



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

**CONSOLIDATED ANNUAL REPORT
ON THE PERFORMANCE OF ALKALOID AD SKOPJE**

FOR THE PERIOD JANUARY - DECEMBER 2011

February 2012

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1. General information

Alkaloid AD Skopje, the Parent Company is a joint stock company, established and with head office in the Republic of Macedonia. The registered address of the Company is:
Aleksandar Makedonski 12 1000 Skopje, Republic of Macedonia.

Production facilities of the Group are located in Skopje and Belgrade.

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

The main scope is production of pharmaceutical products.

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

Alkaloid AD Skopje is comprised of thirteen subsidiaries and one foundation in Republic of Macedonia and abroad. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Company maintains its books of accounts and prepares its consolidated financial statements in accordance with the Trade Company Law ("Official Gazette of the Republic of Macedonia" no. 28/2004, 84/2005, 25/2007 and 87/2008) and the Rulebook for accounting ("Official Gazette of RM" no.94/2004, 11/2005, 116/2005, 159/2009 and 164/2010). According to this Rulebook, accounting standards applicable in the Republic of Macedonia are the International Accounting Standards (IAS), in effect as at 31 December 2003, established by the International Accounting Standards Board (IASB). The addition to this Rulebook dated 10 February 2005, relates to the application of the International Financial Reporting Standards (IFRS) 1, as well as the addition dated 28 December for application of IFRS 2, 3, 4, 5, 6 and 7.

A new Rulebook of accounting was issued on 29 December 2009 which relates to the changes in the IAS and the new IFRS established by IASB until 1 January 2009. The addition to this Rulebook dated 30 November 2010 relates to the application of IAS 10. This Rulebook is in effect from 1 January 2010.

The consolidated financial statements are prepared in accordance with the concept of purchase price, excluding the land property, construction buildings and investments in available-for-sale financial assets, which are presented by their market price.

The presentation of the consolidated 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 consolidated 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.

2. Financial risk management

Financial risk factors

The Group'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 Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The financial risk management is preformed by the Group's financial department, based on Decisions from Managing board.

Market risk

a) Foreign exchange risk

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

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

b) Price risk

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

Credit risk

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

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

Fair value estimation

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

3. Additions to non-current assets

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

Additions to non-current assets - segment reporting

Segments	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Pharmacy	522,271	90	320,317	96	163
Chemistry Cosmetics Botanicals	56,677	10	13,412	4	423
Total:	578,948	100	333,729	100	173

4. Dividends

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

The dividends approved by shareholders on 18 April 2011 were Denar 238,564 thousands. Tax of paid dividend and other allocation of profit was amounting Denar 36,507 thousands. Approved dividends are paid and retained earnings are appropriately decreased.

5. Borrowings

Borrowings	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Non-current	60,823	10	66,636	11	91
Current	574,159	90	530,364	89	108
Total:	634,982	100	597,000	100	106

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Up to 1 year	574,159	90	530,364	89	108
Between 1 to 3 years	60,823	10	66,636	11	91
Total:	634,982	100	597,000	100	106

6. Major Transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2011.

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

7. Related party transactions

The consolidated annual report on the performance includes the financial results of the parent Company and the following subsidiaries:

Subsidiary	2011	2010
	% of ownership	% of ownership
Alkaloid DOO Zagreb, Croatia	100%	100%
Alkaloid DOO Beograd, Serbia	100%	100%
Alkaloid INT DOO Ljubljana, Slovenia	100%	100%
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	100%	100%
Alkaloidfarm SA Fribourg, Switzerland	100%	100%
Alkaloid EOOD Sofia, Bulgaria	100%	100%
ALK&KOS Shpk Prishtina, Kosovo	100%	100%
Alkaloid Kons DOOEL Skopje, Macedonia	100%	100%
Alkaloid USA LLC Columbus, Ohio US	49%	49%
Fund "Trajce Mukaetov" Skopje, Macedonia	100%	100%
Alkaloid DOO Podgorica, Montenegro	100%	100%
OOO Alkaloid RUS, Moscow, Russia	100%	100%
Alkaloid FARM DOO Ljubljana, Slovenia	100%	100%
Alkaloid Veleđrogerija DOO Beograd, Serbia	100%	-

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

Even though the investment in Alkaloid USA LLC Columbus, Ohio USA is the equity share of 49%, the Company exercises control.

During 2010 Alkaloid AD, Skopje established a new subsidiary in Slovenia, Alkaloid Farm DOO Ljubljana. The new subsidiary is 100% owned by the Company. The existing subsidiary in Slovenia is rebranded into Alkaloid INT DOO Ljubljana. During 2011 Alkaloid AD Skopje established a new subsidiary in Serbia, Alkaloid Veleđrogerija DOO Beograd.

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

8. Share capital

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
At 1 January 2010	1,422,696	2,220,127	-13,579	2,206,548	734
Treasury shares purchased	-	-	-	-	-
Sale of treasury shares	-	-	-	-	-
At 31 December 2010	1,422,696	2,220,127	-13,579	2,206,548	734
Treasury shares purchased	-100	-	-157	-157	-241
At 31 December 2011	1,422,596	2,220,127	-13,736	2,206,391	493

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

During 2011 the Entity acquired 100 of its own shares through Macedonian stock exchange and held as treasury shares. The total number of treasury shares is 8,757. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares.

Earning per share

	(In MKD)		
	2011 Amount	2010 Amount	IND 11/10
Profit attributable to shareholders (in denars)	616,253,479	574,339,011	107
Number of shares	1,422,596	1,422,696	100
Basic earning per share (in denars):	433.19	403.70	107

9. Key management compensations

No compensations were paid to the Management Board members in 2011 and 2010.

In 2011, the amount of Denar 4,032 thousands were paid to the Supervision Board members (2010: Denar 3,584 thousands).

Consolidated production in tons

Segment	(In tons)				
	2011 Amount	%	2010 Amount	%	IND 11/10
Pharmacy	809	11	825	11	98
Chemistry Cosmetics Botanicals	6,851	89	6,847	89	100
Total:	7,660	100	7,672	100	100

The total amount produced for 2011 is 7,660 tons, which is on the same level compared to last years' production amount of 7,672 tons.

Total consolidated sales

Market	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Domestic market	2,793,477	41	2,485,019	42	112
Foreign market	3,944,591	59	3,449,309	58	114
Total:	6,738,068	100	5,934,328	100	114

The total sales revenues for 2011 are 6,738,068 which compared to last years' 5,934,328 have increased for 14%. The growth in total sales revenues is a result of the increase of sales revenues on domestic market for 12% and on foreign market for 14%.

The largest portion of total sales revenues of 59%, belongs to the foreign market sales.

Total consolidated sales - segment reporting

Segment	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Pharmacy	5,597,696	83	4,979,655	84	112
Chemistry Cosmetics Botanicals	1,140,372	17	954,673	16	119
Total:	6,738,068	100	5,934,328	100	114

The largest portion in total sales revenues belongs to the Pharmacy segment with 5,597,696 thousand denars or 83%, which compared to last years' 4,979,655 thousand denars indicates an increase of 12%.

Consolidated domestic market sales - segment reporting

Segment	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Pharmacy	2,282,809	82	2,002,121	81	114
Chemistry Cosmetics Botanicals	510,668	18	482,898	19	106
Total:	2,793,477	100	2,485,019	100	112

Total sales revenues on domestic market are 2,793,477 thousand denars, which compared to last years' 2,485,019 thousand denars have increased for 12%.

The largest portion in total sales revenues on domestic market belongs to the Pharmacy segment with 2,282,809 thousand denars or 82%.

Consolidated foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Pharmacy	3,314,886	84	2,977,534	86	111
Chemistry Cosmetics Botanicals	629,705	16	471,775	14	133
Total:	3,944,591	100	3,449,309	100	114

Total sales on foreign market are 3,944,591 thousand denars, which compared to last years' 3,449,309 thousand denars have increased for 14%. Foreign market sales growth is a result of the increase of sales in all segments.

The largest portion of the foreign market sales of 3,314,886 or 84% belongs to the Pharmacy segment.

Consolidated foreign market sales by regions / countries

Region / country	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
South Eastern Europe	2,904,918	74	2,654,681	77	109
Albania	145,025	4	114,329	3	127
Bosnia and Herzegovina	617,558	16	624,039	18	99
Kosovo	302,740	8	269,111	8	112
Serbia	947,859	24	803,817	23	118
Croatia	716,726	18	675,663	20	106
Monte Negro	175,010	4	167,722	5	104
Russia and CIS	435,930	10	340,524	10	128
Russia	413,775	10	268,545	8	154
Armenia	8,024	-	6,591	-	122
Ukraine	14,131	-	65,388	2	22
Western Europe (EU and EFTA)	537,765	14	412,936	12	130
Bulgaria	159,930	4	148,543	4	108
Great Britain	9	-	-	-	-
Germany	179,113	5	81,139	2	221
Denmark	273	-	-	-	-
Romania	7,192	-	6,899	-	104
Slovenia	188,598	5	150,193	4	126
Hungary	-	-	25,396	1	-
Czech	2,215	-	-	-	-
Sweden	17	-	-	-	-
Switzerland	418	-	766	-	55
Other countries	65,978	2	41,168	1	160
Australia	966	-	4,419	-	22
Jordan	-	-	1,239	-	-
Other countries	8,916	-	1,911	-	467
USA	56,096	2	33,599	1	167
Total:	3,944,591	100	3,449,309	100	114

Western Europe (EU and EFTA) region has the largest increase of 30% compared to last year.

The largest portion of foreign market sales of 74% belongs to the South Eastern Europe region, which compared to last year indicates an increase of 9%.

Consolidated Income statement

	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Sales	6,738,068	96	5,934,328	96	114
Cost of sales	-3,448,514	-49	-2,968,612	-48	116
Gross profit	3,289,554	47	2,965,716	48	111
Research and development expenses	-45,543	-1	-76,484	-1	60
Selling and marketing expenses	-2,215,549	-31	-1,922,228	-31	115
Administrative expenses	-292,637	-4	-257,817	-4	114
Provision for other liabilities and charges	-993	-	-2,693	-	37
Other income	310,345	4	237,904	4	130
Other expenses	-328,530	-5	-273,215	-4	120
Operating profit	716,647	10	671,183	11	107
Net foreign exchange transaction gains / (losses)	-1,683	-	-7	-	-
Finance expenses	-52,769	-1	-42,458	-1	124
Profit before income tax	662,195	9	628,718	10	105
Income tax expense	-45,942	-1	-54,379	-1	84
Profit from continuing operations	616,253	9	574,339	9	107
Profit/(Loss) from discontinued operations	-	-	-	-	-
Profit for the year	616,253	9	574,339	9	107
Attributable to the:					
Shareholders of the Parent Company	616,290	9	574,392	9	107
Minority interests	-37	-	-53	-	70
Profit for the year	616,253	9	574,339	9	107

Sales by category

	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Sales					
Sales of goods	5,650,503	80	5,017,122	81	113
Sales of commodities	1,030,562	15	853,702	14	121
Other sales revenues	57,003	1	63,504	1	90
Total:	6,738,068	96	5,934,328	96	114

Other income

	(In 000 MKD)				
	2011		2010		IND
Other income	Amount	%	Amount	%	11/10
Collected written off receivables	3,079	-	12,789	-	24
Income from previous years	47,950	1	33,072	1	145
Dividend income	40	-	34	-	118
Interest income	1,614	-	536	-	301
Foreign exchange transaction gains	195,420	3	112,234	2	174
Other income	62,242	1	79,239	1	79
Total:	310,345	4	237,904	4	130

Finance income

	(In 000 MKD)				
	2011		2010		IND
Finance income	Amount	%	Amount	%	11/10
Foreign exchange transaction gains on borrowing	328	-	-	-	-
Interest income on borrowings	-	-	49	-	-
Total:	328	-	49	-	-
Total revenues:	7,048,741	100	6,172,281	100	114

Total revenues for 2011 are 7,048,741 thousand denars, which compared to last year have increased for

The largest portion of total revenues 96%, belongs to sales of goods, sales of commodities and other sales revenues, which compared to last year have increased for 14%.

Other income have a portion in total revenues of 4% and compared to last year have increased for 30%

Finance income consist of foreign exchange transaction gains on borrowings and interest income on borrowings. The portion in total revenues is insignificant.

Expenses by nature

	(In 000 MKD)				
	2011		2010		IND
Expenses	Amount	%	Amount	%	11/10
Raw materials	1,758,383	28	1,535,443	28	115
Employee benefit expense	1,297,320	20	1,234,521	22	105
Depreciation and amortization	311,449	5	273,287	5	114
Energy	193,828	3	156,392	3	124
Impairments	25,312	-	28,134	1	90
Transportation	122,799	2	103,068	2	119
Changes in the inventories	-74,982	-1	62,626	1	-
Cost of commodities	931,720	15	742,234	13	126
Other expenses	1,437,407	23	1,092,129	20	132
	6,003,236	94	5,227,834	94	115

Employee benefit expense

Expenses	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Gross salaries	1,103,646	17	1,064,133	19	104
Other employees benefits	193,674	3	170,388	3	114
	1,297,320	20	1,234,521	22	105

Other expenses

Expenses	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Interest expenses	2,609	-	1,341	-	195
Foreign exchange transaction loss	228,504	4	130,301	2	175
Expenses from last year	18,814	-	21,954	-	86
Other expenses	78,603	1	119,619	2	66
	328,530	5	273,215	5	120

Finance cost

Expenses	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Foreign exchange transaction losses on borrowings	2,045	-	7	-	-
Interest expense on borrowings	52,734	1	42,508	1	124
Total:	54,779	1	42,515	1	129
Total expenses:	6,386,545	100	5,543,564	100	115

Total expenses in 2011 are 6,386,545 thousand denars, which compared to last years' 5,543,564 thousand denars have increased for 15%.

The largest portion in total expense of 28% belongs to Raw materials. Employee benefit expense has a portion of 20%, Other expenses 5% and Finance costs which consist of expenses on borrowings have a portion in total expenses of 1%.

Consolidated Income before taxes for 2011 is 662,195 thousand denars, which compared to last years' 628,718 thousand denars has increased for 5%. The portion of consolidated income before taxes in total revenues is 9%.

Consolidated income tax for 2011 is 45,942 thousand denars, which compared to last years' 54,379 thousand denars has decreased for 16%.

Consolidated Net Income for 2011 is 616,253 thousand denars, which compared to last years' 574,339 thousand denars has increased for 7%. The portion of consolidated Net Income in total revenues is 9%.

Consolidated Balance Sheet

	(In 000 MKD)				
	2011		2010		IND
	Amount	%	Amount	%	11/10
Assets					
Non-current assets					
Intangible assets	521,285	6	363,545	4	143
Property, plant and equipment	3,847,724	44	3,745,904	46	103
Available-for-sale financial assets	4,442	-	5,695	-	78
Other non current assets	55,440	1	40,955	1	135
Deferred tax assets	14,849	-	10,557	-	141
Total non-current assets:	4,443,740	51	4,166,656	51	107
Current assets					
Inventories	1,647,549	19	1,499,576	18	110
Trade receivables	2,238,474	25	2,176,305	27	103
Other receivables	269,858	3	195,500	2	138
Cash and cash equivalents	188,824	2	149,686	3	126
Total current assets:	4,344,705	49	4,021,067	49	108
Total assets:	8,788,445	100	8,187,723	100	107
Equity and liabilities					
Equity					
Share capital	2,206,391	25	2,206,548	27	100
Share premiums	493	-	734	-	67
Legal reserves	599,909	7	599,813	7	100
Other reserves	1,538,559	17	1,504,953	19	102
Retained earnings	2,608,105	30	2,284,072	28	114
Minority interests	1,239	-	1,275	-	97
Total equity:	6,954,696	79	6,597,395	81	105
Liabilities					
Current liabilities					
Trade and other payables	1,164,171	13	937,039	11	124
Borrowings	574,159	7	530,364	7	108
Income taxes	9,600	-	13,201	-	73
Total current liabilities:	1,747,930	20	1,480,604	18	118
Non-current liabilities					
Borrowings	60,823	1	66,636	1	91
Deferred income tax liabilities	8,436	-	27,521	-	31
Retirement benefit obligations	16,560	-	15,567	-	106
Total non-currents liabilities:	85,819	1	109,724	1	78
Total liabilities:	1,833,749	21	1,590,328	19	115
Total equity and liabilities:	8,788,445	100	8,187,723	100	107

Performance indicators

Indicators	(In %)		
	2011	2010	IND 11/10
Net profit margin (net profit / total revues)	8.74	9.31	94
Net profit margin (net profit / sales)	9.15	9.68	94
EBITDA	15.26	15.92	96
Current ratio	2.49	2.72	92
Net debt to equity ratio	6.42	6.78	95
Return of equity	8.86	8.71	102
Return of assets	7.01	7.01	100

Number of employees on 31 December

Segment	2011		2010		IND 11/10
	Number	%	Number	%	
Pharmacy	892	65	871	66	102
Chemistry Cosmetics Botanicals	184	13	180	14	102
Corporate unit	298	22	271	20	110
Total:	1,374	100	1,322	100	104

Total number of employees on 31 December 2011 is 1,374, which compared to last year has increased for 4%.

22.02.2012
**General Manager
Zhivko Mukaetov**