



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

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

FOR THE PERIOD JANUARY - DECEMBER 2017

February 2018

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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 eighteen 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, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16 and 61/16) 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 report. 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)				
	2017		2016		IND
	Amount	%	Amount	%	17/16
Pharmacy	804,842	93	598,174	84	135
Chemistry Cosmetics Botanicals	56,578	7	114,109	16	50
Total:	861,420	100	712,283	100	121

4. Dividends

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

The dividends for 2016 approved by shareholders on 3 April 2017 were Denar 357,838 thousands. Approved dividends are paid and retained earnings are appropriately decreased.

5. Borrowings

Borrowings	(In 000 MKD)				
	2017		2016		IND
	Amount	%	Amount	%	17/16
Non-current	270,534	41	67,620	13	400
Current	381,619	59	439,989	87	87
Total:	652,153	100	507,609	100	128

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2017		2016		IND
	Amount	%	Amount	%	17/16
Up to 1 year	381,619	59	439,989	87	87
Between 1 to 3 years	270,534	41	67,620	13	400
Total:	652,153	100	507,609	100	128

6. Major Transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2017.

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	2017	2016
	% 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 Bilna apteka DOOEL Skopje, Macedonia	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 Veledrogerija DOO Beograd, Serbia	100%	100%
Alkaloid ILAC TLS Istanbul, Turkey	100%	100%
ALKA-LAB DOO Ljubljana, Slovenia	100%	100%
Alkaloid Kiev CO. LTD., Ukraine	100%	100%
Alkaloid Shpk Tirana, Albania	100%	100%

All subsidiaries are 100% owned by the Company, except investment in Alkaloid USA with the equity share of 49%. Although the investment of Alkaloid AD Skopje in Alkaloid USA LLC Columbus, Ohio USA is 49%, the Company exercises control.

During 2016, Alkaloid AD Skopje established a new subsidiary in Tirana, Albania, and a new subsidiary in Kiev, Ukraine. In 2017 the company has increased its investment in Alkaloid Kiev CO. LTD., Ukraine by EUR 25 thousand.

The Company has representative offices in Russia, Bosnia and Herzegovina and Albania. The operational results of the representation offices 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 2016	1,416,612	2,220,127	-23,032	2,197,095	-
Purchase of treasury shares	-	-	-	-	-
At 31 December 2016	1,416,612	2,220,127	-23,032	2,197,095	-
Purchase of treasury shares	-	-	-	-	-
At 31 December 2017	1,416,612	2,220,127	-23,032	2,197,095	-

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.

The total number of treasury shares is 14,741. 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)		
	2017 Amount	2016 Amount	IND 17/16
Profit attributable to shareholders (in denars)	809,277,171	731,818,674	111
Number of shares	1,416,612	1,416,612	100
Basic earning per share (in denars):	571.28	516.60	111

9. Key management compensations

No compensations were paid to the Management Board members in 2017 and 2016.

In 2017, the amount of Denar 4,207 thousands were paid to the Supervision Board members (2016: Denar 4,207 thousands).

Consolidated production in tons

Segment	(In tons)				
	2017 Amount %		2016 Amount %		IND 17/16
Pharmacy	962	7	892	7	108
Chemistry Cosmetics Botanicals	12,923	93	11,919	93	108
Total:	13,885	100	12,811	100	108

The total amount produced for 2017 is 13,885 tons, which compared to last years' production amount of 12,811 tons has increased for 8%.

Total consolidated sales
(In 000 MKD)

Market	2017		2016		IND
	Amount	%	Amount	%	17/16
Domestic market	3,486,685	38	3,321,026	40	105
Foreign market	5,608,031	62	4,971,744	60	113
Total:	9,094,716	100	8,292,770	100	110

The total sales revenues for 2017 are 9,094,716 which compared to last years' 8,292,770 have increased for 10%. The growth in total sales revenues is a result of the increase of sales revenues on domestic market for 5% and foreign market for 13%.

The largest portion of total sales revenues of 62%, is generated on foreign markets.

Total consolidated sales - segment reporting
(In 000 MKD)

Segment	2017		2016		IND
	Amount	%	Amount	%	17/16
Pharmacy	7,695,963	85	6,910,385	83	111
Chemistry Cosmetics Botanicals	1,398,753	15	1,382,385	17	101
Total:	9,094,716	100	8,292,770	100	110

The largest portion in total sales revenues is generated on the Pharmacy segment with 7,695,963 thousand denars or 85%, which compared to last years' 6,910,385 thousand denars indicates an increase of 11%.

Consolidated domestic market sales - segment reporting
(In 000 MKD)

Segment	2017		2016		IND
	Amount	%	Amount	%	17/16
Pharmacy	2,820,665	81	2,664,293	80	106
Chemistry Cosmetics Botanicals	666,020	19	656,733	20	101
Total:	3,486,685	100	3,321,026	100	105

Total sales revenues on domestic market are 3,486,685 thousand denars, which compared to last years' 3,321,026 thousand denars have increased for 5%.

The largest portion in total sales revenues on domestic market is generated on the Pharmacy segment with 2,820,665 thousand denars or 81%.

Consolidated foreign market sales - segment reporting

(In 000 MKD)

Segment	2017		2016		IND 17/16
	Amount	%	Amount	%	
Pharmacy	4,875,298	87	4,246,092	85	115
Chemistry Cosmetics Botanicals	732,733	13	725,652	15	101
Total:	5,608,031	100	4,971,744	100	113

Total sales on foreign market are 5,608,031 thousand denars, which compared to last years' 4,971,744 thousand denars have increased for 13%.

The largest portion of the foreign market sales of 4,875,298 or 87% is generated on the Pharmacy segment.

Consolidated foreign market sales by regions / countries

(In 000 MKD)

Region / country	2017		2016		IND 17/16
	Amount	%	Amount	%	
South Eastern Europe	2,996,158	53	2,862,703	58	105
Albania	87,096	2	85,251	2	102
Bosnia and Herzegovina	778,615	14	752,467	18	103
Kosovo	319,677	6	329,489	7	97
Serbia	1,587,385	28	1,490,964	30	106
Monte Negro	223,385	4	204,532	4	109
Russia and CIS	642,236	11	511,440	10	126
Russia	510,959	9	436,708	9	117
Georgia	10,814	-	7,168	-	151
Armenia	17,133	-	17,115	-	100
Ukraine	103,330	2	49,579	1	208
Azerbaijan	-	-	870	-	-
Western Europe (EU and EFTA)	1,847,184	33	1,437,985	29	128
Bulgaria	250,105	4	239,273	5	105
Croatia	813,248	15	717,053	14	113
Germany	74,103	1	70,819	1	105
Romania	151,747	3	95,039	-	160
Hungary	31,453	1	9,054	-	347
Czech	20,629	-	16,967	-	122
Slovakia	2	-	3,541	-	-
Poland	17,791	-	10,782	-	165
Slovenia	278,650	5	249,409	5	112
Great Britain	202,665	4	15,390	-	1,317
Sweden	48	-	-	-	-
Spain	-	-	1,234	-	-
Lithuania	979	-	1,947	-	50
Finland	-	-	2,435	-	-
Netherlands	250	-	538	-	46
Switzerland	5,514	-	4,504	-	122
Other countries	122,453	2	159,616	3	77
USA	102,368	2	142,137	3	72
Turkey	17,598	-	13,872	-	127
Other countries	2,487	-	3,607	-	69
Total:	5,608,031	100	4,971,744	100	113

The largest portion of foreign market sales of 53% is generated on the South Eastern Europe region, which compared to last year indicates an increase of 5%.

Consolidated Income statement

	(In 000 MKD)				
	2017		2016		IND
	Amount	%	Amount	%	17/16
Sales	9,094,716	97	8,292,770	96	110
Cost of sales	-5,036,402	-53	-4,548,509	-53	111
Gross profit	4,058,314	43	3,744,261	44	108
Research and development expenses	-76,421	-1	-71,498	-1	107
Selling and marketing expenses	-2,732,544	-29	-2,433,623	-28	112
Administrative expenses	-356,110	-4	-385,509	-4	92
Provision for other liabilities and charges	-2,542	-	-1,091	-	233
Other income	315,984	3	300,623	3	105
Other expenses	-294,436	-3	-298,708	-3	99
Operating profit	912,245	10	854,455	10	107
Finance expenses (net)	-4,491	-	-12,407	-	36
Profit before income tax	907,754	10	842,048	10	108
Income tax expense	-98,477	-1	-110,230	-1	89
Profit from continuing operations	809,277	9	731,818	9	111
Attributable to the:					
Shareholders of the Parent Company	809,309	9	731,850	9	111
Minority interests	-32	-	-32	-	100
Profit for the year	809,277	9	731,818	9	111

Sales by category

	(In 000 MKD)				
	2017		2016		IND
	Amount	%	Amount	%	17/16
Sales					
Sales of goods	6,774,755	72	6,195,299	72	109
Sales of commodities	2,217,458	24	2,023,179	24	110
Other sales revenues	102,503	1	74,292	1	138
Total:	9,094,716	97	8,292,770	96	110

Other income

(In 000 MKD)

Other income	2017		2016		IND
	Amount	%	Amount	%	17/16
Foreign exchange transaction gains	168,254	2	174,025	2	97
Collected written off receivables	10,860	-	23,304	-	47
Surpluses	3,130	-	3,662	-	85
Interest income	10,066	-	4,357	-	231
Other income	123,674	1	95,275	1	130
Total:	315,984	3	300,623	4	105

Finance income

(In 000 MKD)

Finance income	2017		2016		IND
	Amount	%	Amount	%	17/16
Foreign exchange transaction gains on borrowing	13,278	-	705	-	1,883
Interest income on borrowings	-	-	-	-	-
Total:	13,278	-	705	-	1,883

Total revenues: **9,423,978 100** **8,594,098 100** **110**

Total revenues for 2017 are 9,423,978 thousand denars, which compared to last year have increased for 10%.

The largest portion of total revenues 97%, belongs to sales of goods, sales of commodities and other sales revenues, which compared to last year have increased for 10%.

Other income have a portion in total revenues of 3% and compared to last year have increased for 5%

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	2017		2016		IND
	Amount	%	Amount	%	17/16
Raw materials	2,238,233	26	2,207,867	28	101
Employee benefit expense	1,912,897	22	1,691,568	22	113
Depreciation and amortization	501,060	6	441,937	6	113
Energy	160,632	2	137,579	2	117
Impairments	8,284	-	16,724	-	50
Transportation	217,744	3	190,230	2	114
Changes in the inventories	-98,758	-	-165,764	-	60
Cost of commodities	1,593,272	19	1,486,422	19	107
Other expenses	1,670,655	20	1,433,667	18	117
	8,204,019	96	7,440,230	96	110

Employee benefit expense

(In 000 MKD)

Expenses	2017		2016		IND
	Amount	%	Amount	%	17/16
Gross salaries	1,661,508	20	1,462,425	19	114
Other employees benefits	251,389	3	229,143	3	110
	1,912,897	22	1,691,568	22	113

Other expenses

(In 000 MKD)

Expenses	2017		2016		IND
	Amount	%	Amount	%	17/16
Foreign exchange transaction loss	143,129	2	105,602	1	136
Shortages	12,498	-	23,780	-	53
Expenses from previous year	19,344	-	26,531	-	73
Other expenses	119,465	1	142,795	2	84
	294,436	3	298,708	4	99

Finance cost

(In 000 MKD)

Expenses	2017		2016		IND
	Amount	%	Amount	%	17/16
Foreign exchange transaction losses on borrowings	2,671	-	1,913	-	140
Interest expense on borrowings	15,098	-	11,199	-	135
Total:	17,769	-	13,112	-	136
Total expenses:	8,516,224	100	7,752,050	100	110

Total expenses in 2017 are 8,516,224 thousand denars, which compared to last years' 7,752,050 thousand denars have increased for 10%.

The largest portion in total expense of 26% belongs to Raw materials. Employee benefit expense has a portion of 22%, Other expenses 3%. Finance costs consist of expenses on borrowings, the portion in total expenses is insignificant.

Consolidated profit before taxes for 2017 is 907,754 thousand denars, which compared to last years' 842,048 thousand denars has increased for 8%. The portion of consolidated profit before taxes in total revenues is 10%.

Consolidated income tax for 2017 is 98,477 thousand denars, which compared to last years' 110,230 thousand denars has decreased for 11%.

Consolidated Net profit for 2017 is 809,277 thousand denars, which compared to last years' 731,818 thousand denars has increased for 11%. The portion of consolidated Net profit in total revenues is 9%.

Consolidated Balance Sheet

(In 000 MKD)

	2017		2016		IND 17/16
	Amount	%	Amount	%	
Assets					
Non-current assets					
Property, plant and equipment	4,311,471	38	4,068,330	38	106
Intangible assets	1,455,417	13	1,339,186	13	109
Available-for-sale financial assets	5,110	-	4,649	-	110
Other non current receivables	14,988	-	8,728	-	172
Deferred tax assets	17,817	-	17,817	-	100
Total non-current assets:	5,804,803	51	5,438,710	51	107
Current assets					
Inventories	2,479,984	22	2,393,188	23	104
Trade receivables	2,411,428	21	2,224,712	21	108
Other receivables	406,931	4	256,998	2	158
Cash and cash equivalents	214,389	2	277,638	3	77
Total current assets:	5,512,732	49	5,152,536	49	107
Total assets:	11,317,535	100	10,591,246	100	107
Equity and liabilities					
Equity					
Share capital	2,197,095	19	2,197,095	21	100
Legal reserves	612,672	5	612,785	6	100
Other reserves	1,139,520	10	1,347,099	13	85
Retained earnings	4,926,034	44	4,285,645	40	115
Minority interests	749	-	781	-	96
Total equity:	8,876,070	78	8,443,405	80	105
Liabilities					
Current liabilities					
Trade and other payables	1,739,318	15	1,592,425	15	109
Income taxes	20,362	-	20,914	-	97
Current borrowings	381,619	3	439,989	4	87
Total current liabilities:	2,141,299	19	2,053,328	19	104
Non-current liabilities					
Non-current borrowings	270,534	3	67,620	-	400
Deferred income tax liabilities	29,427	-	26,885	-	109
Non-current provisions	205	-	8	-	2,563
Total non-currents liabilities:	300,166	3	94,513	1	318
Total liabilities:	2,441,465	22	2,147,841	20	114
Total equity and liabilities:	11,317,535	100	10,591,246	100	107

Performance indicators

Indicators	(In %)		
	2017	2016	IND 17/16
Net profit margin (net profit / total revues)	8.59	8.52	101
Net profit margin (net profit / sales)	8.90	8.82	101
EBITDA	15.54	15.63	99
Current ratio	2.57	2.51	103
Net debt to equity ratio	4.93	2.72	181
Return of equity	9.12	8.67	105
Return of assets	7.15	6.91	103

Number of employees on 31 December

Segment	2017		2016		IND 17/16
	%	%	%	%	
Pharmacy	1,176	63	1,060	61	111
Chemistry Cosmetics Botanicals	203	11	197	11	103
Corporate unit	477	26	468	27	102
Total:	1,856	100	1,725	100	108

Total number of employees on 31 December 2017 is 1,856, which compared to last year has increased for 8%.

Alkaloid AD Skopje