



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

**ANNUAL REPORT
ON THE PERFORMANCE OF ALKALOID AD SKOPJE
FOR THE PERIOD JANUARY - DECEMBER 2014**

February 2015

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1. General information

Alkaloid AD Skopje, the parent Company is a joint stock company, established and with head office in the Republic of Macedonia. The registered address of the Company is:

Aleksandar Makedonski 12 1000 Skopje, Republic of Macedonia.

Major business activity: Alkaloid AD Skopje produces and sells wide range of pharmaceutical, chemical and cosmetic products, as well as goods from herbal origin. According to the Trade Registry, Alkaloid AD Skopje can perform wholesale operations and foreign trading with food and non food products.

The main scope is production of pharmaceutical products.

The shares of Alkaloid AD Skopje have been listed on the Macedonian Stock Exchange, since 2002.

The annual report on the performance of Alkaloid AD Skopje has been prepared in accordance with the Trade Company Law ("Official Gazette of the Republic of Macedonia" no. 28/04, 84/05, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10, 8/11, 21/11, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14) and the Rulebook for accounting ("Official Gazette of the Republic of Macedonia" no. 159/09, 164/10 and 107/11). The report is prepared in accordance with the concept of purchase price, excluding the land property, construction buildings and available-for-sale financial assets, which are presented by their market value.

The presentation of the financial statements in accordance with the Trade Companies Law and the Rulebook for Accounting requires management to make best estimates and reasonable assumptions that affect the amounts presented in the financial statements. These estimations and assumptions are based on reasonable information available, as of the date of preparation of the financial statements. However, actual results may vary from these estimates.

2. Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The financial risk management is performed by the Company's financial department, based on Decisions from Managing board.

Market risk

a) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

To manage the foreign exchange risk the Company provides enough cash in foreign currencies held in banks in order to maintain its future commercial transactions.

b) Price risk

The Company is exposed to equity securities price risk because of available-for-sale investments held by the Company. The Company is not exposed to commodity price risk.

Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Trade receivables consist of large number of balances. The Company has policies that limit the amount of credit exposure.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Interest risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flow are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from borrowings. The Company has no specific policy, but in direct negotiation with lenders attempts to reduce interest rate risk. Interest rates of long-term borrowings are significantly lower than short term. Interest rates on short term borrowings are decreased in respect of previous year.

Fair value estimation

The fair value of available-for-sale financial assets traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the last traded price.

The fair value of financial instruments that are not traded in an active market is determined by makes assumptions that are based on public information for recent arm's length transactions or reference to other instruments that are substantially the same.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

3. Additions to non-current assets

Additions to non-current assets include additions to property, plant and equipment and Intangibles.

Additions to non-current assets - segment reporting

Segments	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Pharmacy	399.760	92	354.950	80	113
Chemistry Cosmetics Botanicals	34.400	8	87.169	20	39
Total:	434.160	100	442.119	100	98

4. Dividends

The Company does not recognize the dividend payable before it is approved on the Annual General Meeting.

The dividends for 2013 approved by shareholders on 7 April 2014 were Denar 286,271 thousands. Tax of paid dividend was amounting Denar 31,808 thousands. Approved dividends are paid and retained earnings are appropriately decreased.

5. Borrowings

Borrowings	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Non-current	1.648	1	51.498	12	3
Current	304.821	99	390.745	88	78
Total:	306.469	100	442.243	100	69

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Up to 1 year	304.821	99	390.745	88	78
Between 1 to 3 years	1.648	1	51.498	12	3
Total:	306.469	100	442.243	100	69

6. Major transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2014.

7. Related party transactions

The Company has no ultimate parent. The shares are widely held.

Alkaloid AD Skopje has investments in sixteen subsidiaries and one foundation in Macedonia and abroad. Sales and purchases of goods and services between related parties are based on regular market terms and prices.

Investments in subsidiaries and associates

Subsidiary	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Alkaloid DOO Zagreb, Croatia	14.822	9	14.822	14	100
Alkaloid DOO Beograd, Serbia	62.566	38	62.566	61	100
Alkaloid INT DOO Ljubljana, Slovenia	866	1	557	1	155
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	39	-	39	-	100
Alkaloidfarm SA Fribourg, Switzerland	4.285	3	4.285	4	100
Alkaloid EOOD Sofia, Bulgaria	2.748	2	2.748	3	100
ALK&KOS Shpk Prishtina, Kosovo	307	-	307	-	100
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	308	-	-	-	-
Alkaloid Kons DOOEL Skopje, Macedonia	50.154	31	154	-	-
Alkaloid USA LLC Columbus, Ohio US	3.873	2	2.365	2	164
Fund "Trajce Mukaetov" Skopje, Macedonia	3.000	2	3.000	3	100
Alkaloid DOO Podgorica, Montenegro	-	-	-	-	-
OOO Alkaloid RUS, Moscow, Russia	619	-	619	1	100
Alkaloid FARM DOO Ljubljana, Slovenia	461	-	461	-	100
Alkaloid Veledrogerija DOO Beograd, Serbia	7.720	5	7.720	8	100
Alkaloid ILAC TLS Istanbul, Turkey	2.616	2	2.616	3	100
ALKA-LAB DOO Ljubljana, Slovenia	9.231	6	-	-	-
Total:	163.615	100	102.259	100	160

All subsidiaries are 100% owned by the Company, except the investment in Alkaloid USA with equity share of 49%, but the Company exercises control.

During 2013 Alkaloid AD Skopje established a new subsidiary in Turkey, Alkaloid ILAC TLS Istanbul. During 2014, Alkaloid AD Skopje established a new subsidiary in Slovenia, ALKA-LAB DOO Ljubljana.

Alkaloid's representative offices in Russia, Ukraine, Bosnia and Herzegovina and Albania are included in the financial statements of the Company.

Prepayments and short-term loans

Subsidiary	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Alkaloid DOO Beograd, Serbia	1.929	100	1.930	100	100
Total:	1.929	100	1.930	100	100

8. Share capital

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
At 1 January 2013	1.421.933	2.220.127	-14.779	2.205.348	-1.127
Transfer of reserves	-	-	-	-	1.127
At 31 December 2013	1.421.933	2.220.127	-14.779	2.205.348	-
Purchase of treasury shares	-5.321	-	-8.253	-8.253	-
At 31 December 2014	1.416.612	2.220.127	-23.032	2.197.095	-

The total authorized number of ordinary shares is 1,431,353 with a par value of EUR 25.56 (Denar 1,551) per share. All issued shares are fully paid.

During 2014 the Entity acquired 5,321 of its own shares through Macedonian stock exchange and held as treasury shares. The total number of treasury shares is 14,741. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares acquired from the right to dividend payments.

Earning per share

	(In MKD)		
	2014	2013	IND
	Amount	Amount	14/13
Profit attributable to shareholders (in denars)	629.127.309	619.833.352	101
Number of shares	1.416.612	1.421.933	100
Basic earning per share (in denars):	444,11	435,91	102

9. Key management compensations

No compensations were paid to the Management Board members in 2014 and 2013.

In 2014, the amount of Denar 4,208 thousands were paid to the Supervisory Board members (2013: Denar 4,206 thousands).

10. Production and sales

Production in tons

Segment	2014		2013		(In tons)
	Amount	%	Amount	%	IND
					14/13
Pharmacy	836	9	832	10	100
Chemistry Cosmetics Botanicals	8.223	91	7.922	90	104
Total:	9.059	100	8.754	100	103

The total amount produced for 2014 is 9,059 tons, which indicates a 3% growth compared to last years' production amount of 8,754 tons.

Total sales of goods and services

Market	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Domestic market	2.354.085	41	2.259.247	40	104
Foreign market	3.429.653	59	3.444.944	60	100
Total:	5.783.738	100	5.704.191	100	101

The total sales revenues for 2014 are 5,783,738 thousand denars which indicates 1% growth compared to the sales revenues from 2013 (5,704,191 thousand denars). The growth in total sales revenues is a result from the increase of sales revenues on domestic market for 4%, while foreign market sales are on the same level.

The largest portion of total sales revenues, 59% is generated on foreign markets.

Total sales - segment reporting

Segment	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Pharmacy	4.650.410	80	4.574.740	80	102
Chemistry Cosmetics Botanicals	1.133.328	20	1.129.451	20	100
Total:	5.783.738	100	5.704.191	100	101

The largest portion in total sales revenues, amounting 4,650,410 thousand is generated on the Pharmacy segment with 80%, which compared to last years' 4,574,740 thousand denars is an increase of 2%.

Domestic market sales - segment reporting

Segment	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Pharmacy	1.766.265	75	1.698.218	75	104
Chemistry Cosmetics Botanicals	587.820	25	561.029	25	105
Total:	2.354.085	100	2.259.247	100	104

Total sales revenues on domestic market are 2,354,085 thousand denars, which compared to last years' 2,259,247 have increased for 4%.

The largest portion in total sales revenues is generated on the Pharmacy segment, amounting 1,766,265 thousand denars or 75%.

Foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Pharmacy	2.884.146	84	2.876.522	83	100
Chemistry Cosmetics Botanicals	545.507	16	568.422	17	96
Total:	3.429.653	100	3.444.944	100	100

Total sales revenues on foreign market are 3,429,653 thousand denars, which compared to last years' 3,444,944 are on the same level.

The largest portion in total sales revenues is generated on the Pharmacy segment, amounting 2,884,146 thousand denars or 84%.

Foreign market sales by regions/countries

Region/Country	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
South Eastern Europe	2.157.432	63	2.085.664	61	103
Albania	104.105	3	64.516	2	161
Bosnia and Herzegovina	699.441	20	646.005	19	108
Kosovo	320.019	9	304.763	9	105
Serbia	857.216	25	887.802	26	97
Monte Negro	176.651	5	182.578	6	97
Russia and CIS	334.074	10	380.777	11	88
Russia	296.492	9	336.531	10	88
Georgia	1.579	-	1.003	-	157
Armenia	7.447	-	4.989	-	149
Turkmenistan	296	-	-	-	-
Ukraine	28.260	1	38.254	1	74
Western Europe (EU and EFTA)	843.373	25	909.020	26	93
Bulgaria	180.540	5	161.924	5	111
Croatia	432.290	13	509.442	15	85
Germany	61.513	2	97.852	3	63
Spain	21.261	-	-	-	-
Romania	25.000	-	3.779	-	662
Slovenia	111.132	3	132.110	4	84
Czech	4.098	-	3.462	-	118
Slovakia	7.083	-	23	-	-
Hungary	174	-	-	-	-
Switzerland	282	-	428	-	66
Other countries	94.774	3	69.483	2	136
Australia	-	-	1.867	-	-
Jordan	5.210	-	2.963	-	176
USA	80.644	2	53.584	2	151
Turkey	8.307	-	11.025	-	75
Other countries	613	-	44	-	-
Total:	3.429.653	100	3.444.944	100	100

The largest portion of 63% of the total sales in foreign markets is generated in the South Eastern Europe region.

Total revenues

Revenues	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
1. Revenues from sales of goods and services	5.783.738	97	5.704.191	98	101
-Domestic market	2.354.085	40	2.259.247	39	104
Sales of goods	1.825.448	31	1.804.648	31	101
Sales of commodities	474.311	8	403.274	7	118
Other sales revenues	54.326	1	51.325	1	106
-Foreign market	3.429.653	58	3.444.944	59	100
Sales of goods	3.014.790	51	3.128.217	54	96
Sales of commodities	377.449	6	281.964	5	134
Other sales revenues	37.414	1	34.763	-	108
2. Other operating income	148.828	3	119.561	2	124
Collected written off receivables	6.047	-	6.028	-	100
Income from previous years	4.623	-	2.183	-	212
Dividends income	59.418	1	44.913	1	132
Interest income	1.334	-	167	-	799
Foreign exchange transaction gains	24.285	1	32.776	1	74
Other income	53.121	1	33.494	-	159
3. Finance income	1.359	-	2.182	-	62
Foreign exchange transaction gains on borrowings	346	-	255	-	136
Interest income on borrowings	1.013	-	1.927	-	53
Total:	5.933.925	100	5.825.934	100	102

Total revenues for 2014 amounting 5,933,925 thousand denars have increased for 2%, compared to last years' 5,825,934 thousand denars.

The largest portion of 97% in the total revenues belongs to the sales revenues, which compared to last year have increased for 1%.

Other operating income has a portion of 3% in total revenues. Compared to last year other operating income has increased for 24%.

Finance income only includes income on borrowings. The portion of finance income in total revenue is insignificant.

Sales by category

Sales revenue	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Sales of goods	4.840.238	84	4.932.865	86	98
Sales of commodities	851.760	15	685.238	7	124
Other sales revenues	91.740	2	86.088	2	107
Total:	5.783.738	100	5.704.191	100	101

Total expenses by nature

Expenses	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
1. Changes in the inventories	-119.290	-2	-127.673	-2	93
2. Raw and other materials	1.698.984	33	1.800.365	35	94
Raw materials	1.544.443	30	1.627.289	31	95
Energy	134.620	3	157.052	3	86
Spare parts	18.088	-	14.580	-	124
Written off small items	1.833	-	1.444	-	127
3. Cost of commodities	608.830	12	513.591	10	119
4. Services	344.276	7	335.696	6	103
Transport	134.404	3	123.160	2	109
Maintenance	37.260	1	36.626	1	102
Rent	21.031	-	18.313	-	115
Utilities	151.581	3	157.597	3	96
5. Depreciation and amortization	338.349	6	319.089	6	106
6. Provision for impaired trade receivables	594	-	30.206	1	2
7. Employee benefits	982.744	19	933.281	18	105
Gross salaries	833.132	16	788.861	15	106
Food allowances	24.078	1	23.659	1	102
Holiday allowances	52.840	1	47.761	1	111
Termination benefits	3.774	-	9.284	-	41
Short-term benefits	67.500	1	62.220	1	108
Retirement benefits	132	-	197	-	67
Other expenses	1.288	-	1.299	-	99
8. Other operating expenses	1.332.665	26	1.334.617	26	100
Cost of business trips	35.939	1	37.033	1	97
Advertising and marketing	735.085	14	714.731	14	103
Insurance	22.863	-	20.486	-	112
Taxes and contributions	12.872	-	13.373	-	96
Bank charges and memberships	17.007	-	16.666	-	102
Interest	151	-	447	-	34
Exchange differences from receivables and payables	45.230	1	28.930	1	156
Expenses from previous years	6.454	-	7.153	-	90
Other expenses	457.064	9	495.798	10	92
9. Finance costs (borrowings)	22.866	-	32.214	1	71
Foreign exchange transaction losses on borrowings	474	-	134	-	354
Interest expense on borrowings	22.392	-	32.080	1	70
Total:	5.210.018	100	5.171.386	100	101

The Total expenses for 2014 amounting 5,210,018 thousand denars have increased 1% compared to last years' 5,171,386 thousand denars.

The largest portion in the total expenses belongs to Raw and other materials, 33%. Employee benefits have a portion of 19%, Other operating expenses have a portion of 26%. Finance costs include only expenses on borrowings. The portion of finance costs in total expenses is insignificant.

Income statement - expenses by nature

Income statement	2014		2013		IND
	Amount	%	Amount	%	14/13
	(In 000 MKD)				
Total revenues	5.933.925	100	5.825.934	100	102
Domestic market	2.354.085	40	2.259.247	39	104
Foreign market	3.429.653	58	3.444.944	59	100
Other operating income	148.828	3	119.561	2	124
Finance income	1.359	-	2.182	-	62
Total expenses	-5.210.018	88	-5.171.386	89	101
Inventories	119.290	-2	127.673	-2	93
Raw materials	-1.698.984	29	-1.800.365	31	94
Cost of commodities	-608.830	10	-513.591	9	119
Services expenses	-344.276	6	-335.696	6	103
Gross salaries	-833.132	13	-788.861	14	106
Depreciation and amortization	-338.349	6	-319.089	5	106
Provision for impaired trade receivables	-594	-	-30.206	1	2
Other operating expenses	-1.482.277	25	-1.479.037	25	100
Finance cost	-22.866	-	-32.214	1	71
Profit before income tax	723.907	12	654.548	11	111
Income tax	-94.780	2	-34.715	1	273
Profit for the year	629.127	11	619.833	11	101

Profit before income tax for 2014 is 723,907 thousand denars, which compared to last years' 654,548 thousand denars has increased for 11%. The portion of profit before income tax in the total revenue in 2014 is 12%.

The calculated Income tax for 2014 is 94,780 thousand denars, which compared to last years' 34,715 thousand denars has increased for 173%.

Profit for the year 2014 is 629,127 thousand denars, which compared to last years' 619,833 thousand denars has increased for 1%. The portion of net income in the total revenue in 2014 is 11%.

Income statement - expenses by function

Income statement	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Sales	5.783.738	97	5.704.191	98	101
Cost of sales	-3.056.790	-52	-2.988.076	-51	102
Gross profit	2.726.948	46	2.716.115	47	100
Research and development expenses	-47.504	-1	-46.765	-1	102
Selling and marketing expenses	-1.670.000	-28	-1.752.177	-30	95
Administrative expenses	-295.007	-5	-267.821	-5	110
Provisions for liabilities and charges	-5.383	-	-	-	-
Other income	148.828	3	119.561	2	124
Other expenses	-112.468	-2	-84.333	-1	133
Operating profit	745.414	13	684.580	12	109
Net foreign exchange transaction (losses) / gains	-128	-	121	-	-106
Net interest	-21.379	-	-30.153	-1	71
Profit before income tax	723.907	12	654.548	11	111
Income tax	-94.780	-2	-34.715	-1	273
Profit for the year	629.127	11	619.833	11	101

The income statement by function model presents the expenses as: Production costs, Research and development expenses, Selling and marketing expenses and Administrative expenses. The finance costs are presented in net values.

The largest portion in total revenues 52% belongs to Cost of sales, which have increased for 2%.

Selling and marketing expenses have a portion of 28% in total revenues. Compared to last year Selling and marketing expenses have decreased for 5%.

Administrative expenses have a portion in total expenses of 5% and have increased for 10% compared to last year.

Balance sheet

	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Assets					
Non-current assets					
Intangibles	886.800	10	742.325	8	119
Property, plant and equipment	3.532.675	40	3.759.478	42	94
Investments in subsidiaries and associates	163.615	2	102.259	1	160
Available-for-sale financial assets	3.721	-	3.191	-	117
Other non-current receivables	16.472	-	20.499	-	80
Deferred tax assets	17.548	-	17.548	-	100
Total non-currents assets:	4.620.831	52	4.645.300	52	99
Current assets					
Inventories	1.574.759	18	1.421.548	16	111
Trade receivables	2.444.840	27	2.558.556	29	96
Other receivables	138.436	2	131.322	1	105
Cash and cash equivalents	124.922	1	91.869	1	136
Total current assets:	4.282.957	48	4.203.295	48	102
Total assets:	8.903.788	100	8.848.595	100	101
Equity and liabilities					
Equity					
Share capital	2.197.095	25	2.205.348	25	100
Share premiums	-	-	-	-	-
Legal reserves	596.146	7	596.146	7	100
Other reserves	1.120.315	13	1.303.910	15	86
Retained earnings	3.640.491	41	3.327.349	38	109
Total equity:	7.554.047	85	7.432.753	84	102
Liabilities					
Current liabilities					
Trade and other payables	951.387	11	944.670	11	101
Current borrowings	304.821	3	390.745	4	78
Income taxes	67.287	1	2.801	-	-
Total current liabilities:	1.323.495	15	1.338.216	15	99
Non-current liabilities					
Non-current borrowings	1.648	-	51.498	1	3
Deferred tax liabilities	-	-	6.913	-	-
Non-current provisions	24.598	-	19.215	-	128
Total non-current liabilities:	26.246	-	77.626	1	34
Total liabilities:	1.349.741	15	1.415.842	16	95
Total equity and liabilities:	8.903.788	100	8.848.595	100	101

Performance indicators

Indicators	(In %)		
	2014	2013	IND 14/13
Revenue / expense ratio	113,89	112,66	101
Net profit margin	10,60	10,64	100
EBITDA (%)	18,74	17,60	106
Current ratio	3,24	3,14	103
Net debt to equity ratio	0,04	0,06	68
Return of equity	8,33	8,34	100
Return of assets	7,07	7,00	101

Number of employees on 31 December

Segment	2014		2013		IND 14/13
	%	%	%	%	
Pharmacy	644	54	627	55	103
Chemistry Cosmetics Botanicals	219	18	210	18	104
Corporate unit	329	28	309	27	106
Total:	1.192	100	1.146	100	104

The total number of employees on 31 December 2014 is 1,192, which compared to 2013 is an increase of 4%.

Alkaloid AD Skopje