



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

**ANNUAL REPORT
ON THE PERFORMANCE OF ALKALOID AD SKOPJE
FOR THE PERIOD JANUARY - DECEMBER 2010**

February 2011

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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. 28/2004, 84/2005, 25/2007 and 87/2008) and the Rulebook for accounting ("Official Gazette of the Republic of Macedonia" no. 94/2004, 11/2005, 116/2005, 159/2009 and 164/2010). The report is prepared in accordance with the concept of purchase price, excluding the land property, construction buildings and investments and available -for-sale financial assets, which are presented by their market price.

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.

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 preformed 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)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Pharmacy	267,226	95	470,985	97	57
Chemistry Cosmetics Botanicals	13,412	5	13,234	3	101
Total:	280,638	100	484,219	100	58

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 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.

5. Borrowings

Borrowings	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Non-current	223	-	811	-	27
Current	391,891	100	412,340	100	95
Total:	392,114	100	413,151	100	95

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Up to 1 year	391,891	100	412,340	100	95
Between 1 to 3 years	223	-	811	-	27
Total:	392,114	100	413,151	100	95

6. Major transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2010.

7. Related party transactions

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

Alkaloid AD Skopje has investments in twelve 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)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Alkaloid INT DOO Ljubljana, Slovenia	557	1	557	2	100
Alkaloid DOO Zagreb, Croatia	14,822	21	14,822	47	100
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	39	-	39	-	100
Alkaloid DOO Beograd, Serbia	43,131	60	2,537	8	1,700
ALK&KOS Shpk Prishtina, Kosovo	307	-	307	1	100
Alkaloid EOOD Sofia, Bulgaria	2,748	4	2,748	9	100
Alkaloidfarm SA Fribourg, Switzerland	4,285	6	4,285	14	100
Alkaloid Kons DOOEL Skopje, Macedonia	154	-	154	-	100
Alkaloid USA LLC Columbus, Ohio US	2,365	3	2,365	7	100
Fund "Trajce Mukaetov" Skopje, Macedonia	3,000	4	3,000	10	100
OOO Alkaloid RUS, Moscow, Russia	619	1	619	2	100
Alkaloid DOO Podgorica, Montenegro	-	-	-	-	-
Alkaloid FARM DOO Ljubljana, Slovenia	461	-	-	-	-
Total:	72,488	100	31,433	100	231

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.

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

Prepayments and short-term loans

Subsidiary	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Alkaloid Kons DOOEL Skopje, Macedonia	17,409	23	30,641	34	57
Alkaloid DOO Beograd, Serbia	12,982	17	12,978	14	100
OOO Alkaloid RUS, Moscow, Russia	45,195	60	46,146	51	98
Total:	75,586	100	89,765	100	84

8. Share capital

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
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	-	-	-	-	-
At 31 December 2009	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

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 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.

Earning per share

	(In MKD)		
	2010	2009	IND
	Amount	Amount	10/09
Profit attributable to shareholders (in denars)	581,577,640	503,267,196	116
Number of shares	1,422,696	1,422,696	100
Basic earning per share (in denars):	408.79	353.74	116

9. Key management compensations

No compensations were paid to the Management Board members in 2010 and 2009.

In 2010, the amount of Denar 3,584 thousands were paid to the Supervision Board members (2009: Denar 3,391 thousands).

10. Production and sales

Production in tons

Segment	(In tons)		
	2010	2009	IND
	Amount	Amount	10/09
Pharmacy	808	782	103
Chemistry Cosmetics Botanicals	6,847	6,619	103
Total:	7,655	7,401	103

The total amount produced for 2010 is 7,655 tons, which is an increase of 3% compared to last years' production amount of 7,401 tons.

Total sales

Market	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Domestic market	1,972,723	38	1,814,094	39	109
Foreign market	3,169,794	62	2,874,051	61	110
Total:	5,142,517	100	4,688,145	100	110

The total sales revenues for 2010 are 5,142,517 thousand denars which indicates 10% growth compared to the sales revenues from 2009 (4,688,145 thousand denars). The growth in total sales revenues is a result from the increase of sales revenues on domestic market for 9% and on foreign market for 10%.

The largest portion of total sales revenues, 62% belongs to the foreign market sales.

Total sales - segment reporting

Segment	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Pharmacy	4,200,041	82	3,811,328	81	110
Chemistry Cosmetics Botanicals	942,476	18	876,817	19	107
Total:	5,142,517	100	4,688,145	100	110

The largest portion in total sales revenues, 4,200,041 thousand denars belongs to the Pharmacy segment with 82%, which compared to last years' 3,811,328 thousand denars is an increase of 10%.

Domestic market sales - segment reporting

Segment	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Pharmacy	1,489,825	76	1,359,570	75	110
Chemistry Cosmetics Botanicals	482,898	24	454,524	25	106
Total:	1,972,723	100	1,814,094	100	109

Total sales revenues on domestic market are 1,972,723 thousand denars, which compared to last years' 1,814,094 have increased for 9%.

The largest portion in total sales revenues belongs to the Pharmacy segment with 1,489,825 thousand denars or 76%.

Foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Pharmacy	2,710,216	86	2,451,758	85	111
Chemistry Cosmetics Botanicals	459,578	14	422,293	15	109
Total:	3,169,794	100	2,874,051	100	110

Total sales revenues on foreign market are 3,169,794 thousand denars, which compared to last years' 2,784,051 have increased for 10%. The increase of total sales revenue is a result from increased export in all operating segments

The largest portion in total sales revenues belongs to the Pharmacy segment with 2,710,216 thousand denars or 86%.

Foreign market sales by regions/countries

Region/Country	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
South Eastern Europe	2,298,124	73	2,304,453	80	100
Albania	114,329	4	110,044	4	104
Bosnia and Herzegovina	612,695	19	592,921	21	103
Kosovo	258,126	8	244,746	8	105
Serbia	738,469	23	871,252	30	85
Croatia	406,783	13	338,057	12	120
Monte Negro	167,722	5	147,433	5	114
Russia and CIS	523,307	17	323,856	11	162
Russia and CIS	451,328	14	280,460	10	161
Georgia	-	-	286	-	-
Armenia	6,591	-	8,863	1	74
Ukraine	65,388	2	34,247	-	191
Western Europe (EU and EFTA)	311,057	10	207,733	7	150
Bulgaria	131,176	4	73,305	3	179
Germany	81,139	3	44,551	2	182
Romania	3,839	-	-	-	-
Slovenia	94,727	3	83,491	3	113
France	-	-	1,534	-	-
Switzerland	176	-	4,852	-	4
Other countries	37,306	1	38,009	1	98
Australia	4,419	-	4,171	-	106
Jordan	1,239	-	1,365	-	91
USA	30,109	1	31,972	1	94
Other countries	1,539	-	501	-	-
Total:	3,169,794	100	2,874,051	100	110

Russia and CIS region with 62% has the largest increase in foreign market sales compared to last year.

The largest portion of 73% of the total sales in foreign markets belongs to the South Eastern Europe region.

Total revenues

Revenues	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
1. Revenues from sales of goods and services	5,142,517	97	4,688,145	97	110
-Domestic market	1,972,723	37	1,814,094	38	109
Sales of goods	1,727,426	33	1,574,922	33	110
Sales of commodities	192,250	4	186,033	4	103
Sales of services	2,194	-	14,637	-	15
Other sales revenues	50,853	1	38,502	-	132
-Foreign market	3,169,794	60	2,874,051	59	110
Sales of goods	3,013,810	57	2,733,221	56	110
Sales of commodities	155,984	3	140,830	3	111
2. Other operating income	151,829	3	143,355	3	106
Collected written off receivables	12,789	-	48,032	1	27
Income from previous years	30,445	1	16,009	-	190
Dividends income	34	-	38	-	89
Interest income	251	-	2,304	-	11
Foreign exchange transaction gains	68,025	1	49,506	1	137
Other income	40,285	1	27,466	1	147
3. Finance income	50	-	1,430	-	3
Foreign exchange transaction gains on borrowings		-	38	-	-
Interest income on borrowings	50	-	1,392	-	4
Total:	5,294,396	100	4,832,930	100	110

Total revenues for 2010 of 5,294,396 thousand denars have increased for 10%, compared to last years' 4,832,930 thousand denars.

The largest portion of 97% in the total revenues belong to the sales revenues, which compared to last year have the largest increase of 10%.

Other operating income have a portion of 3% in total revenues. Compared to last year other operating income has increased for 6%.

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

Sales by category

Sales revenue	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Sales of goods	4,741,236	92	4,308,143	92	110
Sales of commodities	348,234	7	326,863	7	107
Sales of services	2,194	-	14,637	-	15
Other sales revenues	50,853	1	38,502	1	132
Total:	5,142,517	100	4,688,145	100	110

Total expenses by nature

Expenses	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
1. Changes in the inventories	-55,321	-1	-39,202	-1	141
2. Raw and other materials	1,574,292	34	1,448,691	34	109
Raw materials	1,403,742	30	1,292,581	30	109
Energy	137,697	3	107,901	3	128
Spare parts	29,621	1	39,693	1	75
Written off small items	3,232	-	8,516	-	38
3. Cost of commodities	276,681	6	254,602	6	109
4. Services	341,846	7	309,267	7	111
Transport	86,024	2	51,401	1	167
Maintenance	42,504	1	35,984	1	118
Rent	10,954	-	6,704	-	163
Utilities	202,364	4	215,178	5	94
5. Depreciation and amortization	260,342	6	252,777	6	103
6. Provision for impaired trade receivables	25,216	-	84,273	2	30
7. Employee benefits	867,145	19	860,434	20	101
Gross salaries	718,898	15	674,504	16	107
Food allowances	20,140	-	21,373	-	94
Holiday allowances	22,655	-	20,504	-	110
Termination benefits	13,298	-	20,554	-	65
Bonuses for employees	90,000	2	123,301	3	73
Retirement benefits	195	-	198	-	98
Other expenses	1,959	-	-	-	-
8. Other operating expenses	1,361,157	29	1,076,376	25	126
Cost of business trips	37,729	1	35,241	1	107
Advertising and marketing	664,344	14	583,935	14	114
Insurance	16,799	-	22,836	-	74
Taxes and contributions	17,877	-	23,379	-	76
Bank charges and memberships	15,621	-	15,320	-	102
Interest	797	-	423	-	188
Exchange differences from receivables and payables	80,393	2	51,953	1	155
Fair value of financial assets	-	-	21,129	-	-
Expenses from previous years	20,180	-	18,808	0	107
Other expenses	507,417	11	303,352	7	167
9. Finance costs (borrowings)	31,965	1	39,724	1	80
Foreign exchange transaction losses on borrowings	7	-	-31	-	-23
Interest expense on borrowings	31,958	1	39,755	1	80
Total:	4,683,323	100	4,286,942	100	109

The Total expenses for 2010 of 4,683,323 thousand denars have increased for 9% compared to last years' 4,286,942 thousand denars. The increase is a result from the increase in Raw materials (IND 109), Depreciation and amortization (IND 103), Employee benefits (IND 101), Services (IND 111) and Other operating expenses (IND 126).

The largest portion in the total expenses belong to Raw and other materials, 34%. Employee benefits have a portion of 19%, Other operating expenses have a portion of 29%. 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)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Total revenues	5,294,396	100	4,832,930	100	110
Domestic market	1,972,723	37	1,814,094	38	109
Foreign market	3,169,794	60	2,874,051	59	110
Other operating income	151,829	3	143,355	3	106
Finance income	50	-	1,430	-	3
Total expenses	-4,683,323	88	-4,286,942	89	109
Inventories	55,321	-1	39,202	-1	141
Raw materials	-1,574,292	30	-1,448,691	30	109
Cost of commodities	-276,681	5	-254,602	5	109
Services expenses	-341,846	6	-309,267	6	111
Gross salaries	-718,898	13	-674,504	14	107
Depreciation and amortization	-260,342	5	-252,777	5	103
Provision for impaired trade receivables	-25,216	-	-84,273	2	30
Other operating expenses	-1,509,404	29	-1,262,306	26	120
Finance cost	-31,965	1	-39,724	1	80
Profit before income tax	611,073	12	545,988	11	112
Income tax	-29,495	1	-42,721	1	69
Profit for the year	581,578	11	503,267	10	116

Profit before income tax for 2010 is 611,073 thousand denars, which compared to last years' 545,988 thousand denars has increased for 12%. The portion of profit before income tax in the total revenue is 12%.

The calculated Income tax for 2010 is 29,495 thousand denars, which compared to last years' 42,721 thousand denars has decreased for 31%.

Profit for the year 2010 is 581,578 thousand denars, which compared to last years' 503,267 thousand denars has increased for 16%. The portion of net income in the total revenue is 11%.

Income statement - expenses by function

Income statement	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Sales	5,142,517	97	4,688,145	97	110
Cost of sales	-2,537,517	-48	-2,476,599	-51	102
Gross profit	2,605,000	49	2,211,546	46	118
Research and development expenses	-76,484	-1	-66,698	-1	115
Selling and marketing expenses	-1,574,837	-30	-1,330,174	-28	118
Administrative expenses	-257,817	-5	-246,538	-5	105
Provisions for liabilities and charges	-2,693	-	-1,901	-	142
Other income	151,829	3	143,355	3	106
Other expenses	-202,010	-4	-123,878	-3	163
Operating profit	642,988	12	585,712	12	110
Net foreign exchange transaction (losses) / gains	-7	-	31	-	-23
Finance expenses	-31,908	-1	-39,755	-1	80
Profit before income tax	611,073	12	545,988	11	112
Income tax	-29,495	-1	-42,721	-1	69
Profit for the year	581,578	11	503,267	10	116

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, 48% belongs to Cost of sales, which have increased for 2% as a result of the larger volume of sales.

Selling and marketing expenses have a portion of 30% in total expenses. Compared to last year Selling and marketing expenses have increased for 18% as a result of increased marketing expenses incurred to increase sales.

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

Research and development expenses have a portion of 1% in the total expenses and have increased for 15% compared to last year.

Balance sheet

	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Assets					
Non-current assets					
Intangibles	346,613	4	243,332	3	142
Property, plant and equipment	3,680,282	47	3,844,203	52	96
Investments in subsidiaries and associates	72,488	1	31,433	1	231
Available-for-sale financial assets	5,695	-	6,394	-	89
Other non-current assets	-	-	-	-	-
Other non-current receivables	37,660	-	19,493	-	193
Deferred tax assets	10,557	-	11,288	-	94
Total non-currents assets:	4,153,295	53	4,156,143	56	100
Current assets					
Inventories	1,190,257	15	1,050,798	14	113
Trade receivables	2,242,649	29	1,901,510	26	118
Other receivables	127,632	2	93,963	1	136
Short-term financial investments	75,586	1	88,499	1	85
Cash and cash equivalents	63,858	1	123,123	2	52
Total current assets:	3,699,982	47	3,257,893	44	114
Total assets:	7,853,277	100	7,414,036	100	106
Equity and liabilities					
Equity					
Share capital	2,206,548	28	2,206,548	30	100
Share premiums	734	-	734	-	100
Legal reserves	596,146	8	596,146	8	100
Other reserves	1,278,359	16	1,369,508	18	93
Retained earnings	2,337,168	30	1,924,380	26	121
Total equity:	6,418,955	82	6,097,316	82	105
Liabilities					
Current liabilities					
Trade and other payables	999,113	13	872,726	12	114
Borrowings	391,891	5	412,340	6	95
Income taxes	7	-	4,480	-	-
Total current liabilities:	1,391,011	18	1,289,546	18	108
Non-current liabilities					
Borrowings	223	-	811	-	27
Deferred tax liabilities	27,521	-	13,488	-	204
Retirement benefit obligations	15,567	-	12,875	-	121
Total non-current liabilities:	43,311	-	27,174	-	159
Total liabilities:	1,434,322	18	1,316,720	18	109
Total equity and liabilities:	7,853,277	100	7,414,036	100	106

Performance indicators

Indicators	(In %)		
	2010	2009	IND 10/09
Revenue / expense ratio	113.05	112.74	100
Net profit margin	10.98	10.41	105
EBITDA (%)	17.57	17.89	98
Current ratio	2.66	2.53	105
Net debt to equity ratio	0.06	0.07	90
Return of equity	0.09	0.08	110
Return of assets	0.07	0.07	109

Number of employees on 31 December

Segment	2010		2009		IND 10/09
	Број	%	Број	%	
Pharmacy	584	57	564	56	104
Chemistry Cosmetics Botanicals	180	17	177	18	102
Corporate unit	271	26	264	26	103
Total:	1,035	100	1,005	100	103

The total number of employees on 31 December 2010 is 1,035, which compared to 2009 is an increase of 3%.

21.02.2011

General Manager
Zhivko Mukaetov