and for the year than ended were audited by another auditor who expressed an unqualified opinion on the accompanying financial statements in its report dated April 12, 2019.

(continued)

INDEPENDENT AUDITORS' REPORT

**To the Shareholders and Management of Shareholding Company "Galenika – Fitofarmacija", Belgrade
(continued)**

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

(continued)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Shareholding Company "Galenika – Fitofarmacija", Belgrade
(continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

The engagement partner on the audit resulting in this independent auditor's report is Jasmina Dilber.



A handwritten signature in blue ink, appearing to read "Jasmina Dilber".

Jasmina Dilber
Certified Auditor
Kosovska 1, Belgrade
April 22, 2020



3. BUSINESS REPORT 2019



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 Batajnicket 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.
2019.	Agromarket d.o.o. Kragujevac became majority shareholder of the Company (82.96%)



2019 OVERVIEW

The past year was undoubtedly marked by a major change in the ownership structure of the Company, which took place at the end of 2019. By acquisition of 34.2% of the total number of shares in November 2019, our longtime shareholder, Agromarket d.o.o. from Kragujevac, became the owner of 59.17% of the Company's capital, and on December 30th, 2019 after the completion of the takeover procedure, became the owner of 82.96% of the Company's capital. The takeover process has not yet been formally finalized (March 2020), as proceedings are pending before the Competition Commission, which should approve the concentration of market participants.

Considering the fact that the current majority owner has been actively involved in the managing the Company for the last twenty years, and that the long-time General Manager of the Company announced joint operation with Agromarket d.o.o. in the takeover process, the expectation is that the Company will not significantly change its business policy and strategic determination. The expected improvements are reflected in the more efficient management processes as well as in the synergistic market performance on the domestic market for plant protection products.

The sales season which is behind us was marked by decline in selling prices in our most significant segment, of plant protection products in the domestic market, which was primarily caused by the existence of a large number of registered products, i.e. a large number of market participants, that made the cost pressure very intense. Despite increasing our sales volume by 6%, revenues from the sale of plant protection products on the domestic market are only 2% higher than last year's due to the fact that average sales prices in 2019 were 3.3% lower than in 2018. For this reason, we have a significant decline not only in gross profit in absolute value, but also in profit margins. Another significant factor in the decline in profitability in this segment is the increase in the raw material input cost, especially those purchased from the USD area, as well as a further increase in operating costs (an increase in the costs of services related to the EU registrations; an increase in the cost of earnings due to larger number of employees).

Export revenues of our products with EU registration (six of them, in fourteen different markets) amounted to 2.2 million EUR, which is an increase of 22% compared to last year. During 2019 we received three new EU registrations, so the total number of different products for which we have EU registrations is eleven. Also, during the year we have been actively working on obtaining national registrations in the countries of interest in order to have a wider product portfolio in individual market, so that the export revenue plan for these products for 2020 is 3.8 million EUR and includes all eleven products in 19 different markets.

The results achieved in the field of EU registration and sales are very encouraging and give us assurance that we are capable to overcome this business challenge. The professional experience we achieved in the field of EU registration of plant protection products also represents our competitive advantage in the domestic market and we hope that we will be able to materialize it properly in the years preceding Serbia's accession to the European Union.

In addition to the decline in profitability of the plant protection product segment in the domestic market, which has the largest negative impact on the profitability in total, significant negative impact has a financial accounting result of the segment of the frozen fruits, which recorded a business loss of 39 million RSD this year. This result is a consequence of the poor quality of raspberry in 2018 that we didn't manage to sell until the end of 2019, as well as the fact that we did not repurchase new yield of the fresh raspberries. The specifics in the book entry changes in inventories led to the fact that the cumulative loss became visible only now, when we sold most of the available quantities.

Our financial results in 2019 are:

- an increase in total sales revenue by 7% (by 278 million RSD);
- a decrease in gross operating profit by 6% (by 130 million RSD);
- a decrease in the gross operating margin by 6 percentage points (from 49% to 43%);
- a decrease in operating profit by 19% (by 176 million RSD);
- a decrease in operating profit margin of 5 percentage points (from 23% to 17%);
- a decrease in net profit by 8% (by 59 million RSD).

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1 ABOUT US

General information

Company name:	GALENKA – 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
Subsidiaries:	ENVIPACK d.o.o., Belgrade, ID No 20801115, Activity Code 7022 Consultancy activities in connection with business and other management GALENKA-FITOFARMACIJA d.o.o., Brezovica pri Ljubljani, Slovenia; ID No 6813313000; Activity Code 46.900 Non-specialized wholesale HOLDING GALENIKA d.o.o., Belgrade, ID No 07092920, Activity code 6820 Renting of own or leased real estate and management thereof.
Auditor:	UHY REVIZIJA d.o.o., Belgrade, ID No.: 17082175

Company Management during 2019

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 on December 31st 2019:

No. of shareholders by share in capital	No. of entities		No. shares		% of total issued	
	local	foreign	local	foreign	local	foreign
0% to 5%	750	28	268,005	8,113	10.15%	0.31%
5% to 10%	1		173,718		6.58%	
75% to 100%	1		2,190,164		82.96%	
Total:	780		2,640,000		100%	

Type of shareholder	No. shares	%
Owned by individuals	386,599	14.64%
Owned by legal entities	2,202,933	83.44%
Joint (custody) account	50,468	1.91%
Total:	2,640,000	100%

Top ten shareholders by number of shares and votes:

No.	Shareholder	No. shares	%
1.	AGROMARKET D.O.O.	2,190,164	82.96%
2.	Nenadović Dragan	173,718	6.58%
3.	OTP BANKA SRBIJA - CUSTODY	27,557	1.04%
4.	Nenadović Milomir	5,544	0.21%
5.	TANDEM FINANCIAL A.D. NOVI SAD	5,000	0.19%
6.	POLUNIN DISCOVERY FUNDS - FRON	4,341	0.16%
7.	ERSTE BANK AD NOVI SAD - CUSTODY	4,300	0.16%
8.	Vukov Boško	4,152	0.16%
9.	Vukov Zoran	3,222	0.12%
10.	RAIFFEISEN BANKA AD BEOGRAD - CUSTODY	3,012	0.11%
	Total:	2,421,010	91.70%

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, social and environmental 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, social and environmental topics.

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

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

**Location**

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

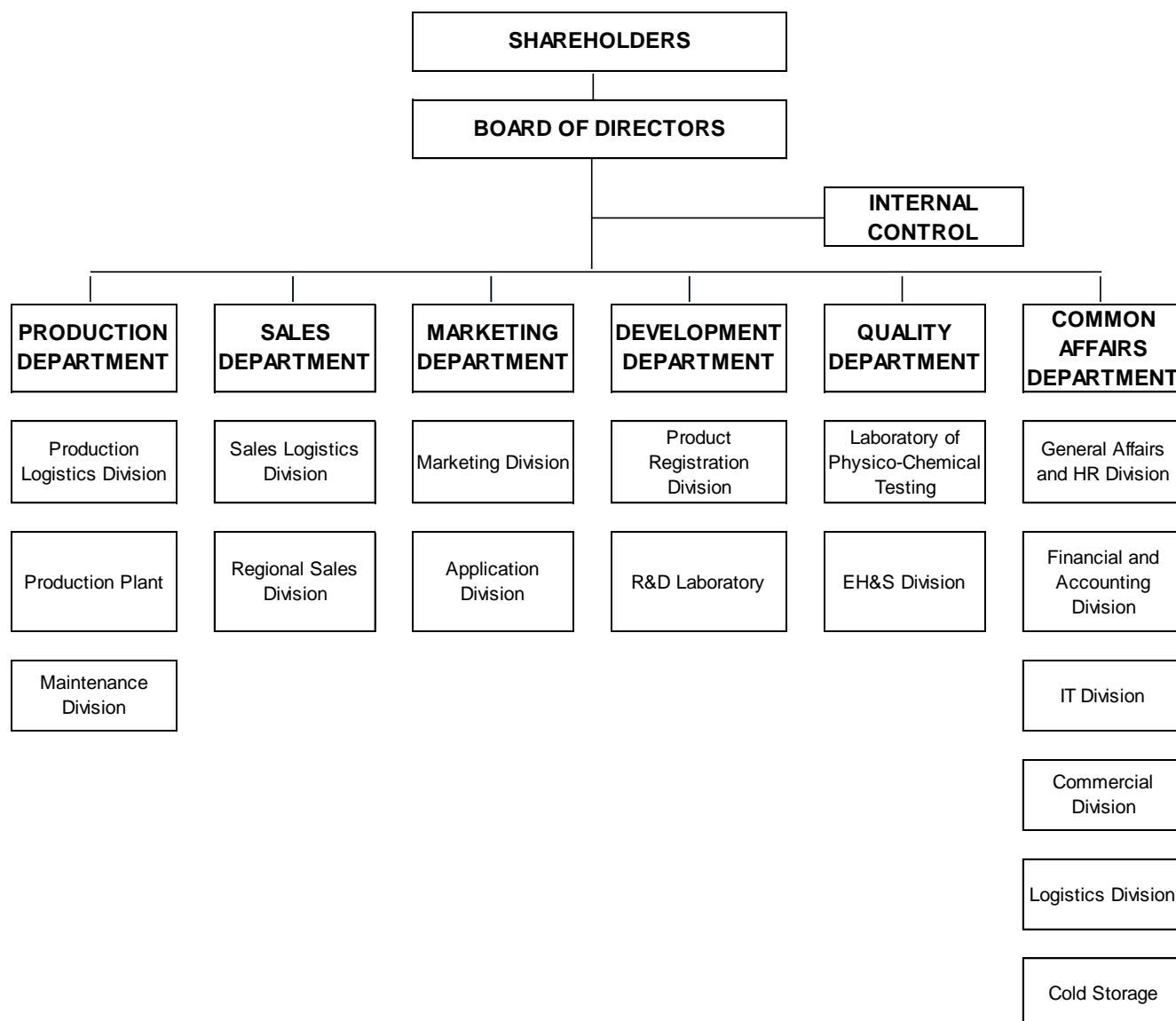
Location	Area in m ²		
	Manufacture	Warehouse	Offices
Zemun, Batajnicketi drum bb	5.549	5.362	1.356
Zemun, Masarikov trg 8a			876
Sremska Mitrovica, Stari Radinacki put		1.183	397
Novi Sad, Narodnog fronta 73			129
Ruma, Industrijska zona bb		5.404	
Arilje, the village of Stupcevidi		750	
Guča, Municipality of Lučani		921	

Land (including land covered with buildings):

Location	Designated use	Surface in m ²	Note
Zemun, Batajnicketi drum bb	Construction land	37.096	Right of use
Zemun, Masarikov trg 8a	Construction land	511	Right of use
Novi Sad, Narodnog fronta 73	Construction land	44	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	2.490.930	Ownership



Organization



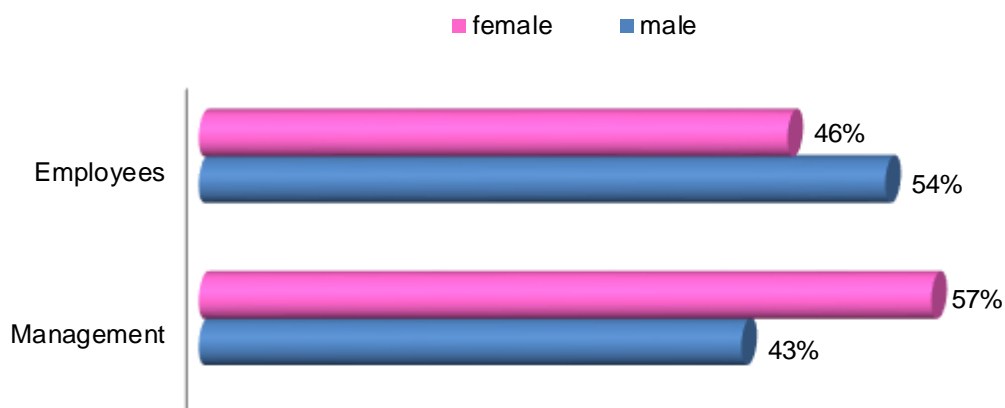
**Employee qualifications**

The table below shows the qualification and age structure of employees as of 31 December 2019.

Org. unit / Qualifications		I	II,III	IV	V,VI	VII,VIII	Total
Management activities		0	0	0	0	4	4
Quality Department		0	0	4	1	10	15
Production Department		2	13	22	3	7	47
Sales and App. Department		0	0	2	1	24	27
Marketing Department		0	0	0	2	12	14
Development Department		0	0	2	0	11	13
Common Affairs Department		2	4	14	8	17	45
GENDER	F	0	0	10	7	41	58
	M	4	17	34	8	44	107
TOTAL		4	17	44	15	85	165
%		2%	10%	27%	9%	52%	100%
Average age		41	41	42	43	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 ISO 45001 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 reevaluation of old and registration of new pesticides has become more severe.

Global market for plant protection products

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

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

So far, the plant protection products market has been dominated by six major R&D companies, but this structure has changed due to significant acquisitions and mergers that have taken place in the last few years (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. Also, there were significant acquisitions at generic companies, such as for example Takeover of Arysta by UPL. 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.

There are no official information on the value of the Serbian plant protection market, either on the value of the import of the raw materials for the production of plant protection products, i.e. finished product. Rough estimate is that the value of the Serbian market of plant protection products amounted to about 110 to 140 million EUR in 2019, depending on the price level applied. Also, we estimate that the Serbian market of plant protection products is still approximately even divided between generic and R&D companies.

The total number of registered pesticides in 2019 in the Serbian market was approx. 1.400. At the end of the year, this number was significantly reduced due to the prohibition of the use of nineteen active substances, which arose from the process of harmonizing the national list of authorized active substances with the European. For that reason, all product registrations, which were consist of active substances mentioned above, were cancelled, so currently the number of registered products is approx. 1000. The greatest number of registered products is owned by foreign generic companies (50%), then research and development companies (25%) and domestic manufacturers (25%). Our company, as the largest domestic manufacturer in the Serbian market participates with 125 products or with 48.5% 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.

At the beginning of 2019, amendments to the Law on Plant Protection Products were adopted, by which the national regulatory frameworks are additionally harmonized with European regulations. The amendments imply



stricter criteria in all stages of registration and post-registration control, including the obligation for the required examinations in pre-registration procedure to be performed by authorized certified institutions in accordance with international guidelines and standards. However, from the date of adoption of these amendments, no new registration decision has been issued because the preconditions for the proper implementation of new regulations have not been provided, which only confirms the position of the Association of the Domestic Plant Protection Manufacturers that the harmonization process must be very carefully planned.

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;
 - 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.

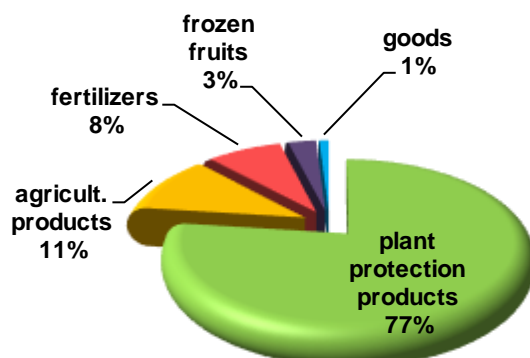
Financial risk management strategy is based on reducing their impact on the Company's financial performance. On the basis of periodic assessment of exposure to the inherent risks within this group, as well as the evaluation of existing internal controls, the Company estimates that the residual financial 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 2019

Gross sales by type of product



Sales of plant protection products

Gross sales by application:

APPLICATION	tons	%	EUR	%
INSECTICIDES	1,096	22%	8,249,337	21%
HERBICIDES	3,162	63%	21,302,460	55%
FUNGICIDES	682	14%	8,442,370	22%
RODENTICIDES	2	0.0%	9,286	0.0%
ADJUVANT	35	0.7%	256,463	0.7%
DDD	9	0.2%	198,440	0.5%
TOTAL	4,985	100%	38,458,356	100%

Gross sales by brand:

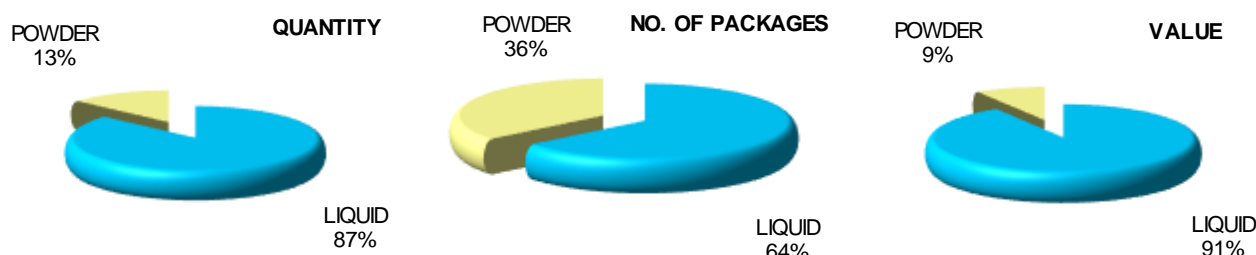
BRAND	tons	%	EUR	%
OWN	4,823	97%	36,692,419	95%
PARTNERS	162	3%	1,765,935	5%
TOTAL	4,985	100%	38,458,354	100%

Gross sales by market:

MARKET	tons	%	EUR	%
LOCAL	4,353	87%	34,309,175	89%
FOREIGN	631	13%	4,149,181	11%
TOTAL	4,985	100%	38,458,356	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	63	79%	5,125	90%	5,051	98%
FORMULATIONS WITH FOREIGN PARTNERS	0	0%	0	0%	0	0%
FINISHED PRODUCTS OF FOR. PARTNERS	17	21%	543	10%	111	2%
Total	80	100%	5,668	100%	5,162	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 ten new products were developed in 2019, which will be under the registration process in the domestic market in 2020, while some of it will be in registration process in the foreign markets, too.

In 2019, we received the authorizations for seven new products under our brand:

- **Herbicides:**
Spektrum (fluazifop-p-ethyl 150 g/l, EC)
Galbenon ekstra (bentazone 480 g/l, SL)
- **Fungicides:**
Flux (fludioxonil 225 g/l, SL),
Imperium (flutriafol 250 g/l, SC)
- **Insecticides:**
Tekton (Tefluthrin 15 g/kg, GR)
- **Fertilizers:**
Foligal Cal Pit (nutrients: calcium as Ca 12%/-0,64% or as calcium oxide (CaO) 16,8%/-0,9%)
Fertigal HumiPro (nutrients: total humus extract 15%/-2,5%, humic acid 12%/-1,2%, fulvo acid 3%/-0,3%, total potassium (K₂O) 4%/-0,4%)

Registration of plant protection products in the EU market

During 2019 we have obtained the EU registration for three more products of ours, so the total number of our products with EU registrations is eleven:

- **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)
Basar plus (s-metolachlor 312.5 g/l + terbuthylazine 187.5 g/l, SC) – registered in 2019



- *Fungicides:*
Avalon (pyrimethanil 400 g/l, SC)
Promesa (azoxystrobin 250 g/l, SC)
Sekvenca (difenoconazole 250 g/l, EC) – registered in 2019
Tebbycon (tebuconazole 250 EW) – registered in 2019
- *Insecticides:*
Harpun (pyriproxyfen 100 g/l, EC)
Polux (delthametrin 25 g/l, EC)

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 eleven products we have obtained a total of 75 national registrations in 19 countries (Austria, Albania, Bulgaria, Belgium, Croatia, Cyprus, Czech Republic, Great Britain, Greece, Hungary, Ireland, Italy, Iran, North Macedonia, Poland, Romania, Spain, Slovenia and UAE).

In accordance with the plan of registration activities, application for EU registration was completed and submitted for one more product in the Central Registration Zone in the previous year. Based on previous experience, we expect to obtain these registrations by the end of 2020.

During 2019, 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, Spain and Germany, and experiments of biological efficacy in Hungary, Romania, Croatia and Slovenia. Total costs on this basis in 2019 amounted to around EUR 500,000.

Investment activities

Investment activities in 2019 were limited in scope and focused on the necessary activities of purchases and repair of production and related equipment in order to keep business processes running smoothly. The total value of equity investments in 2019 was approximately € 200,000.

The previous year was significant from the point of view of preparation of investment activities that should be implemented in the next few years, which is related to significant improvement in production performance at the location in Zemun.

- Adaptation and rebuilding of the production facility;
- Procurement of new and repair of existing production equipment;
- Construction of wastewater treatment plants;
- Adaptation and equipping a part of the laboratory space for the purpose of extending the GLP accreditation of the laboratory for physical and chemical testing.

Purpose of these extensive investment activities, which would certainly take place in stages, is to modernize production capacity and introduce new types of formulations into the product portfolio, also better organization of the production process from the view of the effectiveness and safeness, reducing the risk of environmental impact. Rough estimate of the value of these activities is approx. 7.5 million EUR and includes valuation of the constructions, purchase of new and repair of existing production equipment, as well as the purchase of new laboratory equipment and furniture.

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.

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 received 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.

75 tonnes of hazardous waste from production process was disposed in 2019, as well as 1,4 tonnes of products which becomes special waste stream after usage. 30.2 tonnes of non-hazardous waste were recycled in 2019.

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 2019 ENVIPACK collected from the end-users and disposed of 7.26 tons of empty containers issued by our company, which is lower by 82% than previous year. 23.7 tons of packaging materials for the production of PPPs were disposed from the location of our company in 2019, which is lower by 52% than previous year when 49 t were disposed. The main reason for collecting significantly less waste than it was planned for 2019 is the lack of disposal facilities (storage and treatment) of hazardous packaging waste in the country due to the termination of the authorized operators.

Specification of direct costs related to environmental protection in 2019:

Monitoring and measurement of environmental aspects	6.400 €
Air pollution protection	6.400 €
Disposal of hazardous waste from production process	22.785 €
Disposal of packaging waste from the field and location	35.195 €
Regular fee for packaging waste management	9.000 €
Wastewater treatment (Feasibility study)	1.970 €
<i>Total</i>	<i>81.750 €</i>

Significant transactions with related parties

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



Operation of Cold Storage Division

Because of the remaining stock of the yield of 2018 and the difficulties by launching frozen raspberries on the Western European market, we did not purchase fresh raspberries in 2019, but we dealt exclusively with processing and marketing of frozen raspberries. Due to the poor quality of raspberries, high fixed costs and reduced demand for frozen raspberries in the European market, we have recorded a great loss in this segment of our business. The business loss of the cold storage segment in 2019 is RSD 39 million.

In view of the above-mentioned facts, we decided to leave this segment of the business. The redevelopment and adaptation of the cold storage facility is in progress, with the intention of using it as a storage space for plant protection products and fertilizers. The sales revenue plan for 2020 includes the revenue from the sale of the remaining stock of frozen raspberries of the yield of 2018 (the whole quantity is contracted for and dispatched according to agreed schedule).

Agricultural production

We based the agricultural production for the yield of 2019 on our 655 ha of agricultural land in Ugrinovci and Bečmen, as well as the additional 911 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 2019 calendar year, we sold the entire yield of sunflower and oilseed rape, while about 98% of the available quantity of mercantile wheat, and around 2% of wheat seeds, have remained in stock.

The table below shows the results of agricultural production of the yield of 2019, by culture.

	ha	Tones	Revenues EUR
Mercantile wheat	362	2,398	406,000
Mercantile sunflower	129	331	86,000
Oilseed rape	197	347	112,500
Seed wheat	878	4,020	1,647,000
Total	1,566	7,096	2,251,500

We should keep in mind that we use part of seed wheat for our own needs, i.e. for establishing of agricultural production for the next season, so that the total yield of 4,020 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 220 in 2018 to 290 in 2019.

The total amount of collected and disposed waste in 2019 was 142 tonnes, which is lower by 62% then last year. The structure of collected and disposed waste in 2019:

- 28 t of PPPs packaging waste on collection locations (decrease of 79% compared to 2018),
- 44 t of packaging waste of raw materials for the production of PPPs - industrial packaging waste (decrease by 60% compared to 2018),
- 21 tonnes of packaging waste from other industries (rubber, paints and varnishes, pharmaceutical, food, etc.) which is decrease of 62% compared to 2018,
- 8 tonnes of hazardous industrial waste (oil-soot mix, cloth/filters, contaminated soil, stone wool, chemical waste), which is a decrease of 84% compared with 2018,
- 23 tonnes of waste oil, which is 232% higher than in 2018,
- 17 tonnes of non-hazardous waste (paper, metal, plastics), which is an increase of 248% compared to 2018.

At the beginning of 2019, operators licensed to store and treat hazardous packaging waste have ceased to operate. This has caused major problems in waste collection and disposal. Significant quantities of hazardous waste are captured at the locations of plant protection products manufacturers and at the end-users as well. Manufacturers from other branches are also affected by this problem. All the above mentioned directly affected the results and business of ENVIPACK, as well as the functioning of the established system. During 2019, ENVIPACK focused on actively monitoring the situation in the waste management market and communicating with the competent authorities, as well as expanding its activities on oil and non-hazardous waste disposal and transport of goods.



5 FINANCIAL PERFORMANCE IN 2019

BALANCE SHEET

(in EUR)

	2017	2018	2019
ASSETS			
Property, plant and equipment (PP&E)	15,162,230	15,854,947	14,445,951
Intangible assets	8,250	45,734	33,203
LT financial placements	1,003,686	2,349,956	2,352,638
<i>Fixed assets</i>	<i>16,174,167</i>	<i>18,250,636</i>	<i>16,831,791</i>
revenues	1,537,795	1,272,816	1,066,317
Inventory and advanced payments	16,176,672	18,779,493	19,141,290
Receivables	4,441,888	6,019,467	6,761,763
ST financial placements	18,015,448	19,962,886	23,673,324
Cash and cash equivalents	4,023,548	2,733,512	3,580,360
<i>Current assets</i>	<i>44,195,351</i>	<i>48,768,174</i>	<i>54,223,054</i>
<i>Deferred tax assets</i>	<i>220,733</i>	<i>225,352</i>	<i>251,942</i>
Total assets	60,590,250	67,244,162	71,306,787
Off-balance sheet assets	585,996	1,313,071	564,804

The real estate position was reduced due to the sale of 90.56 ha of agricultural land in the municipality of Vrbas.

The trend of harder collection of receivables continued in 2019, 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)

	2017	2018	2019
EQUITY AND LIABILITIES			
Shareholders' equity	28,937,659	29,687,600	29,793,199
Other equity	0	0	0
Reserves	7,597,050	8,113,292	8,458,708
Revaluation surplus	206,220	197,900	195,779
Un-realized gains on shares trading	0	0	0
Un-realized losses on shares trading	16	19	17
Retained earnings	21,205,785	26,019,721	29,842,549
<i>Equity</i>	<i>57,946,697</i>	<i>64,018,494</i>	<i>68,290,217</i>
LT reserved funds	0	0	0
LT Debt	0	0	0
Trade payables	1,753,179	2,211,900	2,034,027
ST financial liabilities	0	0	0
Tax payable	41,175	94,469	58,030
Other ST liabilities	849,199	919,298	924,512
<i>Current (ST) liabilities</i>	<i>2,643,553</i>	<i>3,225,668</i>	<i>3,016,570</i>
<i>Liabilities and reserved funds</i>	<i>2,643,553</i>	<i>3,225,668</i>	<i>3,016,570</i>
Total equity and liabilities	60,590,250	67,244,162	71,306,787
Off-balance sheet liabilities	585,996	1,313,071	564,804

Other current liabilities are related, for the most part, to the obligations to employees, for payment of bonuses, which was realized in January 2020.

**Profit and loss account**

(in EUR)

	2017	2018	2019
OPERATING REVENUES			
Sales	32,654,687	34,859,924	37,342,982
Other operating revenues	318,417	258,338	256,261
<i>Total operating revenues</i>	<i>32,973,104</i>	<i>35,118,262</i>	<i>37,599,243</i>
OPERATING EXPENSES			
Cost of goods sold (COGS)	3,594,203	4,009,603	4,328,847
Cost of material	13,053,912	15,072,610	16,148,674
Change in inventory value	-156,806	-1,199,025	933,956
Salaries/Other personal expenses	3,504,087	3,895,060	4,054,953
Amortization expense	675,522	671,358	706,426
Other operating expenses	3,977,271	4,710,165	4,935,445
<i>Total operating expenses</i>	<i>24,648,189</i>	<i>27,159,772</i>	<i>31,108,302</i>
OPERATING PROFIT	8,324,915	7,958,490	6,490,941
Other revenues	4,606,760	4,577,380	5,695,276
Other expenses	5,705,416	5,097,011	5,328,572
Earnings before tax (EBT)	7,226,260	7,438,858	6,857,646
Tax	1,000,571	1,130,102	1,021,566
NET PROFIT	6,225,689	6,308,755	5,836,080

PROFIT STRUCTURE	EUR			
	2017	2018	2019	19/18
Gross profit	16,560,449	17,318,782	16,278,438	94%
Gross profit margin	50%	49.3%	43.3%	
Operating profit	8,324,915	7,958,490	6,490,941	81.6%
Operating profit margin	25%	22.7%	17.3%	
EBITDA	9,000,437	8,629,848	7,197,367	83%
EBITDA margin	27%	25%	19%	
EBT	7,226,260	7,438,858	6,857,646	92%
Net profit	6,225,689	6,308,755	5,836,080	93%

**Structure of income and expenses**

REVENUES STRUCTURE	EUR						
	2017	%	2018	%	2019	%	19/18
OPERATING REVENUES	32,973,104	87.7%	35,118,265	88.5%	37,599,243	86.8%	107%
Sales revenues	32,654,687		34,859,927		37,342,982		107%
<i>plant protection products</i>	25,718,074		27,430,144		28,945,741		106%
<i>cold-storage</i>	734,825		352,996		809,156		229%
<i>agriculture</i>	2,083,968		2,385,914		2,527,568		106%
<i>goods</i>	4,117,819		4,690,873		5,060,516		108%
Other operating revenues	318,417		258,338		256,261		99%
FINANCIAL REVENUES	405,294	1.1%	624,700	1.6%	516,409	1.2%	83%
Interests received	182,758		414,385		403,751		97%
Exchange rate changes & Currency clause	222,536		209,453		111,928		53%
Other financial revenues	0		862		730		85%
ASSETS VALUATION ADJUSTMENTS	4,074,167	10.8%	3,752,372	9.5%	5,025,133	11.6%	134%
OTHER REVENUES	127,300	0.3%	200,307	0.5%	153,735	0.4%	77%
Property and equipment sale & Surpluses	23,777		57,245		117,953		206%
Other revenues	103,522		143,062		35,782		25%
TOTAL REVENUES	37,579,864	100%	39,695,644	100%	43,294,519	100%	109%

Sales revenues of the most profitable segment of our portfolio — plant protection products — grew by 5% in comparison with the previous year. However, because of the already mentioned facts, gross profit decreased by 6%, while its margin decreased by 6 points (from 49% to 43%).

In the agricultural products group, seed wheat's value was dominant, having a sales growth of 14% compared with the previous year.

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



EXPENSES STRUCTURE	IN EUR						
	2017	%	2018	%	2019	%	19/18
OPERATING EXPENSES	24,648,188	81.2%	27,159,772	84.2%	31,108,302	85.4%	115%
Cost of material	13,053,912		15,072,610		16,148,674		107%
Cost of goods sold (COGS)	3,594,203		4,009,603		4,328,847		108%
Income from the use of own products	78,655		83,708		90,673		108%
Change in inventory value	-156,807		-1,199,025		933,956		
Other materials	206,071		274,713		254,513		93%
Fuel and energy costs	294,838		359,463		380,417		106%
Salaries, contributions	3,504,087		3,895,060		4,054,953		104%
Production services	2,769,589		3,150,427		3,344,667		106%
Amortization expense	675,522		671,358		706,426		105%
Immaterial costs	785,428		1,009,270		1,046,521		104%
FINANCIAL EXPENSES	1,947,553	6.4%	345,340	1.1%	289,829	0.8%	84%
Interests paid	1,571		11,718		51		0%
Exchange rate changes & Currency clause	1,945,982		333,622		289,778		87%
Other financial expenses	0		0		0		
IMPAIRMENT COSTS	3,712,116	12.2%	4,599,840	14.3%	4,978,380	13.7%	108%
Impairment assets, placements, shares	0		35,851		0		
Impairment receivables	3,712,116		4,563,988		4,978,380		109%
OTHER EXPENSES	45,747	0.2%	151,831	0.5%	60,364	0.2%	40%
Disposals & Deficits	28,276		96,018		10,878		11%
Other expenses	17,470		55,813		49,486		89%
TOTAL EXPENSES	30,353,604	100%	32,256,783	100%	36,436,874	100%	113%

A 7% increase in material costs was generated in the plant protection product segment, and it is conditioned by both an increase in the physical volume of production and an increase in the purchase prices of raw materials from imports.

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

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.

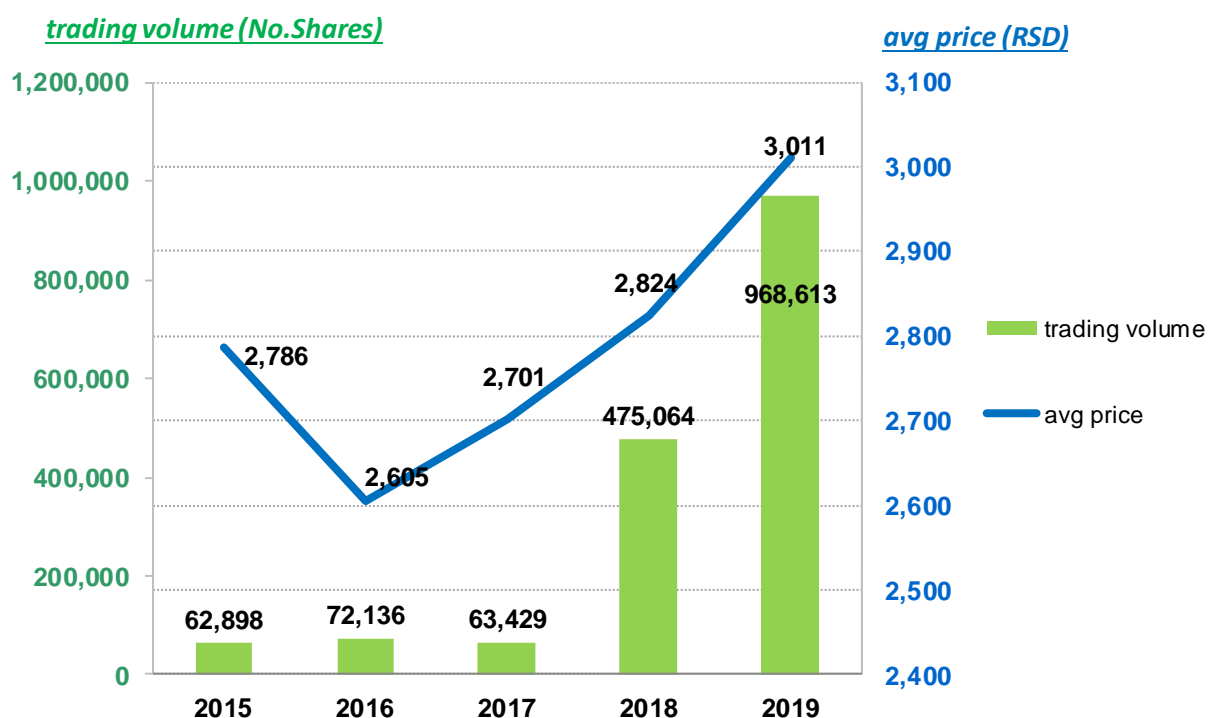
FITO shares have been traded on the Belgrade Stock Exchange since 2001, firstly based on the prevailing price method, and then from 2005 based on the continuous method.

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.

An offer for takeover of FITO shares by Agromarket d.o.o. from Kragujevac and three individuals with whom it collaborates was announced on November 12th, 2019. The subject of the offer was the takeover of the remaining 33.97% since the offerors owned 66.03% of the shares at the time of the making the offer. The offer was closed on December 30th, 2019, and the total number of shares taken by the offeror was 628.170 (23,79%). This transaction was recorded under the date of the offer announcement in the Belgrade Stock Exchange trading statistics.

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)	
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
2019	3,280	2,698	3,011	968,613	2,916,413,852	2,640,000	2,909	65,308,080



**Indicators**

INDICATOR NAME	DESCRIPTION	dec.31, 2017	dec.31, 2018	dec.31, 2019
EPS Earnings per share	Earnings per share (EUR)	2.36	2.39	2.21
PE Price-earnings ratio	Share market price / earnings per share	9.93	9.55	11.17
PB Price-book value	Share market price / ABV	1.07	0.94	0.95
ROE Return on equity	Return on equity	10.74	9.85	8.55
ABV Adjusted book value	EUR	21.95	24.25	25.87
Market capitalization	EUR	63,307,749	60,307,324	65,308,080

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	
June, 24, 2019	2018	80	211,200,000	1,791,166	

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 2020

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 2020, we plan an increase in sales of plant protection products in the local market by 4%, primarily in the group of our own brands. The biggest challenge in this business segment 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 2020 is EUR 3.8 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. The sales plan includes all 11 products for which we currently have EU registration, and it is planned to appear on 18 different markets.

Significant activity within the "European Business Direction" is related to the work on new projects (three previously started and two new ones are launching), as well as the continued administrative expansion of existing registrations to all countries of interest (8 new registration applications are planned). In 2020, we expect to obtain EU registration of another product for which we have previously applied, as well as to obtain 44 national registrations in the countries of interest for which the application was submitted in 2019.

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 2020 was planned under the assumption that sales plan for 2020 season has been achieved, i.e. that in September 2020 there is no stock of products to be carried forward into season 2021, but that everything needs to be produced.

There is a high probability that the production plan for period September – December 2020, and therefore the plan of respective costs, will undergo significant changes when it is finally defined, in July 2020.



In 000 RSD

Item	2018	2019	plan 2020	20/19
I. OPERATING REVENUES	4,153,493	4,431,161	4,740,200	107%
1. Sales of goods	558,190	596,394	622,763	104%
2. Sales of products	3,564,750	3,804,566	4,011,953	105%
3. Services rendered	4,444	10,750	89,026	828%
4. Other operating revenues	26,110	19,451	16,458	85%
II. OPERATING EXPENSES	2,105,173	2,512,708	2,618,853	104%
1. Costs of goods sold (COGS)	474,222	510,165	520,963	102%
2. Costs of raw material	1,782,662	1,903,160	1,937,361	102%
3. Income from the use of own products	9,900	10,686	17,389	163%
4. Change in inventory value	-141,811	110,069	177,919	
III. GROSS PROFIT (I-II)	2,048,320	1,918,453	2,121,347	111%
IV. OTHER OPERATING EXPENSES	1,107,057	1,153,480	1,297,059	112%
1. Costs of other material	32,491	29,995	32,876	110%
2. Costs of fuel and energy	42,514	44,833	48,279	108%
3. Salaries / Other personal expenses	460,675	477,886	472,586	99%
4. Costs of production services	372,606	394,177	525,305	133%
5. Amortization expense	79,403	83,254	82,996	100%
6. Non-production costs	119,368	123,335	135,017	109%
V. OPERATING PROFIT (III-IV)	941,263	764,973	824,289	108%

The planned sales revenue structure is as follows:

- *Plant protection and nutrition products in the local market, 3 billion RSD.* Revenue growth (4%) is mainly planned on the products of our own trademark.
- *Plant protection and nutrition products in the international market, worth € 5.4 million:* € 3.8 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 28%.
- *Revenue from sales of agricultural products in the amount of 320 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 2019 as of 31 December 2019, and the assumption that all agricultural products generation of the yields of 2020 will be sold by the end of the calendar year except mercantile wheat, which is planned to stay on stock for sales in 2021.
- *Revenue from sales of frozen fruits, in the amount of € 190.000.* This revenue is planned on the basis of the value of unsold quantities by the end of 2019.
- *Revenue from sales of goods in the amount of 623 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 2020.

Change of value of inventory has been estimated based on the structure of the planned sales and production in 2020 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 2020. The most important items in this group of costs are salaries (415 million RSD); production services for agricultural production (170 million RSD); research and product registration services (184 million RSD), transport (65 million RSD) and marketing services (49 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 shos 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 3% lower than the planned ones.

In 000 RSD

I t e m	plan 2020	option I	opt I / plan	option II	opt II / plan
I. OPERATING REVENUES	4,740,200	4,437,347	94%	4,355,577	92%
1. Sales of goods	622,763	622,763	100%	622,763	100%
2. Sales of products	4,011,953	3,709,100	92%	3,627,330	90%
3. Services rendered	89,026	89,026		89,026	
4. Other operating revenues	16,458	16,458	100%	16,458	100%
II. OPERATING EXPENSES	2,618,853	2,440,689	93%	2,440,689	93%
1. Costs of goods sold (COGS)	520,963	520,963	100%	520,963	100%
2. Costs of raw material	1,937,361	1,937,361	100%	1,937,361	100%
3. Income from the use of own products	17,389	17,389	100%	17,389	100%
4. Change in inventory value	177,919	-246		-246	
III. GROSS PROFIT (I-II)	2,121,347	1,996,658	94%	1,914,888	90%
IV. OTHER OPERATING EXPENSES	1,297,059	1,297,059	100%	1,297,059	100%
1. Costs of other material	32,876	32,876	100%	32,876	100%
2. Costs of fuel and energy	48,279	48,279	100%	48,279	100%
3. Salaries / Other personal expenses	472,586	472,586	100%	472,586	100%
4. Costs of production services	525,305	525,305	100%	525,305	100%
5. Amortization expense	82,996	82,996	100%	82,996	100%
6. Non-production costs	135,017	135,017	100%	135,017	100%
V. OPERATING PROFIT (III-IV)	824,289	699,599	85%	617,829	75%

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 2020

Changes in management structure

After the closing of the Takeover offer and realization of the takeover process for 628,170 shares of the Company (23.79%), Agromarket doo., together with the persons with whom it jointly operates, became the owner of 89.83% of the total number of shares. The process of taking over the Company's shares has not been formally completed, as the procedure for notification of concentration to the Commission for Protection of Competition is pending.

After the President of the Board of Directors, Mr. Nedeljko Puhar, resigned from the membership of the Committee in early January, Mr. Mirjana Bogicevic, an independent director, has been appointed to the position of Chairman of the Board. The Board of Directors currently operates as a six-member board, given that it was decided that the vacant position of member of the Board is not co-opted.

Expecting that the proceedings before the Competition Commission would be completed more quickly, the Board of Directors has scheduled an extraordinary General Meeting of Shareholders for the end of January to introduce certain changes in the organization of the Company's management in order to improve the efficiency of the process (reducing the number of directors from seven to five; election of new members of the Board of Directors, where four would be from the previous convocation and one new; changes to the Company's Dividend Policy).

Considering that the approval of the Commission was not obtained within the required timeframe and that the participation of Agromarket d.o.o. at such a convened Meeting would be considered as the beginning of individual control contrary to Law on Protection Competition, an extraordinary Meeting of the Company was not held.

State of emergency declaration in the Republic of Serbia

On March 15, 2020, The Government of the Republic of Serbia declared a state of emergency in the country caused by the pandemic virus COVID-19. The business of the Company is organized in accordance with the Government Regulation of the Republic of Serbia on organizing the work of employers during the state of emergency and with the need to regularly supply the Serbian agriculturists with the necessary raw material, ie. plant protection products and fertilizers during the agricultural season.

In addition to the expected logistical difficulties, the newly created circumstances did not significantly affect the Company's business. At the time of preparation of this Report, the main business processes take place within the planned framework, with continuous adaptation to new circumstances and minimizing the potential negative effects on the Company's business.

In light of the facts we currently have, we do not expect that the state of emergency will have significant short-term consequences for the Company's business, while the long-term consequences for the entire economy, including the business of our Company, cannot yet be predicted with certainty.



4. STATEMENT OF PERSONS RESPONSIBLE FOR THE PREPARATION OF ANNUAL REPORT



Financial Report 2019, 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 2019, 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 to which the Company's operations are exposed.

Chief Corporate Affairs Officer,
M.Sc. Slavica Pekovic

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



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

**6. DECISION ON PROFIT DISTRIBUTION
OR LOSS COVERING
(NOTE)**



Note:

The Annual Report was approved by Board of Directors, on meeting held on April 29, 2020.

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 2019 and a decision on profit distribution for 2019 after the date of the General Meeting.

Chief Corporate Affairs Officer,
M.Sc. Slavica Pekovic

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