

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.

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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.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Shareholding Company "Galenika – Fitofarmacija", Belgrade
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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.

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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 that reads "Jasmina Dilber".

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