



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

**ANNUAL REPORT
ON THE PERFORMANCE OF ALKALOID AD SKOPJE
FOR THE PERIOD JANUARY - DECEMBER 2012**

February 2013

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1. General information

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

Aleksandar Makedonski 12 1000 Skopje, Republic of Macedonia.

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

The main scope is production of pharmaceutical products.

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

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

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

2. Financial risk management

Financial risk factors

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

Market risk

a) Foreign exchange risk

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

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

b) Price risk

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

Credit risk

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

Liquidity risk

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

Interest risk

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

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

Fair value estimation

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

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

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

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)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	383,880	90	487,665	90	79
Chemistry Cosmetics Botanicals	43,130	10	56,677	10	76
Total:	427,010	100	544,342	100	78

4. Dividends

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

The dividends approved by shareholders on 12 April 2012 were Denar 254,466 thousands. Tax of paid dividend was amounting Denar 27,036 thousands. Approved dividends are paid and retained earnings are appropriately decreased.

5. Borrowings

Borrowings	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Non-current	168,888	31	29,541	6	572
Current	377,166	69	435,423	94	87
Total:	546,054	100	464,964	100	117

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Up to 1 year	377,166	69	435,423	94	87
Between 1 to 3 years	168,888	31	29,541	6	572
Total:	546,054	100	464,964	100	117

6. Major transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2012.

7. Related party transactions

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

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

Investments in subsidiaries and associates

Subsidiary	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Alkaloid DOO Zagreb, Croatia	14,822	15	14,822	20	100
Alkaloid DOO Beograd, Serbia	62,566	63	43,131	59	145
Alkaloid INT DOO Ljubljana, Slovenia	557	1	557	1	100
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	39	-	39	-	100
Alkaloidfarm SA Fribourg, Switzerland	4,285	4	4,285	6	100
Alkaloid EOOD Sofia, Bulgaria	2,748	3	2,748	4	100
ALK&KOS Shpk Prishtina, Kosovo	307	-	307	-	100
Alkaloid Kons DOOEL Skopje, Macedonia	154	-	154	-	100
Alkaloid USA LLC Columbus, Ohio US	2,365	2	2,365	3	100
Fund "Trajce Mukaetov" Skopje, Macedonia	3,000	3	3,000	4	100
Alkaloid DOO Podgorica, Montenegro	-	-	-	-	-
OOO Alkaloid RUS, Moscow, Russia	619	1	619	1	100
Alkaloid FARM DOO Ljubljana, Slovenia	461	-	461	1	100
Alkaloid Veleadrogerija DOO Beograd, Serbia	7,720	-	31	-	-
Total:	99,643	100	72,519	100	137

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

During 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 Veleadrogerija DOO Beograd.

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

Prepayments and short-term loans

Subsidiary	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Alkaloid Kons DOOEL Skopje, Macedonia	45,525	48	36,439	37	125
Alkaloid DOO Beograd, Serbia	14,229	15	13,615	14	105
OOO Alkaloid RUS, Moscow, Russia	34,350	37	47,435	49	72
Total:	94,104	100	97,489	100	97

8. Share capital

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
At 1 January 2011	1,422,696	2,220,127	-13,579	2,206,548	734
Treasury shares purchased	-100	-	-157	-157	-241
Sale of treasury shares	-	-	-	-	-
At 31 December 2011	1,422,596	2,220,127	-13,736	2,206,391	493
Treasury shares purchased	-663	-	-1,043	-1,043	-1,620
Sale of treasury shares	-	-	-	-	-
At 31 December 2012	1,421,933	2,220,127	-14,779	2,205,348	-1,127

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 2012 the Entity acquired 663 of its own shares through Macedonian stock exchange and held as treasury shares. The total number of treasury shares is 9,420. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares acquired from the right to dividend payments.

Earning per share

	(In MKD)		
	2012	2011	IND
	Amount	Amount	12/11
Profit attributable to shareholders (in denars)	607,652,539	605,550,300	100
Number of shares	1,421,933	1,422,596	100
Basic earning per share (in denars):	427.34	425.66	100

9. Key management compensations

No compensations were paid to the Management Board members in 2012 and 2011.

In 2012, the amount of Denar 4,203 thousands were paid to the Supervisory Board members (2011: Denar 4,032 thousands).

10. Production and sales
Production in tons

Segment	(In tons)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	875	10	799	10	110
Chemistry Cosmetics Botanicals	7,598	90	6,851	90	111
Total:	8,473	100	7,650	100	111

The total amount produced for 2012 is 8,473 tons, which is on the same level compared to last years' production amount of 7,650 tons.

Total sales of goods and services

Market	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Domestic market	2,194,108	39	2,136,659	38	103
Foreign market	3,457,969	61	3,433,912	62	101
Total:	5,652,077	100	5,570,571	100	101

The total sales revenues for 2012 are 5,652,077 thousand denars which indicates 1% growth compared to the sales revenues from 2011 (5,570,571 thousand denars). The growth in total sales revenues is a result from the increase of sales revenues on domestic market for 3% and on foreign market for 1%.

The largest portion of total sales revenues, 61% is generated on foreign markets.

Total sales - segment reporting

Segment	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	4,574,778	81	4,445,203	80	103
Chemistry Cosmetics Botanicals	1,077,299	19	1,125,368	20	96
Total:	5,652,077	100	5,570,571	100	101

The largest portion in total sales revenues, amounting 4,574,778 thousand is generated on the Pharmacy segment with 81%, which compared to last years' 4,445,203 thousand denars is an increase of 3%.

Domestic market sales - segment reporting

Segment	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	1,636,923	75	1,625,934	76	101
Chemistry Cosmetics Botanicals	557,185	25	510,725	24	109
Total:	2,194,108	100	2,136,659	100	103

Total sales revenues on domestic market are 2,194,108 thousand denars, which compared to last years' 2,136,659 have increased for 3%.

The largest portion in total sales revenues is generated on the Pharmacy segment, amounting 1,636,923 thousand denars or 75%.

Foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	2,937,855	85	2,819,269	82	104
Chemistry Cosmetics Botanicals	520,114	15	614,643	18	85
Total:	3,457,969	100	3,433,912	100	101

Total sales revenues on foreign market are 3,457,969 thousand denars, which compared to last years' 3,433,912 have increased for 1%. The increase of total sales revenue is a result from increased export in Pharmacy segment.

The largest portion in total sales revenues is generated on the Pharmacy segment, amounting 2,937,855 thousand denars or 85%.

Foreign market sales by regions/countries

Region/Country	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
South Eastern Europe	2,561,295	74	2,539,143	74	101
Albania	102,276	4	145,025	4	71
Bosnia and Herzegovina	576,043	17	603,364	18	95
Kosovo	312,284	8	313,024	9	100
Serbia	941,358	27	857,248	25	110
Croatia	457,294	13	445,473	13	103
Monte Negro	172,040	5	175,009	6	98
Russia and CIS	450,817	13	406,781	11	111
Russia and CIS	357,067	11	384,626	11	93
Armenia	13,675	-	8,024	-	170
Ukraine	80,075	3	14,131	-	567
Western Europe (EU and EFTA)	383,723	11	419,042	12	92
Bulgaria	162,604	5	142,438	4	114
Germany	97,192	3	179,113	5	54
Greece	539	-	-	-	-
Romania	1,805	-	4,441	-	41
Slovenia	116,447	3	92,639	3	126
Czech	2,711	-	-	-	-
Slovakia	2,004	-	-	-	-
Switzerland	421	-	411	-	102
Other countries	62,134	2	68,946	2	90
Australia	349	-	966	-	36
Jordan	758	-	-	-	-
USA	46,903	1	56,096	2	84
Other countries	14,124	-	11,884	-	119
Total:	3,457,969	100	3,433,912	100	101

Russia and CIS region with 11% has the largest growth in foreign market sales compared to last year.

The largest portion of 74% of the total sales in foreign markets is generated in the South Eastern Europe region.

Total revenues

Revenues	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
1. Revenues from sales of goods and services	5,652,077	98	5,570,571	97	101
-Domestic market	2,194,108	38	2,136,659	37	103
Sales of goods	1,857,210	32	1,866,322	33	100
Sales of commodities	281,493	5	220,559	3	128
Other sales revenues	55,405	1	49,778	1	111
-Foreign market	3,457,969	60	3,433,912	60	101
Sales of goods	3,237,352	56	3,232,925	56	100
Sales of commodities	209,840	4	192,322	3	109
Other sales revenues	10,777	-	8,665	-	124
2. Other operating income	132,521	3	153,044	3	87
Collected written off receivables	2,127	-	2,919	-	73
Income from previous years	7,566	-	35,974	1	21
Dividends income	46,348	1	40,040	1	116
Interest income	81	-	924	-	9
Foreign exchange transaction gains	32,776	1	49,559	1	66
Other income	43,623	1	23,628	-	185
3. Finance income	5,418	-	4,069	-	133
Foreign exchange transaction gains on borrowings	694	-	258	-	269
Interest income on borrowings	4,724	-	3,811	-	124
Total:	5,790,016	100	5,727,684	100	101

Total revenues for 2012 amounting 5,790,016 thousand denars have increased for 1%, compared to last years' 5,727,684 thousand denars.

The largest portion of 98% in the total revenues belongs to the sales revenues, which compared to last year have increased for 3%.

Other operating income has a portion of 3% in total revenues. Compared to last year other operating income has decreased for 13%.

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

Sales by category

Sales revenue	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Sales of goods	5,094,562	90	5,099,247	92	100
Sales of commodities	491,333	9	412,881	7	119
Other sales revenues	66,182	1	58,443	1	113
Total:	5,652,077	100	5,570,571	100	101

Total expenses by nature

Expenses	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
1. Changes in the inventories	-69,516	-1	-60,232	-1	115
2. Raw and other materials	1,768,834	34	1,796,885	35	98
Raw materials	1,566,245	30	1,591,980	31	98
Energy	172,907	3	169,154	3	102
Spare parts	27,722	1	31,806	1	87
Written off small items	1,960	-	3,945	-	50
3. Cost of commodities	381,962	7	343,214	7	111
4. Services	332,521	6	277,305	5	120
Transport	113,115	2	102,322	2	111
Maintenance	36,422	1	41,356	1	88
Rent	16,558	-	14,608	-	113
Utilities	166,426	3	119,019	2	140
5. Depreciation and amortization	312,091	6	289,377	6	108
6. Provision for impaired trade receivables	42,551	-	23,580	-	180
7. Employee benefits	892,345	17	836,428	16	107
Gross salaries	748,490	15	671,610	13	111
Food allowances	21,769	-	20,756	-	105
Holiday allowances	46,353	1	42,420	1	109
Termination benefits	4,334	-	21,364	-	20
Short-term benefits	69,950	1	78,678	2	89
Retirement benefits	129	-	128	-	101
Other expenses	1,320	-	1,472	-	90
8. Other operating expenses	1,450,990	28	1,550,459	30	94
Cost of business trips	36,899	1	40,582	1	91
Advertising and marketing	811,981	16	823,350	17	99
Insurance	23,242	-	19,590	-	119
Taxes and contributions	13,561	-	18,125	-	75
Bank charges and memberships	17,682	-	17,803	-	99
Interest	658	-	1,164	-	57
Exchange differences from receivables and payables	36,250	1	58,028	1	62
Expenses from previous years	13,231	-	16,931	-	78
Other expenses	497,486	10	554,886	11	90
9. Finance costs (borrowings)	36,530	1	33,687	1	108
Foreign exchange transaction losses on borrowings	523	-	191	-	274
Interest expense on borrowings	36,007	1	33,496	1	107
Total:	5,148,308	100	5,090,703	100	101

The Total expenses for 2012 amounting 5,148,308 thousand denars have increased for 1% compared to last years' 5,090,703 thousand denars, as a result from the increase in Cost of commodities (IND 111), Depreciation and amortization (IND 108) and Services (IND 120).

The largest portion in the total expenses belongs to Raw and other materials, 34%. Employee benefits have a portion of 17%, Other operating expenses have a portion of 28%. Finance costs, which include only expenses on borrowings have a portion in the total expenses of 1%.

Income statement - expenses by nature

Income statement	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Total revenues	5,790,016	100	5,727,684	100	101
Domestic market	2,194,108	38	2,136,659	37	103
Foreign market	3,457,969	60	3,433,912	60	101
Other operating income	132,521	2	153,044	3	87
Finance income	5,418	-	4,069	-	133
Total expenses	-5,148,308	89	-5,090,703	89	101
Inventories	69,516	-1	60,232	-1	115
Raw materials	-1,768,834	31	-1,796,885	31	98
Cost of commodities	-381,962	7	-343,214	6	111
Services expenses	-332,521	6	-277,305	5	120
Gross salaries	-748,490	13	-671,610	12	111
Depreciation and amortization	-312,091	5	-289,377	5	108
Provision for impaired trade receivables	-42,551	-	-23,580	-	180
Other operating expenses	-1,594,845	28	-1,715,277	30	93
Finance cost	-36,530	1	-33,687	1	108
Profit before income tax	641,708	11	636,981	11	101
Income tax	-34,055	1	-31,431	1	108
Profit for the year	607,653	10	605,550	11	100

Profit before income tax for 2012 is 641,708 thousand denars, which compared to last years' 636,981 thousand denars has increased for 1%. The portion of profit before income tax in the total revenue in 2012 is 11%.

The calculated Income tax for 2012 is 34,055 thousand denars, which compared to last years' 31,431 thousand denars has increased for 8%.

Profit for the year 2012 is 607,653 thousand denars, which compared to last years' 605,550 thousand denars is on the same level. The portion of net income in the total revenue in 2012 is 10%.

Income statement - expenses by function

Income statement	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Sales	5,652,077	98	5,570,571	97	101
Cost of sales	-2,840,572	-49	-2,822,943	-49	101
Gross profit	2,811,505	49	2,747,628	48	102
Research and development expenses	-38,687	-1	-45,543	-1	85
Selling and marketing expenses	-1,883,265	-33	-1,793,936	-31	105
Administrative expenses	-269,327	-5	-292,637	-5	92
Provisions for liabilities and charges	-3,530	-	-993	-	355
Other income	132,521	2	153,044	3	87
Other expenses	-76,397	-1	-100,964	-2	76
Operating profit	672,820	12	666,599	12	101
Net foreign exchange transaction (losses) / gains	171	-	67	-	255
Net interest	-31,283	-1	-29,685	-1	105
Profit before income tax	641,708	11	636,981	11	101
Income tax	-34,055	-1	-31,431	-1	108
Profit for the year	607,653	10	605,550	11	100

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

The largest portion in total expenses, 49% belongs to Cost of sales, which have increased for 1% as a result of the larger volume of sales.

Selling and marketing expenses have a portion of 33% in total revenues. Compared to last year Selling and marketing expenses have increased for 5% as a result of increased marketing expenses incurred to increase sales on existing markets and gain entrance on new markets.

Administrative expenses have a portion in total expenses of 5% and have decreased for 8% compared to last year.

Balance sheet

	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Assets					
Non-current assets					
Intangibles	624,108	7	497,821	6	125
Property, plant and equipment	3,770,236	43	3,781,827	46	100
Investments in subsidiaries and associates	99,643	1	72,519	1	137
Available-for-sale financial assets	4,784	-	4,442	-	108
Other non-current assets	-	-	-	-	-
Other non-current receivables	29,729	-	35,323	-	84
Deferred tax assets	15,727	-	8,828	-	178
Total non-currents assets:	4,544,227	52	4,400,760	53	103
Current assets					
Inventories	1,309,708	15	1,220,112	15	107
Trade receivables	2,528,826	29	2,230,732	27	113
Other receivables	235,814	3	300,220	4	79
Cash and cash equivalents	62,656	1	92,556	1	68
Total current assets:	4,137,004	48	3,843,620	47	108
Total assets:	8,681,231	100	8,244,380	100	105
Equity and liabilities					
Equity					
Share capital	2,205,348	25	2,206,391	27	100
Share premiums	-1,127	-	493	-	-229
Legal reserves	596,146	7	596,146	7	100
Other reserves	1,305,585	15	1,304,934	16	100
Retained earnings	2,996,621	35	2,670,470	32	112
Total equity:	7,102,573	82	6,778,434	82	105
Liabilities					
Current liabilities					
Trade and other payables	992,770	11	974,059	12	102
Current borrowings	377,166	5	435,423	5	87
Income taxes	11,972	-	2,495	-	480
Total current liabilities:	1,381,908	16	1,411,977	18	98
Non-current liabilities					
Non-current borrowings	168,888	-	29,541	-	572
Deferred tax liabilities	7,772	-	7,868	-	99
Non-current provisions	20,090	-	16,560	-	121
Total non-current liabilities:	196,750	-	53,969	-	365
Total liabilities:	1,578,658	18	1,465,946	18	108
Total equity and liabilities:	8,681,231	100	8,244,380	100	105

Performance indicators

Indicators	(In %)		
	2012	2011	IND 12/11
Revenue / expense ratio	112.46	112.51	100
Net profit margin	10.49	10.57	99
EBITDA (%)	17.43	17.16	102
Current ratio	2.99	2.72	110
Net debt to equity ratio	0.08	0.07	112
Return of equity	8.56	8.93	96
Return of assets	7.00	7.35	95

Number of employees on 31 December

Segment	2012		2011		IND 12/11
	Број	%	Број	%	
Pharmacy	608	57	588	55	103
Chemistry Cosmetics Botanicals	195	18	184	17	106
Corporate unit	302	27	298	28	101
Total:	1,105	100	1,070	100	103

The total number of employees on 31 December 2012 is 1,105, which compared to 2011 is an increase of 3%.

19.02.2013
General Manager
Zhivko Mukaetov