



**ALKALOID AD SKOPJE
STAND ALONE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2010 AND
INDEPENDENT AUDITORS' REPORT**

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INDEPENDENT AUDITORS' REPORT

TO THE OWNERS AND MANAGEMENT OF ALAKALOID AD SKOPJE

We have audited the accompanying financial statements (page 4 to 40) of Alkaloid AD Skopje (hereinafter: the "Company"), which comprise the statement of financial position as of December 31, 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year than 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 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing and Audit Law of 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 of Alakaloid AD Skopje for the year ended December 31, 2010 are prepared, in all material respects in accordance with the accounting regulations of the Republic of Macedonia.

Deloitte DOO

Lidija Nanus
Director
Certified Auditor

Aleksandar Arizanov
Certified Auditor

Skopje, March 15, 2011

(In thousands of denars)

STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December	
		2010	2009
Assets			
Non-current assets			
Property, plant and equipment (PP&E)	6	3,680,282	3,844,203
Intangible assets	7	346,613	243,332
Deferred tax assets	19	10,557	11,288
Available-for-sale financial assets	9	5,695	6,394
Investments in subsidiaries	10	72,488	31,433
Other non-current assets	13	37,660	19,493
		4,153,295	4,156,143
Current assets			
Inventories	11	1,190,257	1,050,798
Trade receivables	12	2,242,649	1,901,510
Other receivables	13	203,218	182,462
Cash and cash equivalents	14	63,858	123,123
		3,699,982	3,257,893
Total assets		7,853,277	7,414,036
Equity and liabilities			
Capital and reserves			
Share capital	15	2,206,548	2,206,548
Share premiums	15	734	734
Legal reserves		596,146	596,146
Other reserves	16	1,278,359	1,369,508
Retained earnings		2,337,168	1,924,380
		6,418,955	6,097,316
Non-current liabilities			
Borrowings	17	223	811
Retirement benefit obligations	18	15,567	12,875
Deferred tax liabilities	19	27,521	13,488
		43,311	27,174
Current liabilities			
Trade and other payables	20	999,113	872,726
Income taxes		7	4,480
Borrowings	17	391,891	412,340
		1,391,011	1,289,546
Total liabilities		1,434,322	1,316,720
Total equity and liabilities		7,853,277	7,414,036

The accompanying notes are an integral part of and should be read in conjunction with the accompanying financial statements.

These financial statements have been approved for issue by the Managing Board on 21 February 2011.

Zhivko Mukaetov
General Manager

Cvetanka Simonovska
Finance Manager

INCOME STATEMENT

	Notes	Year ended 31 December	
		2010	2009
Sales	5	5,142,517	4,688,145
Cost of sales		(2,537,517)	(2,476,599)
Gross profit		2,605,000	2,211,546
Research and development expenses		(76,484)	(66,698)
Selling and marketing expenses		(1,574,837)	(1,330,174)
Administrative expenses		(257,817)	(246,538)
Provision for other liabilities and charges	21	(2,693)	(1,901)
Other income	22	151,829	143,355
Other expenses	23	(202,010)	(123,878)
Operating profit		642,988	585,712
Net foreign exchange transaction (losses) / gains	26	(7)	31
Finance expenses	26	(31,908)	(39,755)
Profit before income tax		611,073	545,988
Income tax expense	27	(29,495)	(42,721)
Net profit for the year		581,578	503,267
Earnings per share (in denars)			
- Basic	28	408.79	353.74

The accompanying notes are an integral part of and should be read in conjunction with the accompanying financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December	
		2010	2009
Profit for the year		581,578	503,267
Other comprehensive income:			
Fair value of investments	16	(85)	13
Deferred tax	16	(14,033)	921
Gain arising on revaluation of assets	16	-	96,462
Other comprehensive income, net of tax		(14,118)	97,396
Total comprehensive income for the year		567,460	600,663

The accompanying notes are an integral part of and should be read in conjunction with the accompanying financial statements.

STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December					
	Share capital	Share premiums	Legal reserves	Other reserves	Retained earnings	Total
As at 1 January 2009	2,206,783	906	596,146	1,522,389	1,366,473	5,692,697
Purchase of treasury shares	(235)	(172)	-	-	-	(407)
Fair value of investments (Note 9)	-	-	-	13	-	13
Deferred taxes (Note 19)	-	-	-	921	-	921
Dividends	-	-	-	-	(195,637)	(195,637)
Revaluation of assets (Note 16)	-	-	-	96,462	-	96,462
Revaluation transfer (Note 16)	-	-	-	(99,346)	99,346	-
Reversal of reserve for purchase of PP&E (Note 16)	-	-	-	(150,931)	150,931	-
Profit for the year	-	-	-	-	503,267	503,267
As at 31 December 2009	2,206,548	734	596,146	1,369,508	1,924,380	6,097,316
Fair value of investments (Note 9)	-	-	-	(85)	-	(85)
Deferred taxes (Note 19)	-	-	-	(14,033)	-	(14,033)
Dividends and tax of paid dividend and other allocation of profit (Note 29)	-	-	-	-	(251,398)	(251,398)
Revaluation transfer (Note 16)	-	-	-	(77,031)	77,031	-
Return of unpaid dividends	-	-	-	-	5,577	5,577
Profit for the year	-	-	-	-	581,578	581,578
As at 31 December 2010	2,206,548	734	596,146	1,278,359	2,337,168	6,418,955

The accompanying notes are an integral part of and should be read in conjunction with the accompanying financial statements.

CASH FLOW STATEMENT

	Year ended 31 December	
	2010	2009
Cash flow from operating activities		
Cash receipts from customers	4,787,619	4,532,442
Cash paid to suppliers and employees	(4,203,208)	(3,747,738)
Cash generated from operations	584,411	784,704
Interest received	151	2,086
Income tax paid	(46,687)	(78,537)
Net cash generated from operating activities	537,875	708,253
Cash flow from investing activities		
Purchases of property, plant and equipment	(289,172)	(467,729)
Disposals of available-for-sale financial assets (Note 9)	-	2,059
Purchases of subsidiaries (Note 10)	(41,055)	-
Dividends received	34	38
Repayments from loans to employees	(3,123)	(3,312)
Proceeds from bank deposits	-	22,006
Proceeds/Repayments form Loans granted to subsidiary undertakings	16,661	(49,434)
Net cash used in investing activities	(316,655)	(496,372)
Cash flow from financing activities		
Proceeds of borrowings	1,075,410	1,413,877
Repayments of borrowings	(1,096,450)	(1,477,168)
Interest paid	(30,194)	(41,150)
Interest from investments in bonds	338	-
Purchase of treasury shares	-	(407)
Compensation to shareholders and tax of paid dividend and other allocation of profit	(229,589)	(193,987)
Net cash provided by financing activities	(280,485)	(298,835)
Net decrease in cash and cash equivalents	(59,265)	(86,954)
Cash and cash equivalents at beginning of year	123,123	210,077
Cash and cash equivalents at the end of year	63,858	123,123

The accompanying notes are an integral part of and should be read in conjunction with the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Alkaloid AD Skopje (the Company) produces and sells wide range of pharmaceutical, chemical and cosmetic products, as well as goods from herbal origin. The Company has twelve 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 the 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 and 8/11), 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. 159/2009) 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. 113/06). 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. Therefore certain reclassifications have been made to present the accompanying financial statements in the format prescribed by that standard. Standards and interpretations issued, 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

In accordance with the aforescribed 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.

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 and accompanying notes to the 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 in Issue, but not yet Translated and Adopted

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 for the annual accounting periods commencing on or after January 1, 2010:

- 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” (revised in July 2009, 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 ending on or after June 30, 2009);

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations in Issue, but not yet Translated and Adopted (Continued)

- IFRIC 18 “Transfers of Assets from Customers” (effective for annual periods ending on or after July 1, 2009).

2.3 Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- “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);
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2013);
- 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 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” - Transfer of Financial Assets (effective for annual periods beginning on or after July 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);
- 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)”, (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).

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Standards and Interpretations in Issue not yet in Effect (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 to us, 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 entity. 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 Interests in Associates

An associate is an enterprise over which the Company is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee. The interest in associate is accounted for at fair value.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis over its estimated useful life.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

2.7 Segment reporting

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

2.8 Foreign currency translation

Functional and presentation currency

The 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.

2.9 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 valuers, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Property, plant and equipment (continued)

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	20 - 40	Years
Machinery	10 - 20	Years
Vehicles	4	Years
Furniture, fittings and equipment	4 - 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.10 Intangible assets

Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Historical cost includes expenditure that is 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, up to 10 years.

Research expenditure is recognized as an expense as incurred. Internal development costs are recognized as intangible assets when it is probable that future economic benefits will flow to the Company and costs can be measured reliably. The Company considers that regulatory and other uncertainties inherent in the development of new products mean that such criteria are not met until the commercial launch of the product and therefore, pre-launch internal development costs are expensed as incurred. No significant direct development costs are incurred after the commercial launch.

2.11 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 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 2.14).

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.

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. Method for evaluation of impairment of trade receivables is explained in Note 2.14.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 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.

2.14 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".

2.15 Cash and cash equivalents

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

2.16 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.

2.17 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.

2.18 Deferred 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 on the profit reported in the income statement, adjusted for certain items as defined by the local tax legislation.

As a result of the anti-crisis measures, Income tax law was amended in 2009, whereas the profit for the year ended 2009 is not taxable and the rate of 10% is applied only on the expenses not deductible for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Deferred tax (continued)

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 financial statements. However, the deferred income tax is not accounted for if it 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.

2.19 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Employee benefits (continued)

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.

2.20 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.

2.21 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 an entity 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.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 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.

2.23 Comparative figures

In order to maintain consistency with the current year presentation, where appropriate certain items have been reclassified for comparative purposes. Such reclassifications, however, have not resulted in significant changes of the content and format of the financial information as presented in the accompanying financial statements.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Interest risk (continued)

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 increased 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 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.

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 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT REPORTING

Primary reporting format - business segments

At 31 December 2010, the Company is organized on a worldwide basis into four main business segments:

- Pharmaceuticals** - Production and sales of medicines for human use, medicines for veterinary use and pharmaceutical raw materials
- Chemicals** - Production and sales of chemical products
- Cosmetics** - Production and sales of cosmetics products
- Botanicals** - Production and sales of botanical products

The segment results for the year ended 31 December are as follows:

	Segment revenues		Segment operating profit	
	2010	2009	2010	2009
Pharmaceutical products	4,200,041	3,811,328	580,363	547,220
Chemical products	176,476	144,553	22,591	3,287
Cosmetic products	589,716	555,514	35,050	26,771
Botanical products	176,284	176,750	4,984	8,434
Total	5,142,517	4,688,145	642,988	585,712
Finance costs			(31,915)	(39,724)
Profit before tax			611,073	545,988
Income tax			(29,495)	(42,721)
Profit for the year			581,578	503,267

The segment assets and liabilities for the year ended 31 December:

Assets

	2010	2009
Pharmaceutical products	6,741,396	6,296,736
Chemical products	292,694	293,709
Cosmetic products	499,224	489,622
Botanical products	319,963	333,969
Total assets	7,853,277	7,414,036

Liabilities

	2010	2009
Pharmaceutical products	1,244,652	1,109,053
Chemical products	37,639	55,815
Cosmetic products	110,025	104,800
Botanical products	42,006	47,052
Total liabilities	1,434,322	1,316,720

NOTES TO THE FINANCIAL STATEMENTS

5. SEGMENT REPORTING (continued)

Primary reporting format - business segments (continued)

Other segment information for the year ended 31 December:

	Depreciation and amortization		Addition to non-current assets	
	2010	2009	2010	2009
Pharmaceutical product	234,836	217,966	267,226	470,985
Chemical products	5,470	9,171	6,424	8,291
Cosmetic products	10,709	14,193	4,832	2,605
Botanical products	9,327	11,447	2,156	2,338
Total liabilities	260,342	252,777	280,638	484,219

Secondary reporting format - geographical segments

The Republic of Macedonia is the domicile country of the parent company, which is also the main operating company.

	Sales revenues		Non-current assets	
	2010	2009	2010	2009
Republic of Macedonia	1,972,723	1,814,094	4,026,895	4,087,535
Serbia	738,469	871,252	-	-
Croatia	406,783	338,057	-	-
Bosnia and Herzegovina	612,695	592,921	-	-
Other countries	1,411,847	1,071,821	-	-
Total	5,142,517	4,688,145	4,026,895	4,087,535

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

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 45.8% (2009: 29.9%) in direct sales.

In the sales of Cosmetic products, there is one major customer with participation of 13.5% (2009: 13.2%) in direct sales.

In the sales of Botanical products, there is one major customer with participation of 16.9% (2009: 17.8%) in direct sales.

Sales by category

	2010	2009
Sales of goods	4,741,236	4,308,143
Sales of commodities	348,234	326,863
Revenue from services	2,194	14,637
Other revenue	50,853	38,502
	5,142,517	4,688,145

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 2009	877,136	3,169,771	1,412,981	179,544	5,639,432
Additions	-	1,743	-	390,774	392,517
Transfer from construction in progress	-	127,401	411,132	(538,533)	-
Elimination of cost	-	(3,329)	(10,477)	(1,853)	(15,659)
Revaluation	40,784	(1,339,982)	-	-	(1,299,198)
As at 31 December 2009	917,920	1,955,604	1,813,636	29,932	4,717,092
Accumulated depreciation					
At 1 January 2009	-	1,425,723	715,884	-	2,141,607
Depreciation charge	-	75,287	139,415	-	214,702
Elimination of accumulated depreciation	-	(2,956)	(9,653)	-	(12,609)
Revaluation	-	(1,470,811)	-	-	(1,470,811)
As at 31 December 2009	-	27,243	845,646	-	872,889
Net book value as at 31 December 2009	917,920	1,928,361	967,990	29,932	3,844,203
Cost or valuation					
At 1 January 2010	917,920	1,955,604	1,813,636	29,932	4,717,092
Additions	455	-	-	126,198	126,653
Transfer from construction in progress	-	35,324	103,335	(138,659)	-
Elimination of cost	(78,537)	-	(16,009)	-	(94,546)
As at 31 December 2010	839,838	1,990,928	1,900,962	17,471	4,749,199
Accumulated depreciation					
At 1 January 2010	-	27,243	845,646	-	872,889
Depreciation charge	-	49,170	160,474	-	209,644
Elimination of accumulated depreciation	-	-	(13,616)	-	(13,616)
As at 31 December 2010	-	76,413	992,504	-	1,068,917
Net book value as at 31 December 2010	839,838	1,914,515	908,458	17,471	3,680,282

The land with surface of 116,464m², in accordance with the latest title deeds issued by AKN is property of Alkaloid AD Skopje. The land with surface of 224,247m² is currently in procedure of transformation in accordance with the Law on Privatization and Lease of State-Owned Construction Land (Official Gazette of RM 4/2005, 13/2007, 165/2008, 146/2009).

Land and buildings were revaluated on 31 December 2009 by independent valuator. The revaluation surplus/deficit was credited to other reserves in shareholders' equity. The revaluation methods used are: market value, cost method and discounted cash flow.

NOTES TO THE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT (continued)

The historical cost of Property, plant and equipment is as follows:

	<u>2010</u>	<u>2009</u>
Land	51,058	51,058
Buildings	1,671,221	1,705,677
Equipment	876,542	932,620
Construction in progress	17,471	29,932
Net book value	<u>2,616,292</u>	<u>2,719,287</u>

7. INTANGIBLE ASSETS

	<u>Trade marks and licenses</u>	<u>Goodwill</u>	<u>Software</u>	<u>Other assets</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or valuation						
At 1 January 2009	54,388	-	114,486	10,981	67,420	247,275
Additions	-	-	234	-	91,468	91,702
Transfer from construction in progress	56,312	-	7,068	1,646	(65,026)	-
Elimination of cost	(116)	-	-	-	(1,740)	(1,856)
As at 31 December 2009	110,584	-	121,788	12,627	92,122	337,121
Accumulated depreciation						
At 1 January 2009	9,965	-	35,454	10,323	-	55,742
Depreciation charge	15,079	-	22,710	286	-	38,075
Elimination of depreciation	(28)	-	-	-	-	(28)
As at 31 December 2009	25,016	-	58,164	10,609	-	93,789
Net book value as at 31 December 2009	85,568	-	63,624	2,018	92,122	243,332
Cost or valuation						
At 1 January 2010	110,584	-	121,788	12,627	92,122	337,121
Additions	-	-	172	-	153,813	153,985
Transfer from construction in progress	55,559	-	9,091	13,083	(77,733)	-
Elimination of cost	(11)	-	(11,624)	(10,236)	-	(21,871)
As at 31 December 2010	166,132	-	119,427	15,474	168,202	469,235
Accumulated depreciation						
At 1 January 2010	25,016	-	58,164	10,609	-	93,789
Depreciation charge	26,363	-	23,036	1,299	-	50,698
Elimination of depreciation	(6)	-	(11,623)	(10,236)	-	(21,865)
As at 31 December 2010	51,373	-	69,577	1,672	-	122,622
Net book value as at 31 December 2010	114,759	-	49,850	13,802	168,202	346,613

Intangibles consist of trademarks, licenses and implementation of software (SAP).

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS

Capital risk management

In order to be able to continue as going concern, the Company uses loans from banks and intends to maximize the return to the stakeholders through the optimization of the debt and equity balance.

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

	<u>2010</u>	<u>2009</u>
Debt	392,114	413,151
Cash and cash equivalents	<u>(63,858)</u>	<u>(123,123)</u>
Net debt	328,256	290,028
Equity	<u>6,418,955</u>	<u>6,097,316</u>
Net debt to equity ratio	<u>5.11%</u>	<u>4.76%</u>

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:

	<u>Liabilities</u>		<u>Assets</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
EUR	406,342	235,564	1,897,342	1,564,401
USD	187,610	162,808	45,034	49,031
CHF	25,774	6,556	504	507
Other currencies	267	195	353	764

The Company is mainly exposed to Euro 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.

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk (continued)

	Increase of 10% in MKD		Decrease of 10% in MKD	
	2010	2009	2010	2009
EUR	(149,100)	(132,884)	149,100	132,884
USD	14,258	11,378	(14,258)	(11,378)
CHF	2,527	605	(2,527)	(605)
Other currencies	(9)	(57)	9	57
Profit and loss and equity	(132,324)	(120,958)	132,324	120,958

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 decrease of borrowings and trade payables.

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 determinate 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 negative number below indicates a decrease.

	Increase of 10%		Decrease of 10%	
	2010	2009	2010	2009
Borrowings	3,191	3,975	(3,191)	(3,975)
Profit and loss and equity	(3,191)	(3,975)	3,191	3,975

If interest rates had been 10% higher the Company's profit for the year ended 31 December 2010 and retained earnings would decrease by Denar 3,191 thousands and opposite if interest rates had been 10% lower the Company's profit for the year ended 31 December 2010 and retained earnings would increase by Denar 3,191 thousands.

The management of the Company has responsibility for maintenance 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.

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

31 December 2010	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	695,754	143,759	7,655	-	847,168
Borrowings	8,364	16,727	366,800	223	392,114
	704,118	160,486	374,455	223	1,239,282

31 December 2009	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	444,768	133,631	115,368	-	693,767
Borrowings	25,049	356,852	30,439	811	413,151
	469,817	490,483	145,807	811	1,106,918

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

31 December 2010	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,290,202	762,249	190,198	-	2,242,649
Available-for-sale financial assets	-	-	-	5,695	5,695
	1,290,202	762,249	190,198	5,695	2,248,344

31 December 2009	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,043,808	707,199	150,503	-	1,901,510
Available-for-sale financial assets	-	-	-	6,394	6,394
	1,043,808	707,199	150,503	6,394	1,907,904

NOTES TO THE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (continued)

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.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>2010</u>	<u>2009</u>
At 1 January	6,394	7,381
Additions	753	1,766
Disposals	(1,537)	(2,740)
Fair value adjustment	85	(13)
At 31 December	5,695	6,394
Available-for-sale financial assets consist of:		
	<u>2010</u>	<u>2009</u>
Available-for-sale financial assets in non quoted companies	2,690	2,668
Available-for-sale financial assets in quoted companies	1,775	2,014
Available-for-sale financial assets in bonds	1,230	1,712
	<u>5,695</u>	<u>6,394</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.

Investments in bonds relates to state bonds for denationalization - third emission with 2% interest rate p.a. and maturity in 2014.

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.

NOTES TO THE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES

	<u>2010</u>	<u>2009</u>
Alkaloid INT DOO Ljubljana, Slovenia	557	557
Alkaloid DOO Zagreb, Croatia	14,822	14,822
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	39	39
Alkaloid DOO Beograd, Serbia	43,131	2,537
ALK&KOS Shpk Prishtina, Kosovo	307	307
Alkaloid EOOD Sofia, Bulgaria	2,748	2,748
Alkaloidpharm SA Fribourg, Switzerland	4,285	4,285
Alkaloid Kons DOOEL Skopje, Macedonia	154	154
Alkaloid USA LLC Columbus, Ohio USA	2,365	2,365
Fund "Trajce Mukaetov" Skopje, Macedonia	3,000	3,000
OOO Alkaloid RUS, Moscow, Russia	619	619
Alkaloid DOO Podgorica, Montenegro	-	-
Alkaloid FARM DOO Ljubljana, Slovenia	461	-
	<u>72,488</u>	<u>31,433</u>

All subsidiaries are 100% owned by the Company, except investment in Alkaloid USA with the equity share of 49%. During 2010 Alkaloid AD Skopje established a new subsidiary in Slovenia, Alkaloid Farm DOO Ljubljana. The existing subsidiary in Slovenia is rebranded into Alkaloid INT DOO Ljubljana.

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

11. INVENTORIES

	<u>2010</u>	<u>2009</u>
Raw materials	583,742	496,774
Spare parts	1,747	1,540
Tools and consumable stores	2,599	2,181
Work in progress	141,069	191,120
Finished goods	405,152	322,706
Commodities	55,948	36,477
	<u>1,190,257</u>	<u>1,050,798</u>

12. TRADE RECEIVABLES

	<u>2010</u>	<u>2009</u>
Trade receivables	2,371,306	2,032,491
Less: provision for impairment of receivables	(128,657)	(130,981)
Trade receivables - net	<u>2,242,649</u>	<u>1,901,510</u>

NOTES TO THE FINANCIAL STATEMENTS

13. OTHER RECEIVABLES

	<u>2010</u>	<u>2009</u>
Prepayments	41,329	25,047
Receivables from employees	15,027	15,027
Prepaid VAT	57,547	37,305
Other receivables	<u>126,975</u>	<u>124,576</u>
Less: non-current portion	<u>(37,660)</u>	<u>(19,493)</u>
	<u>203,218</u>	<u>182,462</u>

Non-current receivables relate to loans to employees and prepayments for property, plant and equipment that are due within 3 years.

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

	<u>2010</u>	<u>2009</u>
Trade receivables	<u>37,660</u>	<u>19,493</u>

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

	<u>2010</u>	<u>2009</u>
The effective interest rate	<u>5.35%</u>	<u>5.35%</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.

14. CASH AND CASH EQUIVALENTS

	<u>2010</u>	<u>2009</u>
Cash at banks	60,846	117,006
Cash in hands	<u>3,012</u>	<u>6,117</u>
	<u>63,858</u>	<u>123,123</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 2009	1,422,846	2,220,127	(13,344)	2,206,783	906
Treasury shares purchased	(150)	-	(235)	(235)	(172)
Sale of treasury shares	-	-	-	-	-
As at 31 December 2009	1,422,696	2,220,127	(13,579)	2,206,548	734
Treasury shares purchased	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-
As at 31 December 2010	1,422,696	2,220,127	(13,579)	2,206,548	734

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.

During 2010 the Entity has no purchases or sales of treasury shares. The total number of treasury shares is 8,657. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS

16. OTHER RESERVES

	Property, plant and equipment	Available- for-sale investments	Fund for shares	Reserve for purchase of PP&E	Total
At 1 January 2009	1,126,880	(1,060)	245,638	150,931	1,522,389
Reversal of reserve	-	-	-	(150,931)	(150,931)
Revaluation (Note 6)	96,462	-	-	-	96,462
Revaluation transfer	(99,346)	-	-	-	(99,346)
Increase	-	13	-	-	13
Deferred tax	921	-	-	-	921
As at 31 December 2009	1,124,917	(1,047)	245,638	-	1,369,508
Revaluation transfer	(77,031)	-	-	-	(77,031)
Decrease	-	(85)	-	-	(85)
Deferred tax	(14,033)	-	-	-	(14,033)
As at 31 December 2010	1,033,853	(1,132)	245,638	-	1,278,359

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 PP&E. 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.
- Reserve for purchase of property, plant and equipment was mandatory under the Income tax Law until 2008 and is reversed based on change in the Law in 2009.

17. BORROWINGS

	2010	2009
Non-current borrowings	223	811
Current borrowings	391,891	412,340
	392,114	413,151

Bank borrowings in amount of Denar 289,729 thousands are secured by the equipment in amount of Denar 46,492 thousands.

The maturity of the borrowings is as follows:

	2010	2009
Up to 1 year	391,891	412,340
Between 1 to 3 years	223	811
	392,114	413,151

NOTES TO THE FINANCIAL STATEMENTS

17. BORROWINGS (continued)

The borrowings are denominated in following currencies:

	<u>2010</u>	<u>2009</u>
EUR	41,574	11,470
MKD	350,540	401,681
	<u>392,114</u>	<u>413,151</u>

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

	<u>31 December 2010</u>		<u>31 December 2009</u>	
	<u>EUR</u>	<u>MKD</u>	<u>EUR</u>	<u>MKD</u>
Interest rates	7%	7 – 8.5%	3 months EURIBOR +2%	8 - 10%

18. RETIREMENT BENEFIT OBLIGATIONS

	<u>2010</u>	<u>2009</u>
Retirement benefits	<u>15,567</u>	<u>12,875</u>

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

The amounts recognized in the Income statement are as follows:

	<u>2010</u>	<u>2009</u>
Beginning of the year	12,875	10,974
Increase in calculation	2,887	2,099
Retirement benefits	(195)	(198)
As at 31 December	<u>15,567</u>	<u>12,875</u>

The principal actuarial assumptions used were as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	<u>6.31%</u>	<u>7.07%</u>

19. DEFERRED TAX

	<u>2010</u>	<u>2009</u>
Deferred tax assets	(10,557)	(11,288)
Deferred tax liabilities	27,521	13,488
	<u>16,964</u>	<u>2,200</u>

NOTES TO THE FINANCIAL STATEMENTS

19. DEFERRED TAX (continued)

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

	<u>2010</u>	<u>2009</u>
At 1 January	2,200	(25)
Deferred tax in Income statement	731	3,146
Deferred tax in Equity	14,033	(921)
As at 31 December	<u>16,964</u>	<u>2,200</u>

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

	<u>Provisions</u>	<u>Accruals</u>	<u>Fair value</u>	<u>Total</u>
At 1 January 2009	(13,336)	(1,098)	14,409	(25)
Charged to Income statement	13,336	(10,190)	-	3,146
Charged to Equity	-	-	(921)	(921)
As at 31 December 2009	<u>-</u>	<u>(11,288)</u>	<u>13,488</u>	<u>2,200</u>
Charged to Income statement	-	731	-	731
Charged to Equity	-	-	14,033	14,033
As at 31 December 2010	<u>-</u>	<u>(10,557)</u>	<u>27,521</u>	<u>16,964</u>

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

	<u>2010</u>	<u>2009</u>
Trade receivables	-	13,336
Retirement benefits	269	(210)
Accrued expenses	462	(9,980)
	<u>731</u>	<u>3,146</u>

The deferred income tax credited to equity during the year is as follows:

	<u>2010</u>	<u>2009</u>
Land and buildings	14,033	(921)
	<u>14,033</u>	<u>921</u>

NOTES TO THE FINANCIAL STATEMENTS

20. TRADE AND OTHER PAYABLES

	<u>2010</u>	<u>2009</u>
Trade payables	847,168	693,767
Customer's prepayments	6,349	7,862
Payables to employees	46,707	59,163
Dividends	3,756	7,876
Other payables	95,133	104,058
	<u>999,113</u>	<u>872,726</u>

21. PROVISION FOR OTHER LIABILITIES AND CHARGES

	<u>2010</u>	<u>2009</u>
Provision for retirement benefits	2,693	1,901
	<u>2,693</u>	<u>1,901</u>

22. OTHER INCOME

	<u>2010</u>	<u>2009</u>
Collected written-off receivables	12,789	48,032
Dividends income	34	38
Interest income	251	2,304
Foreign exchange transaction gains	68,025	49,506
Other income	70,730	43,475
	<u>151,829</u>	<u>143,355</u>

23. OTHER EXPENSE

	<u>2010</u>	<u>2009</u>
Interest expenses	797	423
Foreign exchange transaction loss	80,393	51,953
Effect of disposal of associate	-	21,129
Other expenses	120,820	50,373
	<u>202,010</u>	<u>123,878</u>

24. EXPENSES BY NATURE

	<u>2010</u>	<u>2009</u>
Raw materials	1,436,595	1,340,789
Employee benefit expense	867,145	982,669
Depreciation and amortization	260,342	252,777
Utilities	137,697	215,178
Provision for impaired trade receivables	25,216	84,273
Transportation	86,024	51,401
Changes in the inventories	(55,321)	(39,202)
Other expenses	1,688,957	1,232,124
	<u>4,446,655</u>	<u>4,120,009</u>

NOTES TO THE FINANCIAL STATEMENTS

25. EMPLOYEE BENEFIT EXPENSE

	<u>2010</u>	<u>2009</u>
Gross salaries	718,898	674,504
Other employees benefits	148,247	308,165
	<u>867,145</u>	<u>982,669</u>
Number of employees at 31 December	<u>1,035</u>	<u>1,005</u>

26. FINANCE COSTS

	<u>2010</u>	<u>2009</u>
Net foreign exchange transaction gains/(losses) on borrowings	(7)	31
Interest expense on borrowings	(31,908)	(39,755)
	<u>(31,915)</u>	<u>(39,724)</u>

27. INCOME TAX

	<u>2010</u>	<u>2009</u>
Current income tax	28,764	39,575
Deferred income tax (Note 19)	731	3,146
	<u>29,495</u>	<u>42,721</u>

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

	<u>2010</u>	<u>2009</u>
Profit before tax	<u>611,073</u>	<u>545,988</u>
Tax on expenses not deductible for tax purposes	40,988	44,377
Tax allowances	(12,224)	(4,802)
Utilization of previous tax credit	731	3,146
Income tax	<u>29,495</u>	<u>42,721</u>

As a result of the anti-crisis measures, Income tax law was amended in 2009, where the profit for the year ended 2009 is not taxable and the rate of 10% is applied only on the expenses not deductible for tax purposes.

28. EARNINGS PER SHARE

	<u>2010</u>	<u>2009</u>
Basic earnings per share		
Profit attributable to shareholders	581,577,640	503,267,196
Average number of shares	1,422,696	1,422,696
Basic earnings per share (in Denar)	<u>408.79</u>	<u>353.74</u>

29. DIVIDENDS

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

The dividends approved by shareholders on 19 April 2010 were Denar 216,293 thousands. Tax of paid dividend and other allocation of profit was amounting Denar 35,105 thousands. Approved dividends in 2010 in respect of 2009 are paid and retained earnings are appropriately decreased.

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 104,536 thousands; (2009: Denar 18,738 thousands).

31. CONTINGENCIES

The Company has contingent liabilities with respect to issued guaranties to third parties in the amount of Denar 32,332 thousands (2009: Denar 26,005 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 above. 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>2010</u>	<u>2009</u>
	300,355	273,366
Alkaloid DOO Zagreb, Croatia	99,117	27,038
Alkaloid DOO Belgrade, Serbia	207	856
Alkaloid EOOD Sofia, Bulgaria	207,684	139,809
Alkaloid DOO Ljubljana, Slovenia	196,152	187,644
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	24,155	43,193
Alkaloid Kons DOOEL Skopje, Macedonia	240,038	-
OOO Alkaloid RUS, Moscow, Russia	-	261
Alkaloidpharm SA Fribourg, Switzerland	652	-
Alkaloid DOO Sarajevo, Bosnia and Herzegovina		
	<u>1,068,360</u>	<u>672,167</u>

Purchase of goods and services

	<u>2010</u>	<u>2009</u>
Alkaloidpharm SA Fribourg, Switzerland	208,299	97,702
Alkaloid DOO Zagreb, Croatia	3,538	15,651
Alkaloid DOO Belgrade, Serbia	147,289	152,233
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	72,694	60,047
Alkaloid EOOD Sofia, Bulgaria	54,868	39,484
Alkaloid DOO Ljubljana, Slovenia	14,976	3,386
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	38,392	30,413
Fund "Trajce Mukaetov" Skopje, Macedonia	7,511	5,789
Alkaloid DOO Podgorica, Montenegro	31,141	26,744
OOO Alkaloid RUS, Moscow, Russia	150,189	15,193
	<u>728,897</u>	<u>446,642</u>

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	2010	2009
Alkaloidpharm SA Fribourg, Switzerland	-	261
Alkaloid DOO Zagreb, Croatia	67,675	156,635
Alkaloid DOO Belgrade, Serbia	71,657	25,759
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	805	5,659
Alkaloid EOOD Sofia, Bulgaria	309	6,917
Alkaloid DOO Ljubljana, Slovenia	59,886	64,614
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	62,756	78,989
Alkaloid Kons DOOEL Skopje, Macedonia	60,117	63,217
OOO Alkaloid RUS, Moscow, Russia	602,601	-
	925,806	402,051

Accounts payables	2010	2009
Alkaloidpharm SA Fribourg, Switzerland	213,471	157,263
Alkaloid DOO Zagreb, Croatia	4,114	9,108
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	7,280	11,377
Alkaloid DOO Belgrade, Serbia	20,055	13,355
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	4,566	8,802
Alkaloid EOOD Sofia, Bulgaria	4,772	8,192
Alkaloid DOO Ljubljana, Slovenia	36,684	3,059
OOO Alkaloid RUS, Moscow, Russia	63,657	-
Alkaloid Kons DOOEL Skopje, Macedonia	739	-
Alkaloid DOO Podgorica, Montenegro	2,797	-
	358,135	211,156

Prepayments	2010	2009
Alkaloid Kons DOOEL Skopje, Macedonia	17,409	30,641
	17,409	30,641

Short-term loans	2010	2009
Alkaloid DOO Belgrade, Serbia	12,982	12,978
OOO Alkaloid RUS, Moscow, Russia	45,195	46,146
	58,177	59,124

NOTES TO THE FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS (continued)

Key management compensations

No compensations were paid to the Management Board members. In 2010, the amount of Denar 3,584 thousands was paid to the Supervision Board members (2009: Denar 3,391 thousands).

33. POST BALANCE SHEETS EVENTS

According to the Decision U.no.26-198/1, issued by the Ministry of Finance - Property and Legal Affairs Office on 10.01.2011, in accordance with the Law on Privatization and Lease of State-Owned Construction Land (Official Gazette of RM 4/2005, 13/2007, 165/2008 and 146/2009) the state-owned construction land with surface of 210,129m², KO Gjorce Petrov 4 - Vlae, noted in title deed No.9220 by AKN is now property of Alkaloid AD Skopje.

On 18.02.2011 the amount of 100,389 thousand Denar was fully paid.