



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

**CONSOLIDATED 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.

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's Annual consolidated report on the performance 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 RM" no.159/09, 164/10 and 107/11). The consolidated 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 consolidated report on the performance 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 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 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)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	421,450	90	522,271	90	81
Chemistry Cosmetics Botanicals	47,448	10	56,677	10	84
Total:	468,898	100	578,948	100	81

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 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	208,342	27	60,823	10	343
Current	558,545	73	574,159	90	97
Total:	766,887	100	634,982	100	121

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Up to 1 year	558,545	73	574,159	90	97
Between 1 to 3 years	208,342	27	60,823	10	343
Total:	766,887	100	634,982	100	121

6. Major Transactions

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

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	2012	2011
	% 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%	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 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
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 Amount	2011 Amount	IND 12/11
Profit attributable to shareholders (in denars)	583,730,219	616,253,479	95
Number of shares	1,421,933	1,422,596	100
Basic earning per share (in denars):	410.52	433.19	95

9. Key management compensations

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

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

Consolidated production in tons

Segment	(In tons)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	875	10	809	11	108
Chemistry Cosmetics Botanicals	7,598	90	6,851	89	111
Total:	8,473	100	7,660	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 7,660 tons.

Total consolidated sales

Market	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Domestic market	2,877,739	42	2,793,477	41	103
Foreign market	3,910,894	58	3,944,591	59	99
Total:	6,788,633	100	6,738,068	100	101

The total sales revenues for 2012 are 6,788,633 which compared to last years' 6,738,068 have increased for 1%. The growth in total sales revenues is a result of the increase of sales revenues on domestic market for 3%.

The largest portion of total sales revenues of 58%, is generated on foreign markets.

Total consolidated sales - segment reporting

Segment	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	5,708,116	84	5,597,696	83	102
Chemistry Cosmetics Botanicals	1,080,517	16	1,140,372	17	95
Total:	6,788,633	100	6,738,068	100	101

The largest portion in total sales revenues is generated on the Pharmacy segment with 5,708,116 thousand denars or 84%, which compared to last years' 5,597,696 thousand denars indicates an increase of 2%.

Consolidated domestic market sales - segment reporting

Segment	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	2,321,566	81	2,282,809	82	102
Chemistry Cosmetics Botanicals	556,173	19	510,668	18	109
Total:	2,877,739	100	2,793,477	100	103

Total sales revenues on domestic market are 2,877,739 thousand denars, which compared to last years' 2,793,477 thousand denars have increased for 3%.

The largest portion in total sales revenues on domestic market is generated on the Pharmacy segment with 2,321,566 thousand denars or 81%.

Consolidated foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Pharmacy	3,386,550	87	3,314,886	84	102
Chemistry Cosmetics Botanicals	524,344	13	629,705	16	83
Total:	3,910,894	100	3,944,591	100	99

Total sales on foreign market are 3,910,894 thousand denars, which compared to last years' 3,944,591 thousand denars have decreased for 1%.

The largest portion of the foreign market sales of 3,386,550 or 87% is generated on the Pharmacy segment.

Consolidated foreign market sales by regions / countries

Region / country	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
South Eastern Europe	2,920,455	75	2,904,918	74	101
Albania	102,275	3	145,025	4	71
Bosnia and Herzegovina	580,304	15	617,558	18	94
Kosovo	298,730	8	302,740	8	99
Serbia	1,057,984	27	947,859	24	112
Croatia	709,123	18	716,726	18	99
Monte Negro	172,039	4	175,010	4	98
Russia and CIS	448,722	11	435,930	11	103
Russia	354,972	9	413,775	10	86
Armenia	13,675	-	8,024	-	170
Ukraine	80,075	2	14,131	-	567
Western Europe (EU and EFTA)	479,583	12	537,765	14	89
Bulgaria	177,173	5	159,930	4	111
Greece	539	-	-	-	-
Germany	97,192	2	179,113	5	54
Denmark	-	-	273	-	-
Romania	2,793	-	7,192	-	39
Czech	6,646	-	2,215	-	300
Slovakia	2,389	-	-	-	-
Slovenia	192,427	5	188,598	5	102
Switzerland	424	-	418	-	101
Other	-	-	26	-	-
Other countries	62,134	2	65,978	2	94
USA	46,903	2	56,096	1	84
Other countries	15,231	-	9,882	-	154
Total:	3,910,894	100	3,944,591	100	99

The largest portion of foreign market sales of 75% is generated on the South Eastern Europe region, which compared to last year indicates an increase of 1%.

Consolidated Income statement

	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Sales	6,788,633	95	6,738,068	96	101
Cost of sales	-3,497,210	-49	-3,448,514	-49	101
Gross profit	3,291,423	46	3,289,554	47	100
Research and development expenses	-38,687	-1	-45,543	-1	85
Selling and marketing expenses	-2,272,187	-32	-2,215,549	-31	103
Administrative expenses	-269,326	-4	-292,637	-4	92
Provision for other liabilities and charges	-3,530	-	-993	-	355
Other income	313,091	4	310,345	4	101
Other expenses	-332,308	-5	-328,530	-5	101
Operating profit	688,476	10	716,647	10	96
Finance expenses (net)	-48,435	-1	-54,452	-1	89
Profit before income tax	640,041	9	662,195	9	97
Income tax expense	-56,311	-1	-45,942	-1	123
Profit from continuing operations	583,730	8	616,253	9	95
Profit/(Loss) from discontinued operations	-	-	-	-	-
Profit for the year	583,730	8	616,253	9	95
Attributable to the:					
Shareholders of the Parent Company	583,763	8	616,290	9	95
Minority interests	-33	-	-37	-	89
Profit for the year	583,730	8	616,253	9	95

Sales by category

	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Sales					
Sales of goods	5,587,643	79	5,650,503	80	99
Sales of commodities	1,147,798	16	1,030,562	15	111
Other sales revenues	53,192	1	57,003	1	93
Total:	6,788,633	95	6,738,068	96	101

Other income

(In 000 MKD)					
Other income	2012		2011		IND
	Amount	%	Amount	%	12/11
Foreign exchange transaction gains	189,835	3	195,420	3	97
Collected written off receivables	2,408	-	3,079	-	78
Surpluses	6,394	-	4,956	-	129
Interest income	499	-	1,614	-	31
Other income	113,955	2	105,276	1	108
Total:	313,091	4	310,345	4	101

Finance income

(In 000 MKD)					
Finance income	2012		2011		IND
	Amount	%	Amount	%	12/11
Foreign exchange transaction gains on borrowing	7,505	-	327	-	-
Interest income on borrowings	-	-	-	-	-
Total:	7,505	-	327	-	-
Total revenues:	7,109,229	100	7,048,740	100	101

Total revenues for 2012 are 7,109,229 thousand denars, which compared to last year have increased for 1%.

The largest portion of total revenues 95%, belongs to sales of goods, sales of commodities and other sales revenues, which compared to last year have increased for 1%.

Other income have a portion in total revenues of 4% and compared to last year have increased for 1%

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)					
Expenses	2012		2011		IND
	Amount	%	Amount	%	12/11
Raw materials	1,748,431	27	1,758,383	28	99
Employee benefit expense	1,318,416	20	1,297,320	20	102
Depreciation and amortization	335,482	5	311,449	5	108
Energy	199,146	3	193,828	3	103
Impairments	50,576	-	25,312	-	200
Transportation	134,303	2	122,799	2	109
Changes in the inventories	-65,572	-1	-74,982	-1	-
Cost of commodities	1,001,989	15	931,720	15	108
Other expenses	1,354,639	21	1,437,407	23	94
	6,077,410	94	6,003,236	94	101

Employee benefit expense

Expenses	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Gross salaries	1,156,892	18	1,103,646	17	105
Other employees benefits	161,524	2	193,674	3	83
	1,318,416	20	1,297,320	20	102

Other expenses

Expenses	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Foreign exchange transaction loss	173,929	3	228,504	4	76
Shortages	12,742	-	14,598	-	87
Expenses from last year	25,161	-	-	-	-
Other expenses	120,476	2	85,428	1	141
	332,308	5	328,530	5	101

Finance cost

Expenses	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Foreign exchange transaction losses on borrowings	6,057	-	2,045	-	-
Interest expense on borrowings	49,883	1	52,734	1	95
Total:	55,940	1	54,779	1	102
Total expenses:	6,465,658	100	6,386,545	100	101

Total expenses in 2012 are 6,465,658 thousand denars, which compared to last years' 6,386,545 thousand denars have increased for 1%.

The largest portion in total expense of 27% 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 profit before taxes for 2012 is 640,041 thousand denars, which compared to last years' 662,195 thousand denars has decreased for 3%. The portion of consolidated profit before taxes in total revenues is 9%.

Consolidated income tax for 2012 is 56,311 thousand denars, which compared to last years' 45,942 thousand denars has increased for 23%.

Consolidated Net profit for 2012 is 583,730 thousand denars, which compared to last years' 616,253 thousand denars has decreased for 5%. The portion of consolidated Net profit in total revenues is 9%.

Consolidated Balance Sheet

	(In 000 MKD)				
	2012		2011		IND
	Amount	%	Amount	%	12/11
Assets					
Non-current assets					
Property, plant and equipment	3,851,987	42	3,847,724	44	100
Intangible assets	647,260	7	521,285	6	124
Available-for-sale financial assets	4,784	-	4,442	-	108
Other non current assets	30,618	-	55,440	1	55
Deferred tax assets	15,728	-	14,849	-	106
Total non-current assets:	4,550,377	49	4,443,740	51	102
Current assets					
Inventories	1,791,379	19	1,647,549	19	109
Trade receivables	2,508,304	27	2,238,474	25	112
Other receivables	243,506	3	269,858	3	90
Cash and cash equivalents	185,589	2	188,824	3	98
Total current assets:	4,728,778	51	4,344,705	49	109
Total assets:	9,279,155	100	8,788,445	100	106
Equity and liabilities					
Equity					
Share capital	2,205,348	24	2,206,391	25	100
Share premiums	-1,127	-	493	-	-229
Legal reserves	604,746	7	599,909	7	101
Other reserves	1,524,599	16	1,538,559	18	99
Retained earnings	2,907,337	31	2,608,105	30	111
Minority interests	1,205	-	1,239	-	97
Total equity:	7,242,108	78	6,954,696	79	104
Liabilities					
Current liabilities					
Trade and other payables	1,222,977	13	1,164,171	13	105
Income taxes	18,682	-	9,600	-	195
Current borrowings	558,545	6	574,159	7	97
Total current liabilities:	1,800,204	19	1,747,930	20	103
Non-current liabilities					
Non-current borrowings	208,342	3	60,823	1	343
Deferred income tax liabilities	20,670	-	8,436	-	245
Non-current provisions	7,831	-	16,560	-	47
Total non-currents liabilities:	236,843	3	85,819	1	276
Total liabilities:	2,037,047	22	1,833,749	21	111
Total equity and liabilities:	9,279,155	100	8,788,445	100	106

Performance indicators

Indicators	(In %)		
	2012	2011	IND 12/11
Net profit margin (net profit / total revues)	8.21	8.74	94
Net profit margin (net profit / sales)	8.60	9.15	94
EBITDA	15.08	15.26	99
Current ratio	2.63	2.49	106
Net debt to equity ratio	8.03	6.42	125
Return of equity	8.06	8.86	91
Return of assets	6.29	7.01	90

Number of employees on 31 December

Segment	2012		2011		IND 12/11
	Amount	%	Amount	%	
Pharmacy	916	65	892	65	103
Chemistry Cosmetics Botanicals	195	14	184	13	106
Corporate unit	302	21	298	22	101
Total:	1,413	100	1,374	100	103

Total number of employees on 31 December 2012 is 1,413, which compared to last year has increased for 3%.

19.02.2013
**General Manager
Zhivko Mukaetov**