



**ALKALOID AD SKOPJE
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2010 AND
INDEPENDENT AUDITORS' REPORT**

This is an English translation of the original report issued in Macedonian language

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INDEPENDENT AUDITORS' REPORT

TO THE OWNERS AND MANAGEMENT OF ALAKALOID AD SKOPJE

We have audited the accompanying consolidated financial statements (page 4 to 40) of Alkaloid AD Skopje and its subsidiaries (hereinafter: the "Company"), which comprise the consolidated statement of financial position as of December 31, 2010 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year than ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the accounting regulations prevailing in the Republic of Macedonia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing and Audit Law of the Republic of Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of Alakaloid AD Skopje and subsidiaries for the year ended December 31, 2010 are prepared, in all material respects in accordance with the accounting regulations of the Republic of Macedonia.

Deloitte DOO

Lidija Nanus
Director
Certified Auditor

Aleksandar Arizanov
Certified Auditor

Skopje, March 15, 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December	
		2010	2009
Assets			
Non-current assets			
Property, plant and equipment	6	3,745,904	3,881,420
Intangible assets	7	363,545	254,770
Deferred tax assets	18	10,557	11,288
Available-for-sale financial assets	9	5,695	6,394
Other non current assets	12	40,955	20,697
		4,166,656	4,174,569
Current assets			
Inventories	10	1,499,576	1,238,006
Trade receivables	11	2,176,305	1,906,001
Other receivables	12	195,500	171,640
Cash and cash equivalents	13	149,686	187,838
		4,021,067	3,503,485
Total assets		8,187,723	7,678,054
Equity and Liabilities			
Capital and reserves			
Share capital	14	2,206,548	2,206,548
Share premiums	14	734	734
Legal reserves		599,813	599,416
Other reserves	15	1,504,953	1,558,488
Retained earnings		2,284,072	1,904,497
Minority interests		1,275	1,329
		6,597,395	6,271,012
Non-current liabilities			
Borrowings	16	66,636	9,753
Retirement benefit obligations	17	15,567	12,875
Deferred income tax liabilities	18	27,521	13,488
		109,724	36,116
Current liabilities			
Trade and other payables	19	937,039	894,980
Income taxes		13,201	16,480
Borrowings	16	530,364	459,466
		1,480,604	1,370,926
Total liabilities		1,590,328	1,407,042
Total equity and liabilities		8,187,723	7,678,054

The accompanying notes are an integral part of and should be read in conjunction with the accompanying consolidated financial statements.

These consolidated financial statements have been approved for issue by the Managing Board on 21 February 2011.

Zhivko Mukaetov
General Manager

Cvetanka Simonovska
Finance Manager

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December	
		2010	2009
Continuing operations			
Sales	5	5,934,328	5,466,389
Cost of sales		(2,968,612)	(2,897,457)
Gross profit		2,965,716	2,568,932
Research and development expenses		(76,484)	(66,698)
Selling and marketing expenses		(1,922,228)	(1,630,263)
Administrative expenses		(257,817)	(246,538)
Provision for other liabilities and charges	20	(2,693)	(1,901)
Other income	21	237,904	238,515
Other expenses	22	(273,215)	(193,188)
Operating profit		671,183	668,859
Net foreign exchange transaction gains / (losses)	26	(7)	(55)
Finance expenses	26	(42,458)	(46,751)
Profit before income tax		628,718	622,053
Income tax expense	27	(54,379)	(63,568)
Profit for the year		574,339	558,485
Attributable to the:			
Shareholders of the Parent Company		574,392	558,571
Minority interests		(53)	(86)
Net profit for the year		574,339	558,485
Earnings per share (in denars)			
- Basic	28	403.70	392.55

The accompanying notes are an integral part of and should be read in conjunction with the accompanying consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<u>Notes</u>	<u>Year ended 31 December</u>	
		<u>2010</u>	<u>2009</u>
Profit for the year		574,339	558,485
Other comprehensive income:			
Fair value of investments	15	(85)	13
Deferred tax	15	(14,033)	921
Gain arising on revaluation of assets	15	-	96,462
Other comprehensive income, net of tax		(14,118)	97,396
Total comprehensive income for the year		560,221	655,881

The accompanying notes are an integral part of and should be read in conjunction with the accompanying consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 31 December

	<u>Attributable to the shareholders of the Parent Company</u>				Minority interests	Total Equity	
	Share capital	Share premium	Legal reserves	Other reserves			Retained Earnings
As at 1 January 2009	2,206,783	906	599,575	1,713,528	1,291,739	1,414	5,813,945
Purchase of treasury shares	(235)	(172)	-	-	-	-	(407)
Fair value of investments (Note 9)	-	-	-	13	-	-	13
Deferred taxes (Note 18)	-	-	-	921	-	-	921
Dividends	-	-	-	-	(195,637)	-	(195,637)
Revaluation of assets (Note 15)	-	-	-	96,462	-	-	96,462
Revaluation transfer (Note 15)	-	-	-	(99,346)	99,346	-	-
Reversal of reserve for purchase of PPE (Note 15)	-	-	-	(150,931)	150,931	-	-
Profit for the year	-	-	-	-	558,571	(86)	558,485
Translation differences	-	-	(159)	(2,159)	(453)	1	(2,770)
As at 31 December 2009	2,206,548	734	599,416	1,558,488	1,904,497	1,329	6,271,012
Fair value of investments (Note 9)	-	-	-	(85)	-	-	(85)
Deferred taxes (Note 18)	-	-	-	(14,033)	-	-	(14,033)
Dividends and tax of paid dividend and other allocation of profit (Note 29)	-	-	-	-	(251,398)	-	(251,398)
Revaluation transfer (Note 15)	-	-	-	(77,031)	77,031	-	-
Decrease of previous year	-	-	-	-	(19,204)	-	(19,204)
Return of unpaid dividends	-	-	-	-	5,577	-	5,577
Profit for the year	-	-	-	-	574,392	(53)	574,339
Translation differences	-	-	397	37,614	(6,823)	(1)	31,187
As at 31 December 2010	2,206,548	734	599,813	1,504,953	2,284,072	1,275	6,597,395

The accompanying notes are an integral part of and should be read in conjunction with the accompanying consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December	
	2010	2009
Cash flow from operating activities		
Cash receipts from customers	5,663,351	4,303,316
Cash paid to suppliers and employees	(5,151,626)	(3,550,528)
Cash generated from operations	511,725	752,788
Interest received	1,763	3,780
Income tax paid	(72,592)	(92,132)
Net cash generated from operating activities	440,896	664,436
Cash flow from investing activities		
Purchases of property, plant and equipment	(332,695)	(488,913)
Proceeds from sale of PP&E	-	-
(Purchases)/disposals of available-for-sale financial assets	-	2,059
(Repayments of)/proceeds from Bank deposits	-	22,006
Dividends received	34	38
(Repayments)/proceeds from loans to employees	(5,579)	(3,312)
Net cash used in investing activities	(338,240)	(468,122)
Cash flow from financing activities		
Proceeds of borrowings	1,269,672	1,560,955
Repayments of borrowings	(1,138,885)	(1,620,782)
Interest paid	(42,837)	(47,449)
Purchase of treasury shares	-	(407)
Interest from investment in bonds	338	-
Compensation to shareholders and tax on paid dividend and other allocation of profit	(229,589)	(193,987)
Net cash provided by financing activities	(141,301)	(301,670)
Net increase/(decrease) in cash and cash equivalents	(38,645)	(105,356)
Cash and cash equivalents at beginning of year	187,838	292,555
Translation differences	493	639
Cash and cash equivalents at the end of year	149,686	187,838

The accompanying notes are an integral part of and should be read in conjunction with the accompanying consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Alkaloid AD, Skopje (the Parent Company) and its subsidiaries produce and sell wide range of pharmaceutical, chemical and cosmetic products, as well as goods from herbal origin. The Company is comprised of twelve subsidiaries and one Foundation in the Republic of Macedonia and other countries. For the list of the subsidiaries refer to Note 2.4.

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

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

*Aleksandar Makedonski 12
1000 Skopje, Republic of Macedonia*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the year presented.

2.1 Basis of Preparation of Consolidated Financial Statements

Pursuant to the provisions of the Company Law (Official Gazette of the Republic of Macedonia no. 28/04, 84/05, 71/06, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10 and 8/11), legal entities in Macedonia are required to maintain their books of account and to prepare their consolidated financial statements in conformity with the International Financial Reporting Standards officially adopted in the Republic of Macedonia and published in the Official Gazette of the Republic of Macedonia.

A newly-issued Rulebook for chart of accounts (Official Gazette of the Republic of Macedonia no. 159/2009) was adopted as of December 29, 2009. It contains: the International Accounting Standards (“IAS”), International Financial Reporting Standards (“IFRS”) and related interpretations issued by the Standing Interpretation Committee (“SIC”) and the International Financial Reporting Interpretations Committee (“IFRIC”) determined and issued by the International Accounting Standards Board (“IASB”) as of January 1, 2009. This Rulebook has been effective as from January 1, 2010.

However, until the preparation date of the accompanying consolidated financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated. In addition, the accompanying consolidated financial statements are presented in the format prescribed under the “Guidelines on the Prescribed Form and Content of the Annual Financial Statements” (Official Gazette of the Republic of Macedonia no. 113/06). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, “Presentation of Financial Statements,” and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Therefore certain reclassifications have been made to present the accompanying consolidated financial statements in the format prescribed by that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation of Consolidated Financial Statements (Continued)

Standards and interpretations issued, but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.2 and 2.3.

In accordance with the aforescribed described, and given the potentially material effects which the departures of accounting regulations of the Republic of Macedonia from IAS and IFRS may have on the fairness presentations made in the consolidated financial statements, the accompanying consolidated financial statements cannot be treated as a set of consolidated financial statements prepared in accordance with IAS and IFRS.

The consolidated financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder.

In the preparation of the accompanying consolidated financial statements, the Company adhered to the accounting policies described in Note 2.

All amounts in the Company's consolidated financial statements and accompanying notes to the consolidated financial statements are stated in thousands of Macedonian Denars (MKD). The denar is the official reporting currency in the Republic of Macedonia.

2.2 Standards and Interpretations in Issue, but not yet Translated and Adopted

As of the consolidated financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Macedonia for the annual accounting periods commencing on or after January 1, 2010:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Additional Exemptions for First-time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations in Issue, but not yet Translated and Adopted (Continued)

- Amendments to IAS 38 “Intangible Assets” (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 2 “Share-based Payment ” - Amendments resulting from the Annual quality improvement project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments IFRIC 9 “Reassessment of Embedded Derivatives” effective for annual periods beginning on or after July 1, 2009 and IAS 39 “Financial Instruments: Recognition and Measurement” - Embedded Derivatives (effective for annual periods ending on or after June 30, 2009);
- IFRIC 18 “Transfers of Assets from Customers” (effective for annual periods ending on or after July 1, 2009).

2.3 Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these consolidated financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- “Conceptual Framework for Financial Reporting 2010” being an amendments to “Framework for the Preparation and Presentation of Financial Statements” (effective for transfer of assets from customers received on or after September 2010);
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IFRS 1 “First-time Adoption of IFRS” - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Transfer of Financial Assets (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Standards and Interpretations in Issue not yet in Effect (Continued)

- Amendments to IAS 24 “Related Party Disclosures” - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 32 “Financial Instruments: Presentation” - Accounting for rights issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations “Improvements to IFRSs (2010)”, (published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);
- Amendments to IFRIC 14 “IAS 19 - The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction” - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010).

The management is assessing the impact of the changes to the IAS, the newly-issued IFRS and to the interpretations to the financial statements. Although the majority of these changes are not applicable to the Company’s operations, the Company’s management does not express an explicit and unreserved statement in the accompanying financial statements of compliance with IAS and IFRS, which have been applied in the periods presented in the accompanying consolidated financial statements.

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 consolidated financial statements. However, actual results may vary from these estimates. The management assessments are stated in Note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Subsidiaries

Subsidiaries are all legal entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. The cost of acquisition is measured at fair value of the assets given. The investments in subsidiaries are recorded at cost less any eventual impairment.

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 accompanying consolidated financial statements include the financial statements of the parent company Alkaloid AD Skopje and the following subsidiaries:

	<u>2010</u>	<u>2009</u>
	<u>% of</u>	<u>% of</u>
	<u>ownership</u>	<u>ownership</u>
Alkaloid INT DOO Ljubljana, Slovenia	100%	100%
Alkaloid DOO Zagreb, Croatia	100%	100%
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	100%	100%
Alkaloid DOO Beograd, Serbia	100%	100%
ALK&KOS Pharmaceuticals Shpk Prishtina, Kosovo	100%	100%
Alkaloid EOOD Sofia, Bulgaria	100%	100%
Alkaloidfarm SA Fribourg, Switzerland	100%	100%
Alkaloid Kons DOOEL Skopje, Macedonia	100%	100%
Alkaloid USA LLC Columbus, Ohio USA	49%	49%
Fund "Trajce Mukaetov" Skopje, Macedonia	100%	100%
OOO Alkaloid RUS Moscow, Russia	100%	100%
Alkaloid DOO Podgorica, Montenegro	100%	100%
Alkaloid FARM DOO Ljubljana, Slovenia	100%	-

The investment in Alkaloid USA LLC Columbus, Ohio USA is the 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 existing subsidiary in Slovenia is rebranded into Alkaloid INT DOO Ljubljana.

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

2.5 Investment in associate

An associate is an enterprise over which the Company is in position to exercise significant influence, but not control, though participation in the financial and operating policy decisions of the investee. Investment in associate is recorded with the concept of market value.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Any excess (or loss) of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill (negative goodwill).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognized as an asset and amortized on a straight-line basis over its estimated useful life.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

2.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management board. The Management board is responsible for strategic decisions for each segment.

2.8 Leasing

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

2.9 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in thousands of Macedonian Denar, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences of non-monetary assets denominated in foreign currency are recognized in equity.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting differences are recognized as a separate component of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Property, plant and equipment

Property plant and equipment were initially recorded at cost. Land, buildings and part of equipment are stated at fair value, based on appraisal performed by external independent valuers, less subsequent depreciation. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition.

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the income statement. The revaluation surplus is transferred to retained earnings upon ultimate disposal of revaluated asset.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	20 - 40	Years
Machinery	10 - 20	Years
Vehicles	4	Years
Furniture, fittings and equipment	4 - 10	Years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

2.11 Intangibles

Trademarks, licenses and software have a finite useful life and are carried at cost less accumulated amortization. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives, up to 10 years.

Research expenditure is recognized as an expense as incurred. Internal development costs are recognized as intangible assets when it is probable that future economic benefits will flow to the Company and costs can be measured reliably. The Company considers that regulatory and other uncertainties inherent in the development of new products mean that such criteria are not met until the commercial launch of the product and therefore, pre-launch internal development costs are expensed as incurred. No significant direct development costs are incurred after the commercial launch.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Financial assets

The Company classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the consolidated statement of financial position (Note 2.15).

Available-for-sale financial assets

Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognized on trade-date – the date on which the Company commits to purchase or sell the asset. The purchase value of investments includes transaction costs. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. The Group also has investments in unlisted shares that are not traded in an active market, but that are also classified as AFS financial assets are stated at cost. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the available-for-sale financial assets are presented in the equity and statement of comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the Company's right to receive payments is established.

The fair values of quoted investments are based on last traded prices. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized at cost, less impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Financial assets (continued)

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the consolidated income statement. Method for evaluation of impairment of trade receivables is explained in Note 2.15.

2.14 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the actual cost method. The cost of finished goods and work in progress comprises direct production costs and related production overheads. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.15 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement within "Selling and marketing costs".

2.16 Cash and cash equivalents

Cash and cash equivalents include cash in bank and in hand.

2.17 Share capital

Ordinary shares are classified as equity. Purchases of the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and are included in equity attributable to the Company's equity holders.

2.18 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Deferred tax

Current income tax is calculated and paid in accordance with the Income tax Law. The estimated tax is paid in advance on a monthly basis. The final tax is payable at the rate of 10% calculated on the profit reported in the income statement, adjusted for certain items as defined by the local tax legislation.

As a result of the anti-crisis measures, Income tax law in the Republic of Macedonia was amended in 2009, where the profit for the year ended 2009 is not taxable and the rate of 10% is applied only on the expenses not deductible for tax purposes.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries excepts where timing of the reversal of temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20 Employee benefits

Pension liabilities

The Company has both defined benefit and defined contribution plans.

- “Defined benefit plans” define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.
- A “defined contribution plan” is a pension plan under which the Company pays contributions into publicly and privately administered pension plans on a mandatory, basis. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The Company pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits (continued)

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation and is expected to be paid.

Profit-sharing and bonus plans

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a decision of a Managing Board. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation and is expected to be paid.

2.21 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown, net of value-added tax, estimated returns, discounts and rebates. Revenue is recognized as follows:

Sales of goods

Sales of goods are recognized when a group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services

Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income

Dividend income is recognized when the right to receive payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Dividends

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.24 Comparative figures

In order to maintain consistency with the current year presentation, where appropriate certain items have been reclassified for comparative purposes. Such reclassifications, however, have not resulted in significant changes of the content and format of the financial information as presented in the accompanying consolidated financial statements.

3. FINANCIAL RISK MANAGEMENT

3.1 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 cash flow 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.

b) Price risks

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 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 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 Company for similar financial instruments.

4. ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value of property, plant and equipment

The Company tests annually whether fair value of land and buildings has suffered material changes compared with their fair value as assessed in the last appraisal. The Company estimation is that the difference between their fair value recorded into the books and the current market value is not material, and do not affect the result.

Fair value of financial assets

The available-for-sale financial assets that are not traded in an active market are stated at their cost. The Company estimation is that the difference between their fair value and cost is not material, and do not affect the result. This financial assets are insignificant both in the books in the Company and as a percentage of participation in the issuer capital.

Trade receivables

The Company assessed annually the fair value of trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING

Primary reporting format - business segments

At 31 December 2010, the Company is organized on a worldwide basis into four main business segments:

- Pharmaceuticals** - Production and sales of medicines for human use, medicines for veterinary use and pharmaceutical raw materials;
- Chemicals** - Production and sales of chemical products;
- Cosmetics** - Production and sales of cosmetics products;
- Botanicals** - Production and sales of botanical products.

The segment results for the year ended 31 December are as follows:

	Segment Revenues		Segment Operating Profit	
	2010	2009	2010	2009
Pharmaceutical products	4,979,655	4,593,584	591,941	637,396
Chemical products	177,560	145,692	24,384	3,208
Cosmetic products	600,876	554,115	49,927	20,594
Botanical products	176,237	172,998	4,984	7,747
Total	5,934,328	5,466,389	671,236	668,945
Minority interest			(53)	(86)
Finance costs			(42,465)	(46,806)
Profit before tax			628,718	622,053
Income tax			(54,379)	(63,568)
Profit for the year			574,339	558,485

The segment assets and liabilities for the year ended 31 December:

Assets

	2010	2009
Pharmaceutical products	7,075,425	6,542,575
Chemical products	294,440	312,195
Cosmetic products	501,546	489,368
Botanical products	316,312	333,916
Total assets	8,187,723	7,678,054

Liabilities

	2010	2009
Pharmaceutical products	1,399,223	1,211,433
Chemical products	37,639	43,316
Cosmetic products	111,460	105,241
Botanical products	42,006	47,052
Total liabilities	1,590,328	1,407,042

Other segment information for the year ended 31 December:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING (continued)

	Depreciation and amortization		Addition to non-current assets	
	2010	2009	2010	2009
Pharmaceutical products	247,781	228,656	320,317	495,850
Chemical products	5,470	9,173	6,424	8,291
Cosmetic products	10,709	14,200	4,832	2,605
Botanical products	9,327	11,451	2,156	2,338
Total	273,287	263,480	333,729	509,084

Secondary reporting format - geographical segments

The Republic of Macedonia is the domicile country of the parent company, which is also the main operating company.

The sales by the main geographical areas are as follows:

	Sales Revenues		Non-current Assets	
	2010	2009	2010	2009
Republic of Macedonia	2,485,019	2,237,773	4,034,852	4,090,933
Serbia	803,817	855,706	33,769	2,526
Croatia	675,663	600,944	13,581	12,012
Bosnia and Herzegovina	624,039	595,222	5,296	5,019
Other countries	1,345,790	1,176,744	21,951	25,700
Total	5,934,328	5,466,389	4,109,449	4,136,190

Geographical information about sales revenue is based on the customers' origin.

Non-current assets are consisted of PP&E and Intangible assets.

Information about major customers

The sales of Pharmaceutical products are spread over many countries and customers. No major customer participates in the direct sales of Pharmaceutical products.

In the sales of Chemicals products, there is one major customer with participation of 45.8% (2009: 29.7%) in direct sales.

In the sales of Cosmetics products, there is one major customer with participation of 13.5% (2009: 13.2%) in direct sales.

In the sales of Botanicals products, there is one major customer with participation of 16.9% (2009: 18.2%) in direct sales.

Sales by category

	2010	2009
Sales of goods	5,017,122	4,637,067
Sales of commodities	853,702	775,715
Revenue from services	2,801	39,209
Other revenue	60,703	14,398
	5,934,328	5,466,389

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or valuation					
At 1 January 2009	877,136	3,184,665	1,469,695	179,544	5,711,040
Additions	-	1,769	15,095	390,847	407,711
Transfer from construction in progress	-	127,401	411,205	(538,606)	-
Disposals	-	(3,329)	(10,477)	(1,853)	(15,659)
Revaluation	40,784	(1,339,982)	-	-	(1,299,198)
Translation differences	-	(22)	(378)	-	(400)
As at 31 December 2009	917,920	1,970,502	1,885,140	29,932	4,803,494
Accumulated depreciation					
At 1 January 2009	-	1,431,409	750,250	-	2,181,659
Depreciation charge	-	75,985	148,596	-	224,581
Disposals	-	(2,956)	(9,653)	-	(12,609)
Revaluation	-	(1,470,811)	-	-	(1,470,811)
Translation differences	-	(6)	(740)	-	(746)
As at 31 December 2009	-	33,621	888,453	-	922,074
Net book value					
As at 31 December 2009	917,920	1,936,881	996,687	29,932	3,881,420
Cost or valuation					
At 1 January 2010	917,920	1,970,502	1,885,140	29,932	4,803,494
Additions	455	216	38,877	128,852	168,400
Transfer from construction in progress	-	37,978	103,335	(141,313)	-
Disposals	(78,537)	-	(16,361)	-	(94,898)
Translation differences	-	291	(3,726)	-	(3,435)
As at 31 December 2010	839,838	2,008,987	2,007,265	17,471	4,873,561
Accumulated depreciation					
At 1 January 2010	-	33,621	888,453	-	922,074
Depreciation charge	-	50,061	172,070	-	222,131
Disposals	-	-	(13,967)	-	(13,967)
Revaluation	-	-	-	-	-
Translation differences	-	340	(2,921)	-	(2,581)
As at 31 December 2010	-	84,022	1,043,635	-	1,127,657
Net book value					
As at 31 December 2010	839,838	1,924,965	963,630	17,471	3,745,904

The land with surface of 116,464m², in accordance with the latest title deeds issued by AKN is property of Alkaloid AD Skopje. The land with surface of 224,247m² is currently in procedure of transformation in accordance with the Law on Privatization and Lease of State-Owned Construction Land (Official Gazette of RM 4/2005, 13/2007, 165/2008, 146/2009).

Land and buildings were revaluated on 31 December 2009 by independent valuator. The revaluation surplus/deficit was credited/debited to other reserves in shareholders equity (Note 15). The revaluation methods used are: market value, cost method and discounted cash flow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT (continued)

The historical cost of Property, plant and equipment and Construction in progress is as follows:

	<u>2010</u>	<u>2009</u>
Land	51,058	51,058
Buildings	1,671,221	1,705,677
Equipment	876,542	932,620
Construction in progress	17,471	29,932
Net book value	<u>2,616,292</u>	<u>2,719,287</u>

7. INTANGIBLE ASSETS

	<u>Trademark and license</u>	<u>Software</u>	<u>Other assets</u>	<u>Construction in progress</u>	<u>Total</u>
Cost or valuation					
At 1 January 2009	<u>54,877</u>	<u>114,627</u>	<u>10,981</u>	<u>70,261</u>	<u>250,746</u>
Additions	9,135	585	185	91,468	101,373
Transfer from construction in progress	56,312	7,068	1,646	(65,026)	-
Disposals	(116)	-	-	(1,740)	(1,856)
Translation differences	-	(58)	1	-	(57)
As at 31 December 2009	<u>120,208</u>	<u>122,222</u>	<u>12,813</u>	<u>94,963</u>	<u>350,206</u>
Accumulated amortization					
At 1 January 2009	<u>10,224</u>	<u>36,020</u>	<u>10,323</u>	<u>-</u>	<u>56,567</u>
Charge for the year	15,859	22,750	290	-	38,899
Disposals	(28)	-	-	-	(28)
Translation differences	1	(3)	-	-	(2)
As at 31 December 2009	<u>26,056</u>	<u>58,767</u>	<u>10,613</u>	<u>-</u>	<u>95,436</u>
Net book value as at 31 December 2009	<u>94,152</u>	<u>63,455</u>	<u>2,200</u>	<u>94,963</u>	<u>254,770</u>
Cost or valuation					
At 1 January 2010	<u>120,208</u>	<u>122,222</u>	<u>12,813</u>	<u>94,963</u>	<u>350,206</u>
Additions	975	884	5,541	157,929	165,329
Transfer from construction in progress	55,559	9,091	13,083	(77,733)	-
Disposals	(11)	(11,624)	(13,784)	-	(25,419)
Translation differences	(448)	1,301	191	(2,842)	(1,798)
As at 31 December 2010	<u>176,283</u>	<u>121,874</u>	<u>17,844</u>	<u>172,317</u>	<u>488,318</u>
Accumulated amortization					
At 1 January 2010	<u>26,056</u>	<u>58,767</u>	<u>10,613</u>	<u>-</u>	<u>95,436</u>
Charge for the year	26,429	23,243	1,484	-	51,156
Disposals	(5)	(11,624)	(10,235)	-	(21,864)
Translation differences	(654)	699	-	-	45
As at 31 December 2010	<u>51,826</u>	<u>71,085</u>	<u>1,862</u>	<u>-</u>	<u>124,773</u>
Net book value as at 31 December 2010	<u>124,457</u>	<u>50,789</u>	<u>15,982</u>	<u>172,317</u>	<u>363,545</u>

Intangible assets consist of trademarks and licenses and implementation of software (SAP).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS

Capital risk management

In order to be able to continue as going concern, the Group uses loans from banks and intends to maximize the return to the stakeholders through the optimization of the debt and equity balance.

The management of the Group reviews the capital structure on a regular basis.

	<u>2010</u>	<u>2009</u>
Debt	597,000	469,219
Cash and cash equivalents	<u>(149,686)</u>	<u>(187,838)</u>
Net debt	<u>447,314</u>	<u>281,381</u>
Equity	<u>6,597,395</u>	<u>6,271,012</u>
Net debt to equity ratio	<u>6.78%</u>	<u>4.49%</u>

Categories of financial instruments and risk management objectives

The Group's principal financial instruments are cash and cash equivalents and trade receivables, as well as, borrowings and trade payables. In the normal course of operations, the Group is exposed to the following risks:

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency in respect of sales of goods and services, purchase of raw materials, services and equipment and obtaining borrowings. The Group does not use any special financial instruments to hedge against this risk since no such instruments are in common use in the Republic of Macedonia.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	<u>Liabilities</u>		<u>Assets</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
EUR	330,541	336,279	1,067,298	1,260,656
USD	49,078	47,469	45,034	53,302
CHF	7,869	6,833	6,395	2,210
Other currencies	160,451	49,114	662,946	224,570

The Group is mainly exposed to the Euro currency.

The following table details the Group's sensitivity analysis to a 10% increase and decrease in the Macedonian Denar against the relevant foreign currency. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end. A positive number below indicates an increase in profit and equity, and negative number below indicates a decrease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk (continued)

	Increase of 10%		Decrease of 10%	
	2010	2009	2010	2009
EUR	(73,676)	(92,438)	73,676	92,438
USD	405	(583)	(405)	583
CHF	147	462	(147)	(462)
Other currencies	(50,250)	(17,545)	50,250	17,545
Profit and loss and equity	(123,374)	(110,104)	123,374	110,104

The Group's sensitivity to foreign currency has increased during the current period mainly due to combine effect of increase of foreign trade receivables and foreign trade payables and increase of borrowings.

Interest rate risk

The Group is exposed to interest risk arising from variable interest rate on borrowings, which depends on the changes of the financial market.

The sensitivity analysis below has been determined based on the exposure to interest rates as a result of a 10% increase or decrease for foreign borrowings at the balance sheet date. A positive number below indicates a decrease in profit and equity, and negative number below indicates an increase.

	Increase of 10%		Decrease of 10%	
	2010	2009	2010	2009
Borrowings	4,246	4,675	(4,246)	(4,675)
Profit and loss and equity	(4,246)	(4,675)	4,246	4,675

If interest rates had been 10% higher the Group's profit for the year ended 31 December 2010 and retained earnings would decrease by Denar 4,246 thousands and opposite if interest rates had been 10% lower the Group's profit for the year ended 31 December 2010 and retained earnings would increase by Denar 4,246 thousands.

Liquidity risk

The management of the Group has responsibility for maintenance adequate liquidity. In certain cases the Group uses short and long-term funding for liquidity purposes. The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows. At any time, the Group can draw additional borrowings from banks with relatively low interest rates, which reduce further liquidity risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities:

2010	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	457,835	267,268	28,341	-	753,444
Borrowings	8,698	16,728	504,938	66,636	597,000
	466,533	283,996	533,279	66,636	1,350,444
2009	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	338,793	196,074	145,560	9,280	689,707
Borrowings	26,057	357,097	79,115	6,950	469,219
	364,850	553,171	224,675	16,230	1,158,926

The following tables detail the Group's remaining contractual maturity for its financial assets:

2010	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	959,891	990,914	225,392	108	2,176,305
Available-for-sale financial assets	-	-	-	5,695	5,695
	959,891	990,914	225,392	5,803	2,182,000
2009	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,013,260	693,991	187,782	10,968	1,906,001
Available-for-sale financial assets	-	-	-	6,394	6,394
	1,013,260	693,991	187,782	17,362	1,912,395

Macedonian tax legislation is subject to varying interpretations and changes that occur frequently. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The period that remains opened for review by the tax and customs authorities with respect to tax liabilities is five years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>2010</u>	<u>2009</u>
At 1 January	6,394	7,381
Additions	753	1,766
Disposals	(1,537)	(2,740)
Fair value adjustment	85	(13)
As at 31 December	<u>5,695</u>	<u>6,394</u>

Available-for-sale financial assets consist of:

	<u>2010</u>	<u>2009</u>
Available-for-sale financial assets in non quoted companies	2,690	2,668
Available-for-sale financial assets in quoted companies	1,775	2,014
Available-for-sale financial assets in bonds	1,230	1,712
Available-for-sale financial assets in non related parties	<u>5,695</u>	<u>6,394</u>

Investments in securities available-for-sale consist of shares in companies and banks. Participation in their shares is below 10% of the registered equity.

Investments in bonds relates to state bonds for denationalization - third emission with 2% interest rate p.a. and maturity in 2014.

Available-for-sale financial assets, of quoted shares and bonds are presented by market values of identical assets. The unlisted shares that are not traded in an active market are stated at cost. The Group considers that cost approximates their fair value.

10. INVENTORIES

	<u>2010</u>	<u>2009</u>
Raw materials	600,522	508,723
Spare parts	1,747	1,540
Tools and consumable stores	2,664	2,547
Work in progress	141,069	191,120
Finished goods	599,919	404,939
Commodities	153,655	129,137
	<u>1,499,576</u>	<u>1,238,006</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE RECEIVABLES

Trade receivables

	<u>2010</u>	<u>2009</u>
Trade receivables	2,308,439	2,041,476
Less: Provision for impairment of receivables	(132,134)	(135,475)
Trade receivables – net	<u>2,176,305</u>	<u>1,906,001</u>

12. OTHER RECEIVABLES

	<u>2010</u>	<u>2009</u>
Prepayments	58,942	35,781
Receivables from employees	17,393	16,805
Prepaid VAT	90,784	44,198
Other receivables	69,336	95,553
Less: non-current portion	(40,955)	(20,697)
	<u>195,500</u>	<u>171,640</u>

Non-current receivables relate to loans to employees and prepayments for property, plant and equipment that are due within 3 years.

The fair value of non-current other assets are as follows:

	<u>2010</u>	<u>2009</u>
Other receivables	<u>40,955</u>	<u>20,697</u>

The effective interest rate on non-current receivables was as follows:

	<u>2010</u>	<u>2009</u>
	<u>5.35%</u>	<u>5.35%</u>

There is no concentration of credit risk with respect to trade receivables, as the Company has a large number of customers, internationally dispersed.

Prepayments for VAT are refunded from the Tax authorities on regular basis.

13. CASH AND CASH EQUIVALENTS

	<u>2010</u>	<u>2009</u>
Cash in banks	142,873	175,604
Cash in hands	3,211	6,429
Other	3,602	5,805
	<u>149,686</u>	<u>187,838</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE CAPITAL

	<u>Number of shares</u>	<u>Ordinary shares</u>	<u>Treasury shares</u>	<u>Total</u>	<u>Share premium</u>
At 1 January 2009	1,422,846	2,220,127	(13,344)	2,206,783	906
Treasury shares purchased	(150)	-	(235)	(235)	(172)
As at 31 December 2009	1,422,696	2,220,127	(13,579)	2,206,548	734
Treasury shares purchased	-	-	-	-	-
As 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 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.

15. OTHER RESERVES

	<u>Property, plant and equipment</u>	<u>Available for-sale investments</u>	<u>Fund for shares</u>	<u>Reserves for purchase of PPE</u>	<u>Total</u>
At 1 January 2009	1,318,019	(1,060)	245,638	150,931	1,713,528
Reversal of reserves	-	-	-	(150,931)	(150,931)
Revaluation (Note 6)	96,462	-	-	-	96,462
Revaluation transfer	(99,346)	-	-	-	(99,346)
Increase	-	13	-	-	13
Deferred tax	921	-	-	-	921
Translation differences	(2,159)	-	-	-	(2,159)
As at 31 December 2009	1,313,897	(1,047)	245,638	-	1,558,488
Revaluation transfer	(77,031)	-	-	-	(77,031)
Decrease	-	(85)	-	-	(85)
Deferred tax	(14,033)	-	-	-	(14,033)
Translation differences	37,614	-	-	-	37,614
As at 31 December 2010	1,260,447	(1,132)	245,638	-	1,504,953

The nature and rights of distribution of each class of other reserves are:

- Revaluation reserves for property, plant and equipment are created based on valuation of PP&E. These reserves are not distributable to shareholders.
- The reserves for available-for sales investments are created based on valuation of investments. These reserves are not distributable to shareholders.
- Funds for shares are created from retained earnings based on decision from Shareholders assembly and are distributable to shareholders if not utilized.
- Reserve for purchase of property, plant and equipment was mandatory under the Income tax Law until 2008 and is reversed based on change in the Law in 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. BORROWINGS

	<u>2010</u>	<u>2009</u>
Non-current borrowings	66,636	9,753
Current borrowings	<u>530,364</u>	<u>459,466</u>
	<u>597,000</u>	<u>469,219</u>

Bank borrowings in amount of Denar 289,729 thousands are secured by the equipment in amount of Denar 46,492 thousands.

The maturity of the borrowings is as follows:

	<u>2010</u>	<u>2009</u>
Up to 1 year	530,364	459,466
Between 1 to 3 years	<u>66,636</u>	<u>9,753</u>
	<u>597,000</u>	<u>469,219</u>

The borrowings are denominated in following currencies:

	<u>2010</u>	<u>2009</u>
EUR	212,545	23,419
USD	334	1,008
MKD	384,121	441,681
Other	<u>-</u>	<u>3,111</u>
	<u>597,000</u>	<u>469,219</u>

The effective interest rates at the balance sheet date were as follows:

	<u>31 December 2010</u>		<u>31 December 2009</u>	
	<u>EUR</u>	<u>MKD</u>	<u>EUR</u>	<u>MKD</u>
Interest rates	7%	7 – 8.5%	3 months EURIBOR +2%	8 - 10%

17. RETIREMENT BENEFITS

	<u>2010</u>	<u>2009</u>
Retirement benefits	<u>15,567</u>	<u>12,875</u>

The retirement benefits are calculated based on legal obligation for payment of two net monthly salaries on the retirement date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. RETIREMENT BENEFIT OBLIGATIONS (continued)

The amounts recognized in the Income statement are as follows:

	<u>2010</u>	<u>2009</u>
Beginning of the year	12,875	10,974
Increase in calculation	2,887	2,099
Retirement benefits	(195)	(198)
As at 31 December	<u>15,567</u>	<u>12,875</u>

The principal actuarial assumptions used were as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	6.31%	7.07%

18. DEFERRED INCOME TAX

	<u>2010</u>	<u>2009</u>
Deferred income tax assets	(10,557)	(11,288)
Deferred income tax liabilities	27,521	13,488
	<u>16,964</u>	<u>2,200</u>

Deferred income tax is determined using tax rate of 10%.

	<u>2010</u>	<u>2009</u>
At 1 January	2,200	(25)
Income tax in income statement	731	3,146
Income tax in equity	14,033	(921)
As at 31 December	<u>16,964</u>	<u>2,200</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. DEFERRED TAX (Continued)

The movement in deferred tax assets and liabilities is as follows:

	<u>Provisions</u>	<u>Accruals</u>	<u>Fair value</u>	<u>Total</u>
At 1 January 2009	(13,336)	(1,098)	14,409	(25)
Charged to Income statement	13,336	(10,190)	-	3,146
Charged to equity	-	-	(921)	(921)
As at 31 December 2009	-	(11,288)	13,488	2,200
Charged to Income statement	-	731	-	731
Charged to equity	-	-	14,033	14,033
As at 31 December 2010	-	(10,557)	27,521	16,964

The deferred income tax charged to income statement during the year is as follows:

	<u>2010</u>	<u>2009</u>
Trade receivables	-	13,336
Retirement benefits	269	(210)
Provisions for expenses	462	(9,980)
	731	3,146

The deferred income tax recorded in the statement of financial position is as follows:

	<u>2010</u>	<u>2009</u>
Land and buildings	14,033	(921)
	14,033	(921)

19. TRADE AND OTHER PAYABLES

	<u>2010</u>	<u>2009</u>
Trade payables	753,444	689,707
Customers' prepayments	6,384	8,101
Payables to employees	63,229	71,430
Dividends	3,757	7,876
Interest	-	572
Other payables and accrued expenses	110,225	117,294
	937,039	894,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. PROVISION FOR OTHER LIABILITIES AND CHARGES

	<u>2010</u>	<u>2009</u>
Provision for retirement benefits	2,693	1,901
	<u>2,693</u>	<u>1,901</u>

21. OTHER INCOME

	<u>2010</u>	<u>2009</u>
Collected written-off receivables	12,789	70,506
Dividends income	34	38
Interest income	536	2,458
Foreign exchange transaction gains	112,234	104,296
Other income	112,311	61,217
	<u>237,904</u>	<u>238,515</u>

22. OTHER EXPENSES

	<u>2010</u>	<u>2009</u>
Interest expenses	1,341	992
Foreign exchange transaction loss	130,301	104,049
Effect of disposal of associate	-	21,129
Other expenses	141,573	67,018
	<u>273,215</u>	<u>193,188</u>

23. EXPENSES BY NATURE

	<u>2010</u>	<u>2009</u>
Raw materials	1,535,443	1,356,665
Employee benefit expense	1,234,521	1,216,119
Depreciation and amortization	273,287	263,480
Energy	156,392	119,413
Impairments	28,134	84,724
Transportation	103,068	65,318
Changes in the inventories	62,626	(45,496)
Cost of commodities	742,234	657,389
Other expenses	1,089,436	1,123,344
	<u>5,225,141</u>	<u>4,840,956</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EMPLOYEE BENEFIT EXPENSE

	<u>2010</u>	<u>2009</u>
Gross salaries	1,064,133	899,138
Other employees benefits	170,388	316,981
	<u>1,234,521</u>	<u>1,216,119</u>
Number of employees as at 31 December	<u>1,322</u>	<u>1,217</u>

25. OPERATING LEASING

Operating leasing relates to rent of premises and vehicles. The lease term is between 3-5 years. The Group do not has option to re-purchase premises and vehicles.

Expenses charged to the income statement are:

Minimum operating leasing	<u>2010</u>	<u>2009</u>
	33,607	18,407
	<u>33,607</u>	<u>18,407</u>

Future non-cancellable obligations	<u>2010</u>	<u>2009</u>
Up to 1 year	45,784	19,698
Between 2 to 5 years	98,218	40,292
	<u>144,002</u>	<u>59,990</u>

26. FINANCE EXPENSES

	<u>2010</u>	<u>2009</u>
Net foreign exchange transaction gains/(losses) on borrowings	(7)	(55)
Interest expense on borrowings	(42,458)	(46,751)
	<u>(42,465)</u>	<u>(46,806)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. INCOME TAX

	<u>2010</u>	<u>2009</u>
Current income tax	53,648	60,422
Deferred income tax (Note 18)	731	3,146
	<u>54,379</u>	<u>63,568</u>

The income tax differs from the theoretical amount that would arise using the tax rate applicable to profit as follows:

	<u>2010</u>	<u>2009</u>
Profit before tax	<u>628,718</u>	<u>622,053</u>
Tax calculated	-	8,996
Expenses not deductible for tax purposes	58,851	56,266
Tax allowances	(5,203)	(4,840)
Utilization of previous tax credit	731	3,146
Income tax	<u>54,379</u>	<u>63,568</u>

As a result of the anti-crisis measures, Income tax law in the Republic of Macedonia was amended in 2009, where the profit for the year ended 2009 is not taxable and the rate of 10% is applied only on the expenses not deductible for tax purposes.

28. EARNINGS PER SHARE

	<u>2010</u>	<u>2009</u>
Basic earnings per share		
Profit attributable to shareholders (In Denar)	574,339,011	558,485,271
Average number of shares	1,422,696	1,422,696
Basic earnings per share (in Denar)	<u>403.70</u>	<u>392.55</u>

29. DIVIDENDS

The Group 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.

30. COMMITMENTS

Capital expenditures contracted for acquisition of property, plant and equipment at balance sheet date but not yet incurred are in amount of Denar 104,536 thousands; (2009: Denar 18,738 thousands).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. CONTINGENCIES

The Group has contingent liabilities with respect to issued guaranties to third parties in the amount of Denar 32,332 thousands (2009: Denar 26,005 thousands).

32. RELATED PARTY TRANSACTIONS

Key management compensations

No compensations were paid to the Management Board members. In 2010, the amount of Denar 3,584 thousands were paid to the Supervision Board members (2009: Denar 3,391 thousands).

33. POST BALANCE SHEETS EVENTS

According to the Decision U.no.26-198/1, issued by the Ministry of Finance - Property and Legal Affairs Office on 10.01.2011, in accordance with the Law on Privatization and Lease of State-Owned Construction Land (Official Gazette of RM 4/2005, 13/2007, 165/2008 and 146/2009) the state-owned construction land with surface of 210,129m², KO Gjorce Petrov 4 - Vlae, noted in title deed No.9220 by AKN is now property of Alkaloid AD Skopje.
On 18.02.2011 the amount of 100,389 thousand Denar was fully paid.