



**ALKALOID AD SKOPJE
STAND-ALONE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
31 DECEMBER 2017**

(In thousands of Denar)

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD OF ALKALOID AD SKOPJE

We have audited the accompanying financial statements (page 3 to 39) of ALKALOID AD Skopje (the "Company"), which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations prevailing in the Republic of Macedonia, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Law on Auditing and the applicable auditing standards in the Republic of Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alkaloid AD Skopje as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Macedonia.

(Continues)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD OF ALKALOID AD SKOPJE (continued)

Report on other legal and regulatory requirements

Management is responsible for the preparation of the Company's annual report and the Company's annual account in accordance with the Company Law, which were adopted and approved by the management of the Company on February 9, 2018. Our responsibility is to express an opinion on the consistency of the annual report with the annual account and the financial statements of the Company. We have performed our audit procedures in accordance with the Audit Law of the Republic of Macedonia and International Standard on Auditing 720 – The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements. In our opinion, the historical financial information disclosed in the annual report is consistent with the annual account and the accompanying audited financial statements of the Company for the year ended December 31, 2017.

Lidija Nanus
Certified Auditor
Director

Jane Ivanov
Certified Auditor

February 28, 2018

Deloitte DOO Skopje

(In thousands of Denar)

STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December	
		2017	2016
Assets			
Non-current assets			
Property, plant and equipment	6	4,212,549	3,979,777
Intangible assets	7	1,452,689	1,335,395
Deferred tax assets	19	17,817	17,817
Available-for-sale financial assets	9	5,110	4,649
Investments in subsidiaries	10	374,691	373,149
Other non-current assets	13	80,296	7,991
		6,143,152	5,718,778
Current assets			
Inventories	11	2,049,857	1,954,086
Trade receivables	12	2,079,731	2,065,705
Other current assets	13	211,020	173,083
Cash and cash equivalents	14	77,220	76,047
		4,417,828	4,268,921
Total assets		10,560,980	9,987,699
Equity			
Capital and reserves			
Share capital	15	2,197,095	2,197,095
Legal reserves		596,146	596,146
Other reserves	16	1,122,110	1,121,649
Retained earnings		4,776,836	4,365,329
		8,692,187	8,280,219
Liabilities			
Non-current liabilities			
Non-current borrowings	17	268,624	25,802
Retirement benefit obligations	18	29,168	26,729
		297,792	52,531
Current liabilities			
Trade and other payables	20	1,364,578	1,353,765
Income tax		6,345	13,130
Current borrowings	17	200,078	288,054
		1,571,001	1,654,949
Total liabilities		1,868,793	1,707,480
Total equity and liabilities		10,560,980	9,987,699

The accompanying notes are an integral part of these financial statements.

These financial statements have been approved for issue by the Managing Board on 9 February 2018.

Approved by:

Zhivko Mukaetov
General Manager

Viktor Stojcevski
Finance Manager

(In thousands of Denar)

STATEMENT OF PROFIT OR LOSS

	Notes	Year ended 31 December	
		2017	2016
Sales	5	6,932,176	6,418,581
Cost of sales	24	(4,207,768)	(3,785,049)
Gross profit		2,724,408	2,633,532
Research and development expenses	24	(76,421)	(71,498)
Selling and marketing expenses	24	(1,632,818)	(1,524,521)
Administrative expenses	24	(356,110)	(385,509)
Provision for other liabilities and charges	21	(2,438)	(1,091)
Other income	22	323,338	272,583
Other expense	23	(155,171)	(136,490)
Operating profit		824,788	787,006
Finance expenses, net	26	(1,501)	(8,962)
Profit before tax		823,287	778,044
Income tax	27	(57,332)	(73,774)
Profit for the year		765,955	704,270
Earnings per share (in Denar)			
- Basic	28	540.69	497.15

The accompanying notes are an integral part of these financial statements.

(In thousands of Denar)

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December	
		2017	2016
Profit for the year		765,955	704,270
Other comprehensive income:			
Fair value of investments	16	461	1,135
Other comprehensive income, net of tax		461	1,135
Total comprehensive income for the year		766,416	705,405

The accompanying notes are an integral part of these financial statements.

(In thousands of Denar)

STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December					Total
	Share capital	Share premiums	Legal reserves	Other reserves	Retained earnings	
As at 1 January 2016	2,197,095	-	596,146	1,120,514	3,987,539	7,901,294
Fair value of investments (Note 9)	-	-	-	1,135	-	1,135
Dividends and tax of paid dividend (Note 29)	-	-	-	-	(326,480)	(326,480)
Profit for the year	-	-	-	-	704,270	704,270
As at 31 December 2016	2,197,095	-	596,146	1,121,649	4,365,329	8,280,219
Fair value of investments (Note 9)	-	-	-	461	-	461
Dividends and tax of paid dividend (Note 29)	-	-	-	-	(354,448)	(354,448)
Profit for the year	-	-	-	-	765,955	765,955
As at 31 December 2017	2,197,095	-	596,146	1,122,110	4,776,836	8,692,187

The accompanying notes are an integral part of these financial statements.

(In thousands of Denar)

STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2017	2016
Cash flows from operating activities		
Cash receipts from customers	6,666,209	6,212,690
Cash paid to suppliers and employees	(5,877,369)	(5,377,241)
Cash generated from operations	788,840	835,449
Interest paid	-	-
Net cash flows generated from operating activities	788,840	835,449
Cash flows from investing activities		
Purchases of property, plant and equipment	(696,623)	(608,927)
Sales of property, plant and equipment	943	-
Purchases of subsidiaries (Note 10)	(1,542)	(923)
Dividends received	153,547	63,601
Other payments to employees	(62,570)	(63,291)
Loans granted to subsidiary undertakings	-	26,000
Net cash flows used in investing activities	(606,245)	(583,540)
Cash flows from financing activities		
Proceeds from borrowings	1,639,147	1,031,293
Repayments of borrowings	(1,482,485)	(1,051,513)
Interest paid	(13,850)	(9,266)
Compensation to shareholders and tax of paid dividend and other allocation of profit	(324,234)	(299,010)
Net cash flows used in financing activities	(181,422)	(327,866)
Net increase/(decrease) in cash and cash equivalents	1,173	(75,957)
Cash and cash equivalents at beginning of year	76,047	152,004
Cash and cash equivalents at the end of year	77,220	76,047

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Alkaloid AD Skopje (the Company) produces and sells a wide range of pharmaceutical, chemical and cosmetic products, as well as goods from herbal origin. The Company has eighteen subsidiaries and one Foundation in the Republic of Macedonia and other countries. For the list of the subsidiaries refer to Note 10.

Alkaloid AD Skopje, the parent company is the 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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the year presented.

2.1 Basis of preparation

Pursuant to the provisions of the Company Law (Official Gazette of the Republic of Macedonia no. 28/04, 84/05, 71/06, 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, 88/15, 192/15, 6/16, 30/16 and 61/16) legal entities in Macedonia are required to maintain their books of account and to prepare their financial statements in conformity with the International Financial Reporting Standards officially adopted in the Republic of Macedonia and published in the Official Gazette of the Republic of Macedonia.

A newly-issued Rulebook for chart of accounts (Official Gazette of the Republic of Macedonia no. 159/09, 164/10 and 107/11) was adopted as of December 29, 2009. It contains: the International Accounting Standards (“IAS”), International Financial Reporting Standards (“IFRS”) and related interpretations issued by the Standing Interpretation Committee (“SIC”) and the International Financial Reporting Interpretations Committee (“IFRIC”) determined and issued by the International Accounting Standards Board (“IASB”) as of January 1, 2009. This Rulebook has been effective as from January 1, 2010.

However, until the preparation date of the accompanying financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated. In addition, the accompanying financial statements are presented in the format prescribed under the “Guidelines on the Prescribed Form and Content of the Annual Financial Statements” (Official Gazette of the Republic of Macedonia no. 60/14). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, “Presentation of Financial Statements,” and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Standards and interpretations in issue but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.2 and 2.3.

In accordance with the afore described, and given the potentially material effects which the departures of accounting regulations of the Republic of Macedonia from IAS and IFRS may have on the fairness presentations made in the financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IAS and IFRS.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

The financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder. In the preparation of the accompanying financial statements, the Company adhered to the accounting policies described in Note 2.

All amounts in the Company's financial statements are stated in thousands of Macedonian Denars (MKD). The Denar is the official reporting currency in the Republic of Macedonia.

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of Macedonia

As of the financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Macedonia.

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);
- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);
- Amendments to IAS 38 “Intangible Assets” (effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 2 “Share-Based Payment”: Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments IFRIC 9 “Reassessment of Embedded Derivatives” effective for annual periods beginning on or after July 1, 2009 and IAS 39 “Financial Instruments: Recognition and Measurement” – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);
- IFRIC 18 “Transfers of Assets from Customers” (effective for annual periods beginning on or after July 1, 2009);
- “Conceptual Framework for Financial Reporting 2010” being an amendments to “Framework for the Preparation and Presentation of Financial Statements” (effective for transfer of assets from customers received on or after September 2010);

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of Macedonia (Continued)

2.2

- „Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);
- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction” – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);

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(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of Macedonia (Continued)

- Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to various standards “Improvements to IFRSs (cycle 2009-2011)” resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013);
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements” – Investment Entities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32 “Financial instruments: Presentation” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014);
- IFRIC 21 “Levies” (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014);
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of Macedonia (Continued)

- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- • Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016);
- •Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- •Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017);
- •Amendments to IFRS 12 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 New Standards and amendments to existing standards in issue not yet adopted

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after 1 January 2018);
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time);
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018);
- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

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(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 New Standards and amendments to existing standards in issue not yet adopted (Continued)

The management is assessing the impact of the changes to the IAS, the newly-issued IFRS and to the interpretations to the financial statements. Although the majority of these changes are not applicable to the Company's operations, the Company's management does not express an explicit and unreserved statement in the accompanying financial statements of compliance with IAS and IFRS, which have been applied in the periods presented in the accompanying financial statements.

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 information available, as of the date of preparation of the financial statements. However, actual results may vary from these estimates. The management assessments are stated in Note 4.

2.4 Subsidiaries

Subsidiaries are all legal entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another Company. The cost of acquisition is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The investments in subsidiaries are recorded at cost less any eventual impairment.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Managing Board. The Managing Board is responsible for strategic decisions for each segment.

At 31 December 2017, the Company is organized on a worldwide basis into four reportable segments:

- **Pharmaceuticals** - Production of medicines for human use;
- **Chemicals** - Production of chemicals products;
- **Cosmetics** - Production of cosmetics;
- **Botanicals** - Production of botanicals products.

The pharmaceutical overall production program of the products of Alkaloid Pharmaceuticals is consisted of the following pharmaceutical forms:

- Oral hard dosage forms: Tablets - conventional and modified release, film-tablets, coated tablets, sub-lingual tablets, capsules, dry powder for oral suspension.
- Liquid dosage forms for oral administration: Solutions for oral administration, syrups, suspensions.
- Topical preparations: Ointments, creams, solutions, gels, sprays, vaginal pessaries, suppositories.
- Sterile dosage forms: Parenteral small-volume, eye drops, ointments for eyes.

Besides the capacities for manufacturing finished pharmaceutical products, Alkaloid-Pharmaceuticals has also facilities for extraction of opioids which include production of morphine and its derivatives as pharmaceutical raw materials.

Alkaloid Chemical products today are developed programme for the production of chemicals and organic and non-organic reagents, with pa, puriss, purum and with pharmacopeial qualities. They are suitable for laboratories within institutions, faculties, clinics, the pharmaceutical and cosmetic industry, as well as in the production processes of other industries.

This is an English translation of the original report issued in Macedonian language

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting (Continued)

Alkaloid's Cosmetics Unit develops and produces skincare products, children's skincare, soaps, hair care products, dental care products, men's perfume collection, women's perfume collection, as well as household cleaners. The ingredients that are used in the products are purchased from suppliers that satisfy our high-quality standards and are in accordance with the requirements of the European directive for quality cosmetic products.

The activities in the Botanical unit consists of Processing blending and packing herbal materials like roots, leaves, fruits, seeds etc.

Segment revenue is revenue reported in the company's income statement that is directly attributable to a segment and the relevant portion of the company income that can be allocated on a reasonable basis to a segment.

Segment expense is an expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis.

Net operating assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables less operating liabilities. Company assets and liabilities principally consist of net liquidity (cash, cash equivalents and other current financial assets less financial debts) and deferred and current taxes.

The accounting policies of the reportable segments are the same as the Company's accounting policies. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

2.6 Foreign currency translation

Functional and presentation currency

The stand-alone financial statements are presented in thousands of Macedonian Denar, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences of monetary securities denominated in foreign currency classified as available-for-sale are recognized in equity.

2.7 Property, plant and equipment

Property plant and equipment were initially recorded at cost. Land, buildings and part of equipment are stated at fair value, based on appraisal performed by external independent valuator, less subsequent depreciation. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment (Continued)

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are recognized in other comprehensive income, credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. The revaluation surplus is transferred to retained earnings upon ultimate disposal of revaluated asset.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	10 - 40 years
Machinery	10 - 20 years
Vehicles	4 years
Furniture, fittings and equipment	3 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The carrying amount of disposed PP&E is eliminated from the statement of financial position together with the carrying amount of accumulated depreciation. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.8 Intangible assets

Intangible assets are consisted of trademarks, licenses and software. Intangible assets are carried at cost less accumulated amortization. The cost value includes the invoiced expense of purchased intangible assets increased by all expenditures that are directly attributable to the acquisition of the items.

Amortization is calculated using the straight-line method to allocate the cost of trademarks, licenses and software over their estimated useful lives, maximum of 10 years.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives, maximum of 10 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the Statement of financial position (Note 2.12).

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognized on trade-date - the date on which the Company commits to purchase or sell the asset. The purchase value of investments includes transaction costs. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. The Company also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets are stated at cost, because the Company consider that cost approximates their fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the available-for-sale financial assets are presented in the equity and statement of comprehensive income, except for the impairment losses of the financial assets, calculated interests using the effective interest method and foreign exchange differences which are recognized in the profit and loss statement.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company's right to receive payments is established.

The fair values of quoted investments are based on last traded prices. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized at cost, less impairment.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the income statement. The method for evaluation of impairment of trade receivables is explained in Note 2.12.

2.11 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the actual cost method. The cost of finished goods and work in progress comprises direct production costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and applicable variable selling expenses.

2.12 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement within 'Selling and marketing costs'.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in bank and in hand.

2.14 Share capital

Ordinary shares are classified as equity. Purchases of the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and are included in equity attributable to the Company's equity holders.

2.15 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Income tax

Current income tax is calculated and paid in accordance with the Income tax Law. The estimated tax is paid in advance on a monthly basis. The final tax is payable at the rate of 10% calculated based on the profit as determined in the Statement of comprehensive income adjusted for certain tax deductible items as defined by the local tax legislation.

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on investments in subsidiaries excepts where timing of the reversal of temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Employee benefits (Continued)

2.17 Employee benefits

Pension liabilities

The Company has both defined benefit and defined contribution plans.

- Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.
- A defined contribution plan is a pension plan under which the Company pays contributions into publicly and privately administered pension plans on a mandatory basis. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognized in the Statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The Company pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Profit-sharing and bonus plans

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a decision of a Managing Board. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, discounts and rebates. Revenue is recognized as follows:

Sales of goods

Sales of goods are recognized when a Company has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income

Dividend income is recognized when the right to receive payment is established.

2.20 Dividends

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 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 cash flow 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.

This is an English translation of the original report issued in Macedonian language

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

b) Price risks

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 lower than short term. Interest rates on short term borrowings are decreased in respect of previous year.

3.2 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 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, with maturity of one year, are assumed to approximate their fair values. Management's assessment is based on the experience and other factors, including the expectations of future events which are probable in current circumstances.

3.3 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimize the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

4. ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of property, plant and equipment

The Company tests annually whether fair value of land and buildings has suffered material changes compared with their fair value as assessed in the last appraisal. The Company estimation is that the difference between their fair value recorded into the books and the current market value is not material, and do not affect the result.

Fair value of financial assets

The available-for-sale financial assets that are not traded in an active market on the Macedonian Stock Exchange are stated at their cost. The Company estimation is that the difference between their fair value and cost is not material, and do not affect the result taking in consideration that this financial assets are insignificant both in the books in the Company and as a percentage of participation in the issuer capital.

Trade receivables

The Company assessed annually the fair value of trade receivables.

Estimates for accounting for employee benefits

IAS19, Employee Benefits, requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations. These are mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover and discount rates. Substantial changes in the assumed development of any one of these variables may change the Company's retirement benefit obligation.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT REPORTING

Segment information reported to the Management Board is based on goods and category of customers.

Principal categories of goods are pharmaceutical and non-pharmaceutical products (chemicals, cosmetics and botanicals). Principal categories of customers for the goods of the Company are wholesalers.

Segments revenues and results as of 31 December are as follows:

	Segment revenue		Segment operating profit	
	2017	2016	2017	2016
Pharmaceutical product	5,535,481	5,034,633	799,628	714,254
Chemical products	284,543	257,490	19,498	25,532
Cosmetic products	841,972	825,059	18,381	22,951
Botanical products	270,180	301,399	(12,719)	24,269
Total	6,932,176	6,418,581	824,788	787,006
Finance costs			(1,501)	(8,962)
Profit before tax			823,287	778,044
Income tax expense			(57,332)	(73,744)
Profit for the year			765,955	704,270

Revenue reported above represents revenue generated from external customers.

Segment assets and liabilities for the year ended 31 December are as follows:

Segment assets

	2017	2016
Pharmaceutical product	8,421,894	7,989,235
Chemical products	192,959	222,694
Cosmetic products	1,345,772	1,194,833
Botanical products	600,355	580,937
Total assets	10,560,980	9,987,699

Segment liabilities

	2017	2016
Pharmaceutical product	1,460,605	1,341,790
Chemical products	104,146	87,329
Cosmetic products	215,938	179,065
Botanical products	88,104	99,296
Total liabilities	1,868,793	1,707,480

Other segment information for the year ended 31 December are as follows:

	Depreciation and amortization		Addition to non-current assets	
	2017	2016	2017	2016
Pharmaceutical product	427,137	374,100	774,989	584,201
Chemical products	9,815	9,713	17,708	12,990
Cosmetic products	21,330	21,014	27,671	19,217
Botanical products	22,685	16,916	11,199	81,902
Total liabilities	480,967	421,743	831,567	698,310

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

Geographical information

The Republic of Macedonia is the domicile country of the Company.

	Sales revenue		Non-current assets	
	2017	2016	2016	2016
Republic of Macedonia	2,654,759	2,509,795	5,665,238	5,315,172
Serbia	1,097,115	1,116,541	-	-
Bosnia and Herzegovina	778,615	752,467	-	-
Croatia	464,260	413,233	-	-
Other countries	1,937,427	1,626,545	-	-
Total	6,932,176	6,418,581	5,665,238	5,315,172

Geographical information about sales revenue is based on the customers' origin.

Non-current assets include Property, plant and equipment and Intangible assets.

Information about major customers

The sales of Pharmaceutical products are spread over many countries and customers. No major customer participates in the direct sales of Pharmaceutical products.

In the sales of Chemical products, there is one major customer with participation of 26% (2016: 27.5%) in direct sales.

In the sales of Cosmetic products, there is one major customer with participation of 15,9% (2016: 14,3%).

In the sales of Botanical products, there is one major customer with participation of 37,5% (2016: 46,8%).

Sales by category	2017	2016
Sales of goods	5,548,341	5,203,102
Sales of commodities	1,264,688	1,119,183
Revenue from services	31,021	12,919
Other revenue	88,126	83,377
	6,932,176	6,418,581

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or valuation					
At 1 January 2016	832,946	1,872,936	2,646,478	347,551	5,699,911
Additions	-	-	21,559	374,201	395,760
Transfer from construction in progress	579	139,317	536,832	(676,728)	-
Elimination of cost	-	(12)	(7,918)	-	(7,930)
As at 31 December 2016	833,525	2,012,241	3,196,951	45,024	6,087,741
Accumulated depreciation					
At 1 January 2016	-	80,285	1,778,320	-	1,858,605
Depreciation charge	-	55,168	202,020	-	257,188
Elimination of accumulated depreciation	-	(4)	(7,825)	-	(7,829)
As at 31 December 2016	-	135,449	1,972,515	-	2,107,964
Net book value as at 31 December 2016	833,525	1,876,792	1,224,436	45,024	3,979,777
Cost or valuation					
At 1 January 2017	833,525	2,012,241	3,196,951	45,024	6,087,741
Additions	-	-	18,040	494,529	512,569
Transfer from construction in progress	-	112,918	309,323	(422,241)	-
Elimination of cost	-	(34)	(24,711)	(203)	(24,948)
As at 31 December 2017	833,525	2,125,125	3,499,603	117,109	6,575,362
Accumulated depreciation					
At 1 January 2017	-	135,449	1,972,515	-	2,107,964
Depreciation charge	-	57,566	221,697	-	279,263
Elimination of accumulated depreciation	-	(4)	(24,410)	-	(24,414)
As at 31 December 2017	-	193,011	2,169,802	-	2,362,813
Net book value as at 31 December 2017	833,525	1,932,114	1,329,801	117,109	4,212,549

Land and buildings were revaluated as at 31 December 2014 by independent appraiser. The revaluation surplus/deficit was credited to other reserves in shareholders' equity (Note 16).

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

7. INTANGIBLE ASSETS

	Trademarks and licenses	Software and Internally generated intangibles	Other assets	Construction in progress	Total
Cost or valuation					
At 1 January 2016	377,598	1,294,411	67,370	79,732	1,819,111
Additions	-	394	205	301,951	302,550
Transfer from construction in progress	4,003	284,579	2,468	(291,050)	-
Elimination of cost	(18,165)	-	-	-	(18,165)
As at 31 December 2016	363,436	1,579,384	70,043	90,633	2,103,496
Accumulated depreciation					
At 1 January 2016	305,268	290,971	25,473	-	621,712
Depreciation charge	32,853	124,267	7,435	-	164,555
Elimination of depreciation	(18,166)	-	-	-	(18,166)
As at 31 December 2016	319,955	415,238	32,908	-	768,101
Net book value as at 31 December 2016	43,481	1,164,146	37,135	90,633	1,335,395
Cost or valuation					
At 1 January 2017	363,436	1,579,384	70,043	90,633	2,103,496
Additions	-	5,406	129	313,463	318,998
Transfer from construction in progress	5,669	272,813	7,853	(286,335)	-
Elimination of cost	(29,481)	-	-	-	(29,481)
As at 31 December 2017	339,624	1,857,603	78,025	117,761	2,393,013
Accumulated depreciation					
At 1 January 2017	319,955	415,238	32,908	-	768,101
Depreciation charge	20,302	174,149	7,253	-	201,704
Elimination of depreciation	(29,481)	-	-	-	(29,481)
As at 31 December 2017	310,776	589,387	40,161	-	940,324
Net book value as at 31 December 2017	28,848	1,268,216	37,864	117,761	1,452,689

The net book value of software is Denar 45,858 thousand (2016: Denar 45,212 thousand), and the rest of the amount is internally generated intangibles.

8. FINANCIAL INSTRUMENTS

Capital risk management

The management of the Company reviews the capital structure on a regular basis.

	2017	2016
Debt	468,702	313,856
Cash and cash equivalents	(77,220)	(76,047)
Net debt	391,482	237,809
Equity	8,692,187	8,280,219
Net debt to equity ratio	4.50%	2.87%

This is an English translation of the original report issued in Macedonian language

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Categories of financial instruments and risk management objectives

The Company's principal financial instruments are cash and cash equivalents and trade receivables, as well as, borrowings and trade payables. In the normal course of operations the Company is exposed to the following risks:

Foreign currency risk

The Company undertakes certain transactions denominated in foreign currency in respect of sales of goods and services, purchase of raw materials, services and equipment and obtaining borrowings. The Company does not use any special financial instruments to hedge against this risk since no such instruments are in common use in the Republic of Macedonia.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2017	2016	2017	2016
EUR	727,872	612,438	1,470,365	1,355,628
RUR	-	-	441,097	471,024
USD	127,036	233,333	56,644	58,262
CHF	13,078	71,215	1,033	6,012
Other currencies	4,409	361	928	2,183

The Company is mainly exposed to Euro and Russian Ruble currency.

The following table details the Company's sensitivity analysis to a 10% increase and decrease in the Macedonian Denar against the relevant foreign currency. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end. A positive number below indicates an increase in profit and equity, and negative number below indicates a decrease.

	Increase of 10% in MKD		Decrease of 10% in MKD	
	2017	2016	2017	2016
EUR	(74,249)	(74,328)	74,249	74,328
RUR	(44,110)	(47,102)	44,110	47,102
USD	7,039	17,507	(7,039)	(17,507)
CHF	1,204	6,520	(1,204)	(6,520)
Other currencies	348	(182)	(348)	182
Profit and loss and equity	(109,768)	(97,585)	109,768	97,585

The Company's sensitivity to foreign currency has increased during the current period mainly due to combine effect of increase of foreign trade receivables and increase of borrowings in foreign currency.

Interest rate risk

The Company is exposed to interest risk arising from variable interest rate on borrowings, which depends on the changes of the financial market.

The sensitivity analyses below have been determined based on the exposure to interest rates as a result of a 10% increase or decrease for foreign borrowings at the balance sheet date. A positive number below indicates an increase in profit and equity, and a negative number below indicates a decrease.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk (Continued)

	Increase of 10%		Decrease of 10%	
	2017	2016	2017	2016
Borrowings	1,211	775	(1,211)	(775)
Profit and loss and equity	(1,211)	(775)	1,211	775

If interest rates had been 10% higher the Company's profit for the year ended 31 December 2017 and retained earnings would decrease by Denar 1,211 thousands and opposite, if interest rates had been 10% lower the Company's profit for the year ended 31 December 2017 and retained earnings would increase by Denar 1,211 thousands.

Liquidity risk

The management of the Company has responsibility for maintaining adequate liquidity. In certain cases the Company uses short-term and long-term funding for liquidity purposes. The Company manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows. At any time, the Company can draw additional borrowings from banks with relatively low interest rates, which reduce further liquidity risk.

The following tables detail the Company's remaining contractual maturity for its financial liabilities.

	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
2017					
Trade payables	719,868	368,144	102,912	7,202	1,198,126
Borrowings	-	31,368	168,710	268,624	468,702
	719,868	399,512	271,622	275,826	1,666,828
2016					
Trade payables	776,870	314,808	82,475	9,627	1,183,780
Borrowings	-	-	288,054	25,802	313,856
	776,870	314,808	370,529	35,429	1,497,636

The following tables detail the Company's remaining contractual maturity for its financial assets:

	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
2017					
Trade receivables	493,662	781,103	804,966	-	2,079,731
Available-for-sale financial assets	-	-	-	5,110	5,110
Cash and cash equivalents	77,220	-	-	-	77,220
	570,882	781,103	804,966	5,110	2,162,061

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

2016	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	562,689	744,472	758,544	-	2,065,705
Available-for-sale financial assets	-	-	-	4,649	4,649
Cash and cash equivalents	76,047	-	-	-	76,047
	<u>638,736</u>	<u>744,472</u>	<u>758,544</u>	<u>4,649</u>	<u>2,146,401</u>

Taxation risks

Macedonian tax legislation is subject to varying interpretations and changes that occur frequently. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The period that remains open for review by the tax and customs authorities with respect to tax liabilities is five years. During 2017 the company's accounting transactions were subject to examination by the tax authorities regarding VAT for the period January 1st to November 30th 2017, for which an tax control statement was issued without findings.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
At 1 January	4,649	3,514
Additions	606	1,313
Disposals	(145)	(178)
At 31 December	<u>5,110</u>	<u>4,649</u>

Available-for-sale financial assets consist of:

	2017	2016
Available-for-sale financial assets in non-quoted companies	1,930	1,855
Available-for-sale financial assets in quoted companies	3,180	2,794
	<u>5,110</u>	<u>4,649</u>

Investments in securities available-for-sale consist of shares in companies and banks. Participation in their shares is below 10% of the registered equity.

Available-for-sale financial assets of quoted shares are presented by market value. The unlisted shares that are not traded in an active market are stated at cost, because the Company consider that cost approximates their fair value.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES

	<u>2017</u>	<u>2016</u>
Alkaloid DOO Beograd, Serbia	62,566	62,566
Alkaloid DOO Zagreb, Croatia	15,439	15,439
Alkaloid INT DOO Ljubljana, Slovenia	866	866
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	39	39
Alkaloid EOOD Sofia, Bulgaria	2,748	2,748
ALK&KOS Shpk Prishtina, Kosovo	307	307
Alkaloidpharm SA Fribourg, Switzerland	4,285	4,285
Alkaloid USA LLC Columbus, Ohio USA	3,873	3,873
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	308	308
Alkaloid Kons DOOEL Skopje, Macedonia	130,154	130,154
Fund "Trajce Mukaetov" Skopje, Macedonia	3,000	3,000
Alkaloid DOO Podgorica, Montenegro	-	-
OOO Alkaloid RUS, Moscow, Russia	119,359	119,359
Alkaloid FARM DOO Ljubljana, Slovenia	461	461
Alkaloid Veleddrogerija DOO Beograd, Serbia	7,720	7,720
Alkaloid ILAC TLS Istanbul, Turkey	2,616	2,616
ALKA-LAB DOO Ljubljana, Slovenia	18,485	18,485
Alkaloid Shpk Tirana, Albania	308	308
Alkaloid Kiev CO. LTD., Ukraine	2,157	615
	<u>374,691</u>	<u>373,149</u>

All subsidiaries are 100% owned by the Company, except investment in Alkaloid USA with the equity share of 49%. Although the investment of Alkaloid AD Skopje in Alkaloid USA LLC Columbus, Ohio USA is 49%, the Company exercises control. During 2016, Alkaloid AD Skopje established a new subsidiary in Albania, Alkaloid Shpk Tirana, and a new subsidiary in Ukraine, Alkaloid Kiev CO. LTD. In 2017 the company has increased its investment in Alkaloid Kiev CO. LTD., Ukraine by EUR 25 thousand.

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

11. INVENTORIES

	<u>2017</u>	<u>2016</u>
Raw materials	920,382	864,740
Spare parts	573	602
Tools and consumable stores	1,636	1,598
Work in progress	377,362	276,808
Finished goods	482,582	581,326
Commodities	267,322	229,012
	<u>2,049,857</u>	<u>1,954,086</u>

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

12. TRADE RECEIVABLES

	<u>2017</u>	<u>2016</u>
Trade receivables	2,258,580	2,243,904
Less: provision for impairment of receivables	<u>(178,849)</u>	<u>(178,199)</u>
Trade receivables – net	<u>2,079,731</u>	<u>2,065,705</u>

Changes in the provision are as follows:

	<u>2017</u>	<u>2016</u>
At 1 January	178,199	178,174
Provision for the year	1,314	1,189
Direct write off	(18)	(440)
Collected bad and doubtful debts	<u>(646)</u>	<u>(724)</u>
As at 31 December	<u>178,849</u>	<u>178,199</u>

Ageing of impaired trade receivables are as follows:

	<u>2017</u>	<u>2016</u>
Up to 1 year	-	-
Over 1 year	178,849	178,199
As at 31 December	<u>178,849</u>	<u>178,199</u>

13. OTHER CURRENT ASSETS

	<u>2017</u>	<u>2016</u>
Given advances	106,313	27,871
Prepaid taxes	102,749	110,022
Other receivables	82,254	43,181
Less: non-current portion	<u>(80,296)</u>	<u>(7,991)</u>
	<u>211,020</u>	<u>173,083</u>

Non-current receivables relate to prepayments for property, plant and equipment that are due within 1 year.

The fair value of non-current trade and other receivables are as follows:

	<u>2017</u>	<u>2016</u>
Trade receivables	<u>80,296</u>	<u>7,991</u>

The effective interest rate on non-current receivables was as follows:

	<u>2017</u>	<u>2016</u>
The effective interest rate	<u>3.25%</u>	<u>3.75%</u>

There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers, internationally dispersed.

Prepayments for VAT are refunded from the Tax authorities on regular basis.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

14. CASH AND CASH EQUIVALENTS

	<u>2017</u>	<u>2016</u>
Cash at banks	76,702	75,488
Cash in hands	518	559
	<u>77,220</u>	<u>76,047</u>

15. SHARE CAPITAL

	<u>Number of shares</u>	<u>Ordinary shares</u>	<u>Treasury shares</u>	<u>Total</u>	<u>Share premiums</u>
At 1 January 2016	<u>1,416,612</u>	<u>2,220,127</u>	<u>(23,032)</u>	<u>2,197,095</u>	-
Purchase of treasury shares	-	-	-	-	-
As at 31 December 2016	<u>1,416,612</u>	<u>2,220,127</u>	<u>(23,032)</u>	<u>2,197,095</u>	-
Purchase of treasury shares	-	-	-	-	-
As at 31 December 2017	<u>1,416,612</u>	<u>2,220,127</u>	<u>(23,032)</u>	<u>2,197,095</u>	-

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

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.

16. OTHER RESERVES

	<u>Property, plant and equipment</u>	<u>Available- for-sale investments</u>	<u>Fund for shares</u>	<u>Total</u>
At 1 January 2016	<u>892,535</u>	<u>(937)</u>	<u>228,916</u>	<u>1,120,514</u>
Increase	-	1,135	-	1,135
As at 31 December 2016	<u>892,535</u>	<u>198</u>	<u>228,916</u>	<u>1,121,649</u>
Increase	-	461	-	461
As at 31 December 2017	<u>892,535</u>	<u>659</u>	<u>228,916</u>	<u>1,122,110</u>

The nature and rights of distribution of each class of other reserves are:

- Revaluation reserves for Property, plant and equipment are created based on valuation of Property, plant and equipment. These reserves are not distributable to shareholders.
- The Reserve for Available-for-sale investments is created based on valuation of investments. These reserves are not distributable to shareholders.
- Funds for shares are created from retained earnings based on decision from Shareholder assembly and are distributable to shareholders if not utilized.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

17. BORROWINGS

	<u>2017</u>	<u>2016</u>
Non-current borrowings	268,624	25,802
Current borrowings	200,078	288,054
	<u>468,702</u>	<u>313,856</u>

The maturity of the borrowings is as follows:

	<u>2017</u>	<u>2016</u>
Up to 1 year	200,078	288,054
Between 1 to 3 years	268,624	25,802
	<u>468,702</u>	<u>313,856</u>

The borrowings are denominated in following currencies:

	<u>2017</u>	<u>2016</u>
EUR	188,564	121,931
USD	-	39,973
MKD	280,138	151,952
	<u>468,702</u>	<u>313,856</u>

The effective interest rates at the balance sheet date were as follows:

	<u>31 December 2017</u>			<u>31 December 2016</u>		
	<u>EUR</u>	<u>USD</u>	<u>MKD</u>	<u>EUR</u>	<u>USD</u>	<u>MKD</u>
Interest rates	6 month EURIBOR +2.5 – 4.5%	-	2.8– 3.1%	6 month EURIBOR +3.1 – 4.5%	3.1%	3.3– 6%

18. RETIREMENT BENEFIT OBLIGATIONS

	<u>2017</u>	<u>2016</u>
Retirement benefits	29,168	26,729

The retirement benefits are calculated based on legal obligation for payment of two monthly net salaries on the retirement date according to actuarial calculation.

The amounts recognized in the Income statement are as follows:

	<u>2017</u>	<u>2016</u>
Beginning of the year	26,729	25,638
Increase in calculation	2,439	1,091
Decrease in calculation	-	-
As at 31 December	<u>29,168</u>	<u>26,729</u>

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

18. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The principal actuarial assumptions used were as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	3.66%	4.01%

19. DEFERRED TAX

	<u>2017</u>	<u>2016</u>
Deferred tax assets	17,817	17,817
	<u>17,817</u>	<u>17,817</u>

Deferred income tax is determined using tax rates of 10%.

	<u>2017</u>	<u>2016</u>
At 1 January	17,817	17,817
Deferred tax in Income statement	-	-
As at 31 December	<u>17,817</u>	<u>17,817</u>

The movement in deferred tax assets and liabilities is as follows:

	<u>Accruals</u>	<u>Fair value</u>	<u>Total</u>
At 1 January 2016	<u>17,817</u>	<u>-</u>	<u>17,817</u>
Charged to Income statement	-	-	-
Realized deferred tax liabilities	-	-	-
As at 31 December 2016	<u>17,817</u>	<u>-</u>	<u>17,817</u>
Charged to Income statement	-	-	-
Realized deferred tax liabilities	-	-	-
As at 31 December 2017	<u>17,817</u>	<u>-</u>	<u>17,817</u>

20. TRADE AND OTHER PAYABLES

	<u>2017</u>	<u>2016</u>
Trade payables	1,198,126	1,183,780
Customer's prepayments	2,070	2,024
Payables to employees	65,361	56,777
Dividends	12,102	10,986
Other payables	86,919	100,198
	<u>1,364,578</u>	<u>1,353,765</u>

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

21. PROVISION FOR OTHER LIABILITIES AND CHARGES

	<u>2017</u>	<u>2016</u>
Provision for retirement benefits	2,438	1,091
	<u>2,438</u>	<u>1,091</u>

22. OTHER INCOME

	<u>2017</u>	<u>2016</u>
Collected written-off receivables	646	724
Dividends income	153,546	63,601
Interest income	822	481
Foreign exchange transaction gains	114,012	148,171
Other income	54,312	59,606
	<u>323,338</u>	<u>272,583</u>

23. OTHER EXPENSE

	<u>2017</u>	<u>2016</u>
Interest expenses	139	2
Foreign exchange transaction loss	104,641	72,689
Write-off of non-current assets	436	7,130
Write-off of inventories	36,053	36,772
Other expenses	13,902	19,897
	<u>155,171</u>	<u>136,490</u>

24. EXPENSES BY NATURE

	<u>2017</u>	<u>2016</u>
Raw materials	2,059,779	2,054,164
Employee benefit expense	1,317,604	1,192,317
Depreciation and amortization	480,967	421,743
Utilities	134,430	113,694
Impairment of trade receivables	1,314	1,189
Transportation	192,437	173,905
Changes in the inventories	(53,454)	(186,512)
Other expenses	2,140,040	1,996,077
	<u>6,273,117</u>	<u>5,766,577</u>

25. EMPLOYEE BENEFIT EXPENSE

	<u>2017</u>	<u>2016</u>
Gross salaries	1,101,439	998,026
Other employees benefits	216,165	194,291
	<u>1,317,604</u>	<u>1,192,317</u>

Number of employees at 31 December	<u>1,430</u>	<u>1,359</u>
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(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

26. FINANCE EXPENSES

	<u>2017</u>	<u>2016</u>
Net foreign exchange transaction gains/(losses) on borrowings	10,607	(1,207)
Interest expense on borrowings	<u>(12,108)</u>	<u>(7,755)</u>
	<u>(1,501)</u>	<u>(8,962)</u>

27. INCOME TAX

	<u>2017</u>	<u>2016</u>
Current income tax	57,332	73,774
Deferred income tax (Note 19)	<u>-</u>	<u>-</u>
	<u>57,332</u>	<u>73,774</u>

The income tax differs from the theoretical amount that would arise using the tax rate applicable to profit as follows:

	<u>2017</u>	<u>2016</u>
Profit before tax	<u>823,287</u>	<u>778,044</u>
Tax calculated at tax rate of 10%	82,329	77,804
Income not subject to tax	(3,293)	(72)
Tax on expenses not deductible for tax purposes	31,639	31,032
Tax allowances	<u>(53,343)</u>	<u>(34,990)</u>
	<u>57,332</u>	<u>73,774</u>

28. EARNINGS PER SHARE

	<u>2017</u>	<u>2016</u>
Basic earnings per share		
Profit attributable to shareholders (in Denar)	765,954,710	704,269,882
Average number of shares	<u>1,416,612</u>	<u>1,416,612</u>
Basic earnings per share (in Denar)	<u>540.69</u>	<u>497.15</u>

29. DIVIDENDS

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

The gross dividends for 2016 approved by shareholders on 3 April 2017 amounted Denar 357,838 thousands. For the approved dividends and related taxes retained earnings are appropriately decreased.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

30. COMMITMENTS

Capital expenditures contracted for acquisition of property, plant and equipment at balance sheet date but not yet incurred are in amount of Denar 12,143 thousands; (2016: Denar 6,779 thousands).

31. CONTINGENCIES

The Company has contingent liabilities with respect to issued guaranties to third parties in the amount of Denar 19,278 thousands (2016: Denar 41,920 thousands).

32. RELATED PARTY TRANSACTIONS

The Company has no ultimate parent. The shares are widely held. Alkaloid AD Skopje has investments in subsidiaries stated in Note 10. Sales and purchases of goods and services between related parties are based on regular market terms and prices. The transactions with the related parties are stated below:

Sale of goods and services

	<u>2017</u>	<u>2016</u>
Alkaloid DOO Belgrade, Serbia	143,967	120,537
Alkaloid DOO Zagreb, Croatia	14,759	-
Alkaloid INT DOO Ljubljana, Slovenia	997,889	746,080
Alkaloid EOOD Sofia, Bulgaria	(123)	-
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	197,861	232,717
Alkaloidpharm SA Fribourg, Switzerland	128	184
Alkaloid Kons DOOEL Skopje, Macedonia	171,495	160,844
OOO Alkaloid RUS, Moscow, Russia	350,266	267,001
Alkaloid Veledrogerija DOO Beograd, Serbia	600,454	675,278
Alkaloid ILAC TLS Istanbul, Turkey	3,882	4,905
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	6,623	7,253
	<u>2,487,201</u>	<u>2,214,799</u>

Purchase of goods and services

	<u>2017</u>	<u>2016</u>
Alkaloid DOO Belgrade, Serbia	15,227	11,391
Alkaloid DOO Zagreb, Croatia	9,338	13,217
Alkaloid DOO Ljubljana INT, Slovenia	35,093	22,770
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	94,167	69,497
Alkaloid EOOD Sofia, Bulgaria	50,649	94,587
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	30,710	34,593
Alkaloidpharm SA Fribourg, Switzerland	181,570	180,267
Alkaloid Kons DOOEL Skopje, Macedonia	2,057	2,084
Alkaloid DOO Podgorica, Montenegro	40,426	34,093
Fund "Trajce Mukaetov" Skopje, Macedonia	9,372	9,906
OOO Alkaloid RUS, Moscow, Russia	82,527	66,596
Alkaloid Veledrogerija DOO Beograd, Serbia	3,985	-
Alkaloid ILAC TLS Istanbul, Turkey	9,574	10,472
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	2,600	2,550
Alkaloid Shpk Tirana, Albania	3,814	1,967
Alkaloid Kiev CO. LTD., Ukraine	44,800	-
	<u>615,909</u>	<u>553,990</u>

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS (Continued)

Balances and transactions between the Company and its subsidiaries arising from the sales and purchases of goods and services, advances and other transactions are presented below:

Accounts receivables	2017	2016
Alkaloid DOO Belgrade, Serbia	72,723	74,690
Alkaloid DOO Zagreb, Croatia	14,758	-
Alkaloid DOO Ljubljana INT, Slovenia	342,360	266,279
Alkaloid EOOD Sofia, Bulgaria	131	253
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	80,163	85,811
Alkaloidpharm SA Fribourg, Switzerland	-	3
Alkaloid Kons DOOEL Skopje, Macedonia	61,511	56,878
OOO Alkaloid RUS, Moscow, Russia	333,153	346,287
Alkaloid Veleddrogerija DOO Beograd, Serbia	247,376	337,442
Alkaloid ILAC TLS Istanbul, Turkey	7,001	3,743
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	2,481	3,033
ALKA-LAB DOO Ljubljana, Slovenia	-	2,041
	1,161,657	1,176,460

Accounts payables	2017	2016
Alkaloid DOO Belgrade, Serbia	241	156
Alkaloid DOO Zagreb, Croatia	1,896	1,564
Alkaloid DOO Ljubljana INT, Slovenia	18,085	32,186
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	13,684	10,718
Alkaloid EOOD Sofia, Bulgaria	4,987	27,345
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	4,815	4,313
Alkaloidpharm SA Fribourg, Switzerland	69,892	154,241
Alkaloid Kons DOOEL Skopje, Macedonia	933	544
Alkaloid DOO Podgorica, Montenegro	6,904	2,773
Alkaloid Veleddrogerija DOO Beograd, Serbia	1,006	-
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	708	826
Alkaloid Shpk Tirana, Albania	123	123
Alkaloid Kiev CO. LTD., Ukraine	8,005	-
	131,279	234,789

Short-term loans	2017	2016
Alkaloid DOO Belgrade, Serbia	1,928	1,928
Alkaloidpharm SA Fribourg, Switzerland	66,410	-
	68,338	1,928

Key management compensations

No compensations were paid to the Management Board members in 2017. In 2017, the amount of Denar 4,207 thousands was paid to the Supervision Board members (2016: Denar 4,207 thousands).

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

33. EXCHANGE RATES OF PRINCIPAL CURRENCIES

Closing rates:

	<u>31.12.2017</u>	<u>31.12.2016</u>
EUR	61.49	61.48
RUR	0.89	0.96
USD	51.27	58.33
CHF	52.55	57.25