



**ALKALOID AD SKOPJE
CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
31 DECEMBER 2016**

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INDEPENDENT AUDITORS' REPORT

TO THE MANAGEMENT BOARD AND THE SHAREHOLDERS OF ALKALOID AD SKOPJE

We have audited the accompanying consolidated financial statements (page 3 to 43) of Alkaloid AD Skopje and its subsidiaries (hereinafter referred to as the "the Group"), which comprise the statement of consolidated financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Law on Auditing and the applicable auditing standards in 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 present fairly, in all material respects, the financial position of Alkaloid AD Skopje as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Macedonia.

(Continues)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD OF ALKALOID AD SKOPJE (continued)

Report on other legal and regulatory requirements

Management is responsible for the preparation of the Company's consolidated annual report and the Company's consolidated annual accounts in accordance with the Company Law, which were adopted and approved by the management of the Company on February 10, 2017. Our responsibility is to express an opinion on the consistency of the consolidated annual report with the consolidated annual accounts and the consolidated financial statements of the Company. We have performed our audit procedures in accordance with the Audit Law of the Republic of Macedonia and International Standard on Auditing 720 – The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Consolidated Financial Statements. In our opinion, the historical financial information disclosed in the consolidated annual report is consistent with the consolidated annual accounts and the accompanying audited consolidated financial statements of the Company for the year ended December 31, 2016.

Lidija Nanus
Certified Auditor
Director

Aleksandar Arizanov
Certified Auditor

March 1, 2017

Deloitte DOO Skopje

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December	
		2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	6	4,068,330	3,934,917
Intangible assets	7	1,339,186	1,202,558
Deferred tax assets	18	17,817	19,507
Available-for-sale financial assets	9	4,649	3,514
Other non-current assets	12	8,728	3,091
		5,438,710	5,163,587
Current assets			
Inventories	10	2,393,188	2,028,759
Trade receivables	11	2,224,712	1,889,988
Other current assets	12	256,998	268,550
Cash and cash equivalents	13	277,638	389,921
		5,152,536	4,577,218
TOTAL ASSETS		10,591,246	9,740,805
EQUITY			
Capital and reserves			
Share capital	14	2,197,095	2,197,095
Legal reserves		612,785	611,914
Other reserves	15	1,347,099	1,319,863
Retained earnings		4,285,645	3,890,742
Minority interests		781	813
		8,443,405	8,020,427
LIABILITIES			
Non-current liabilities			
Non-current borrowings	16	67,620	25,055
Retirement benefit obligations	17	26,885	25,898
Deferred tax liabilities	18	8	5
		94,513	50,958
Current liabilities			
Trade and other payables	19	1,592,425	1,320,789
Income tax		20,914	19,948
Current borrowings	16	439,989	328,683
		2,053,328	1,669,420
Total liabilities		2,147,841	1,720,378
TOTAL EQUITY AND LIABILITIES		10,591,246	9,740,805

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements have been approved by the Managing Board on 10 February 2017.

Approved by:

Zhivko Mukaetov
General Manager

Viktor Stojcevski
Finance Manager

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2016	2015
Sales	5	8,292,770	7,860,414
Cost of sales	23	(4,548,509)	(4,289,684)
Gross profit		3,744,261	3,570,730
Research and development expenses	23	(71,498)	(58,942)
Selling and marketing expenses	23	(2,433,623)	(2,296,241)
Administrative expenses	23	(385,509)	(308,408)
Provision for other liabilities and charges	20	(1,091)	(1,200)
Other income	21	300,623	384,213
Other expenses	22	(298,708)	(509,180)
Operating profit		854,455	780,972
Finance expenses (net)	26	(12,407)	(15,462)
Profit before income tax		842,048	765,510
Income tax	27	(110,230)	(99,043)
Net profit for the year		731,818	666,467
Attributable to the:			
Shareholders of the Parent Company		731,850	666,785
Minority interests		(32)	(318)
Net profit for the year		731,818	666,467
Earnings per share (In Denar)			
- Basic	28	516.60	470.47

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<u>Note</u>	<u>Year ended 31 December</u>	
		<u>2016</u>	<u>2015</u>
Net profit for the year		731,818	666,467
Other comprehensive income:			
Fair value of investments	15	1,135	199
Revaluation of assets	15	-	-
Translation differences	15	26,101	(13,566)
Other comprehensive income, net of tax		27,236	(13,367)
Total comprehensive income for the year		759,054	653,100

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December

	Attributable to the Parent					Minority interests	Total equity
	Share capital	Share premiums	Legal reserves	Other reserves	Retained earnings		
As at 1 January 2015	2,197,095	-	609,666	1,333,230	3,529,699	1,132	7,670,822
Fair value of investments (Note 9)	-	-	-	199	-	-	199
Increase previous year	-	-	-	-	(1,708)	-	(1,708)
Transfer to reserves	-	-	874	-	(874)	-	-
Dividends and tax of paid dividend (Note 29)	-	-	-	-	(298,606)	-	(298,606)
Profit for the year	-	-	-	-	666,785	(318)	666,467
Translation differences	-	-	1,374	(13,566)	(4,554)	(1)	(16,747)
As at 31 December 2015	2,197,095	-	611,914	1,319,863	3,890,742	813	8,020,427
Fair value of investments (Note 9)	-	-	-	1,135	-	-	1,135
Transfer to reserves	-	-	806	-	(806)	-	-
Dividends and tax of paid dividend (Note 29)	-	-	-	-	(326,480)	-	(326,480)
Profit for the year	-	-	-	-	731,850	(32)	731,818
Translation differences	-	-	65	26,101	(9,661)	-	16,505
As at 31 December 2016	2,197,095	-	612,785	1,347,099	4,285,645	781	8,443,405

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December	
	2016	2015
Cash flow from operating activities		
Cash receipts from customers	8,095,109	8,613,708
Cash paid to suppliers and employees	(7,276,073)	(7,381,337)
Cash generated from operations	819,036	1,232,371
Interest received	5,928	15,038
Net cash generated from operating activities	824,964	1,247,409
Cash flow from investing activities		
Purchases of property, plant and equipment	(616,146)	(778,756)
Dividends received	462	-
Other payments to employees	(61,678)	(70,216)
Net cash used in investing activities	(677,362)	(848,972)
Cash flow from financing activities		
Proceeds from borrowings	1,827,093	2,185,458
Repayments of borrowings	(1,770,720)	(2,370,744)
Interest paid	(16,384)	(20,448)
Compensation to shareholders and tax of paid dividend and other allocation of profit	(299,010)	(273,494)
Net cash used in financing activities	(259,021)	(479,228)
Net decrease in cash and cash equivalents	(111,419)	(80,791)
Cash and cash equivalents at beginning of year	389,921	479,300
Translation differences	(864)	(8,588)
Cash and cash equivalents at the end of year	277,638	389,921

The accompanying notes are an integral part of these 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 Parent Company (hereinafter referred to as “the Group”) has seventeen subsidiaries and one Foundation in the Republic of Macedonia and other countries. For the list of the subsidiaries refer to Note 2.4 to the consolidated financial statements.

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

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 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 the 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, 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) 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. 159/09, 164/10 and 107/11) 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. 60/14). Such statements represent the complete set of consolidated 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. Standards and interpretations in issue 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation of the consolidated financial statements (Continued)

In accordance with the afore described, and given the potentially material effects which the departures of accounting regulations of the Republic of Macedonia from IFRS and IAS 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 IFRS and IAS.

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 are stated in thousands of Macedonian Denars. The denar is the official reporting currency in the Republic of Macedonia.

2.2 Standards and Interpretation 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.

- 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);
- Amendments to IAS 38 "Intangible Assets" (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);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- 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 beginning on or after June 30, 2009);
- IFRIC 18 “Transfers of Assets from Customers” (effective for annual periods beginning on or after July 1, 2009);
- “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);
- „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 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)” resulting from the Annual quality improvement project of IFRS 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);
- 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” – Transfers of Financial Assets (effective for annual periods beginning on or after January 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);
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to various standards “Improvements to IFRSs (cycle 2009-2011)” resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013);
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements” – Investment Entities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32 “Financial instruments: presentation”; Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”
- Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014),
- IFRIC 21 “Levies” (effective for annual periods beginning on or after 1 January 2014).
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014).
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016), Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016);
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

2.3 Standards and Interpretation 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:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2017),
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 “Share-based Payment” – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 12 “Income Taxes” – Recognition of Deferred Tax Assets for Unrealized losses (effective for annual periods beginning on or after 1 January 2017);
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The management is assessing the impact of the changes to the IAS, the newly-issued IFRS and to the interpretations to the consolidated 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 consolidated financial statements of compliance with IAS and IFRS, which have been applied in the period 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 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 Parent 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 Parent 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 Parent 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:

	2016	2015
	% 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%
Alkaloidpharm 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 USA	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 Veleddrogerija 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%	-
Alkaloid Shpk Tirana, Albania	100%	-

The investment in Alkaloid USA LLC Columbus, Ohio USA is the equity share of 49%, but the Parent Company exercises control. During 2016, Alkaloid AD Skopje established a new subsidiary in Tirana, Albania and a new subsidiary in Kiev, Ukraine.

In 2015 the company has increased its investment in four of its subsidiaries, in Alkaloid Kons DOOEL Skopje, Macedonia by Denar 80,000 thousand, ALKA-LAB DOO Ljubljana, Slovenia by EUR 150 thousand, OOO Alkaloid RUS, Moscow, Russia by RUR 120 million and in Alkaloid DOO Zagreb, Croatia by EUR 10 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting

Operating segments are reported in a manner with the internal reporting provided to the Managing Board. Managing Board is responsible for strategic decisions for each segment.

At 31 December 2016, the Company is organized on a worldwide basis into four reportable segments:

- **Pharmaceuticals** - Production and sale of medicines for human use, pharmaceutical raw materials and veterinary drugs.
- **Chemicals** - Production and sale of chemicals products;
- **Cosmetics** - Production and sale of cosmetics;
- **Botanicals** - Production and sale of botanicals products.

The pharmaceutical overall production program of the products of Alkaloid Pharmaceuticals is consisted of the following pharmaceutical forms:

- Oral hard dosage forms: Tablets - conventional and modified release, film-tablets, coated tablets, sub-lingual tablets, capsules, dry powder for oral suspension.
- Liquid dosage forms for oral administration: Solutions for oral administration, syrups and suspensions.
- Topical preparations: Ointments, creams, solutions, gels, sprays, vaginal pessaries, suppositories.
- Sterile dosage forms: Parenteral small-volume, eye drops and ointments for eyes.

Besides the capacities for manufacturing finished pharmaceutical products, Alkaloid-Pharmaceuticals have also facilities for extraction of opioids which include production of morphine and its derivatives as pharmaceutical raw materials.

Alkaloid Chemical products today are developed programme for the production of chemicals and organic and non-organic reagents, with pa, puriss, purum and with pharmacopeial qualities. They are suitable for laboratories within institutions, faculties, clinics, the pharmaceutical and cosmetic industry, as well as in the production processes of other industries.

Alkaloid's Cosmetics Unit develops and produces skincare products, children's skincare, soaps, hair care products, dental care products, men's perfume collection, women's perfume collection, as well as household cleaners. The ingredients that are used in the products are purchased from suppliers that satisfy our high-quality standards and are in accordance with the requirements of the European directive for quality cosmetic products.

The activities in Botanical unit consists of processing blending and packing herbal materials like roots, leaves, fruits, seeds etc.

Segment revenue is revenue reported in the company's income statement that is directly attributable to a segment and the relevant portion of the company income that can be allocated on a reasonable basis to a segment.

Segment expense is an expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting (Continued)

Net operating assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables less operating liabilities. Company financial assets and liabilities principally consist of net liquidity (cash, cash equivalents and other current financial assets less financial debts) and deferred and current taxes.

The accounting policies of the reportable segments are the same as the Company's accounting policies. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

2.6 Leasing

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

2.7 Foreign currency translation

Functional and presentation currency

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

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 consolidated 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 are translated at the closing rate at the date of the statement of financial position;

Income and expenses 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)

2.8 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 appraiser, 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated 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 consolidated 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
Production equipment	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 date.

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.

The carrying amount of disposed PP&E is eliminated from the consolidated statement of financial position together with the carrying amount of accumulated depreciation. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible assets

Intangible assets consist of trademarks licenses and software. Intangible assets 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, licenses and software over their estimated useful lives up to 10 years.

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives up to 10 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 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.

2.11 Financial assets

The Group 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 balance sheet 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 2.13)

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 consolidated statement of financial position date.

Regular purchases and sales of investments are recognized on trade date, the date on which the Group 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 Group 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 are also classified as AFS financial assets and 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 the consolidated statement of comprehensive income, except for impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss.

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 Group's right to receive payments is established.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets (Continued)

Available-for-sale financial assets (Continued)

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.

The Group 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 2.13.

2.12 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.

2.13 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 Group 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 consolidated income statement within "selling and marketing costs".

2.14 Cash and cash equivalents

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

2.15 Share capital

Ordinary shares are classified as equity. Purchases of the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs are deducted from equity attributable to the Parent 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 Parent Company's equity holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the consolidated statement of financial position date.

2.17 Income 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 in the Republic of Macedonia at the rate of 10% calculated based on the profit as determined in the Consolidated statement of comprehensive income, adjusted for certain items as defined by the local tax legislation. In respect of the Group's subsidiaries the current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income.

Deferred tax

Deferred income tax is calculated for the 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 Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

Pension liabilities

The Group 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 Group pays contributions into publicly and privately administered pension plans on a mandatory basis. The Group 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Employee benefits (Continued)

Pension liabilities (Continued)

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 Group pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Group 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.

Termination benefits

Termination benefits are payable when employees are terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group 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 Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Profit-sharing and bonus plans

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

2.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Group 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.

2.20 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 Group'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Revenue recognition (Continued)

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 Group 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.

2.21 Dividends

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

3. FINANCIAL RISK MANAGEMENT

3.1 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 performed 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 risks

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 wholesales 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

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.

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 Group 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 Group for similar financial instruments.

3.3 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimize the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. ACCOUNTING ESTIMATES

The Group 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 Group tests annually whether fair value of plant and equipment has suffered material changes compared with their fair value as assessed in the last appraisal. The Group 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 Group 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 Group and as a percentage of participation in the issuer capital.

Trade receivables

The Group assessed annually the fair value of trade receivables.

Estimates for accounting for employee benefits

IAS19, Employee Benefits, requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations. These mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover and discount rates. Substantial changes in the assumed development of any one of these variables may change the Company's retirement benefit obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING

Primary reportable segments – business segment

Segment information reported to the Management Board is based on products and category of customers. The segment information by product is more relevant to the Group.

Principal categories of goods are pharmaceutical and non-pharmaceutical products (chemicals cosmetics and botanicals). Customers for the goods of the Group are wholesalers.

Segments revenues and results as at 31 December are as follows:

	Revenues		Operating profit	
	2016	2015	2016	2015
Pharmaceutical products	6,910,385	6,591,387	788,715	742,607
Chemical products	256,855	218,764	17,658	8,601
Cosmetic products	822,820	784,027	23,124	9,806
Botanical products	302,710	266,236	24,958	19,958
Total	8,292,770	7,860,414	854,455	780,972
Finance expenses			(12,407)	(15,462)
Profit before tax			842,048	765,510
Income tax			(110,230)	(99,043)
Profit for the year			731,818	666,467

Revenue reported above represents revenue generated from external customers.

Segment assets and liabilities for the year ended 31 December are as follows:

Assets

	2016	2015
Pharmaceutical products	8,599,836	8,256,007
Chemical products	218,763	38,451
Cosmetic products	1,194,428	972,843
Botanical products	578,219	473,504
Total assets	10,591,246	9,740,805

Liabilities

	2016	2015
Pharmaceutical products	1,783,357	1,473,964
Chemical products	87,202	62,857
Cosmetic products	178,448	140,434
Botanical products	98,834	43,123
Total liabilities	2,147,841	1,720,378

Other segment information for the year ended 31 December are as follows:

	Depreciation and amortization		Addition to non-current assets	
	2016	2015	2016	2015
Pharmaceutical products	394,294	335,156	598,174	950,775
Chemical products	9,713	8,812	12,990	9,064
Cosmetic products	21,014	18,632	19,217	16,445
Botanical products	16,916	13,204	81,902	10,522
Total	441,937	375,804	712,283	986,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

Secondary reportable segments - Geographical information

The Republic of Macedonia is the domicile country of the Group where part of the activities are performed.

	Revenue from external customers		Non-current assets	
	2016	2015	2016	2015
Macedonia	3,321,026	3,235,800	5,318,980	5,042,022
Serbia	1,490,964	1,391,428	30,111	37,882
Croatia	717,053	682,906	9,543	12,473
Bosnia and Herzegovina	752,467	789,721	2,527	129
Other countries	2,011,260	1,760,559	46,355	44,969
Total	8,292,770	7,860,414	5,407,516	5,137,475

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 27.5% (2015: 33.5%) in direct sales.

In the sales of Cosmetics products, there is one major customer with participation of 14.3% (2015: 15.2%) in direct sales.

In the sales of Botanicals products, there is one major customer with participation of 46.8% (2015: 41.0%) in direct sales.

Sales by category

	2016	2015
Sales of goods	6,195,299	6,044,516
Sales of commodities	2,023,179	1,760,638
Other revenue	74,292	55,260
	8,292,770	7,860,414

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 2015	798,411	1,903,673	2,642,156	16,655	5,360,895
Additions	-	2,559	16,195	529,654	548,408
Transfer from construction in progress	34,535	20,063	143,994	(198,592)	-
Elimination of cost	-	-	(15,866)	-	(15,866)
Translation differences	-	98	(588)	4	(486)
As at 31 December 2015	832,946	1,926,393	2,785,891	347,721	5,892,951
Accumulated depreciation					
At 1 January 2015	-	45,116	1,683,844	-	1,728,960
Depreciation charge	-	56,394	187,409	-	243,803
Elimination of depreciation	-	-	(14,248)	-	(14,248)
Translation differences	-	18	(499)	-	(481)
As at 31 December 2015	-	101,528	1,856,506	-	1,958,034
Net book value					
As at 31 December 2015	832,946	1,824,865	929,385	347,721	3,934,917
Cost or valuation					
At 1 January 2016	832,946	1,926,393	2,785,891	347,721	5,892,951
Additions	-	706	31,932	376,181	408,819
Transfer from construction in progress	579	139,317	538,982	(678,878)	-
Elimination of cost	-	(12)	(11,799)	-	(11,811)
Translation differences	-	(779)	356	-	(423)
As at 31 December 2016	833,525	2,065,625	3,345,362	45,024	6,289,536
Accumulated depreciation					
At 1 January 2016	-	101,528	1,856,506	-	1,958,034
Depreciation charge in 2016	-	57,796	216,946	-	274,742
Elimination of depreciation	-	(5)	(11,671)	-	(11,676)
Translation differences	-	(281)	387	-	106
As at 31 December 2016	-	159,038	2,062,168	-	2,221,206
Net book value					
As at 31 December 2016	833,525	1,906,587	1,283,194	45,024	4,068,330

Land and buildings were revaluated as at 31 December 2014 by an independent appraiser. The revaluation effect was credited to other reserves in shareholders' equity (Note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. INTANGIBLE ASSETS

	Trademarks and licenses	Software and Internally generated intangibles	Other assets	Construction in progress	Total
Cost or valuation					
At 1 January 2015	375,183	840,320	54,994	143,178	1,413,675
Additions	-	-	61	438,337	438,398
Transfer from construction in progress	9,456	476,636	15,044	(501,136)	-
Elimination of cost	-	-	(514)	(466)	(980)
Translation differences	(494)	(831)	288	1	(1,036)
As at 31 December 2015	384,145	1,316,125	69,873	79,914	1,850,057
Accumulated amortization					
At 1 January 2015	260,635	231,545	24,562	-	516,742
Depreciation charge	45,068	78,630	8,303	-	132,001
Elimination of depreciation	-	-	(514)	-	(514)
Translation differences	(93)	(425)	(212)	-	(730)
As at 31 December 2015	305,610	309,750	32,139	-	647,499
Net book value as at 31 December 2015	78,535	1,006,375	37,734	79,914	1,202,558
Cost or valuation					
At 1 January 2016	384,145	1,316,125	69,873	79,914	1,850,057
Additions	-	393	839	302,232	303,464
Transfer from construction in progress	4,003	284,560	2,919	(291,482)	-
Elimination of cost	(18,166)	-	-	(9)	(18,175)
Translation differences	(495)	1,314	820	(2)	1,637
As at 31 December 2016	369,487	1,602,392	74,451	90,653	2,136,983
Accumulated amortization					
At 1 January 2016	305,610	309,750	32,139	-	647,499
Depreciation charge	32,991	125,820	8,384	-	167,195
Elimination of depreciation	(18,166)	-	-	-	(18,166)
Translation differences	2	1,032	235	-	1,269
As at 31 December 2016	320,437	436,602	40,758	-	797,797
Net book value as at 31 December 2016	49,050	1,165,790	33,693	90,653	1,339,186

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS

Capital risk management

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

	<u>2016</u>	<u>2015</u>
Debt	507,609	353,738
Cash and cash equivalents	<u>(277,638)</u>	<u>(389,921)</u>
Net debt	<u>229,971</u>	<u>(36,183)</u>
Equity	<u>8,443,405</u>	<u>8,020,427</u>
Net debt to equity ratio	<u>2.72%</u>	<u>(0.45%)</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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
EUR	1,065,918	820,401	1,636,204	1,535,599
RUR	6,194	2,353	805,540	565,243
USD	263,583	185,663	58,384	68,420
CHF	72,232	44,818	8,594	6,009
Other currencies	90,028	77,056	634,985	548,080

The Group is mainly exposed to Euro and Rubble 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 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%	
	2016	2015	2016	2015
EUR	(57,028)	(71,520)	57,028	71,520
RUR	(79,935)	(56,289)	79,935	56,289
USD	20,520	11,724	(20,520)	(11,724)
CHF	6,364	3,881	(6,364)	(3,881)
Other currencies	(54,496)	(47,102)	54,496	47,102
Profit and loss and equity	(164,575)	(159,306)	164,575	159,306

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 an increase in profit and equity, and negative number below indicates a decrease.

	Increase of 10%		Decrease of 10%	
	2016	2015	2016	2015
Borrowings	1,120	1,535	(1,120)	(1,535)
Profit and loss and equity	(1,120)	(1,535)	1,120	1,535

If interest rates had been 10% higher the Group's profit for the year ended 31 December 2016 and retained earnings would decrease by Denar 1,120 thousands and opposite if interest rates had been 10% lower the Group's profit for the year ended 31 December 2016 and retained earnings would increase by Denar 1,120 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:

2016	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	703,285	437,173	183,078	9,267	1,333,161
Borrowings	225	-	439,764	67,620	507,609
	703,510	437,173	622,840	77,244	1,840,770
2015	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	580,727	351,188	151,511	10,270	1,093,696
Borrowings	-	1,649	327,034	25,055	353,738
	580,727	352,837	478,545	35,325	1,447,434

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

2016	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,234,792	841,714	148,206	-	2,224,712
Available-for-sale financial assets	-	-	-	4,649	4,649
Cash and cash equivalents	277,638	-	-	-	277,638
	1,512,430	841,714	148,206	4,649	2,506,999
2015	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,140,295	606,260	143,433	-	1,889,988
Available-for-sale financial assets	-	-	-	3,514	3,514
Cash and cash equivalents	389,921	-	-	-	389,921
	1,530,216	606,260	143,433	3,514	2,283,423

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

8. FINANCIAL INSTRUMENTS (Continued)

Taxation risks

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.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>2016</u>	<u>2015</u>
At 1 January	3,514	3,721
Additions	1,313	657
Disposals	(178)	(665)
Fair value adjustment	-	(199)
As at 31 December	<u>4,649</u>	<u>3,514</u>

Available-for-sale financial assets consist of:

	<u>2016</u>	<u>2015</u>
Available-for-sale financial assets in non-quoted companies	1,855	1,863
Available-for-sale financial assets in quoted companies	2,794	1,651
Available-for-sale financial assets in non-related parties	<u>4,649</u>	<u>3,514</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.

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>2016</u>	<u>2015</u>
Raw materials	871,534	741,745
Spare parts	602	519
Tools and consumable stores	1,678	5,333
Work in progress	276,809	248,386
Finished goods	861,135	674,797
Trading goods	381,430	357,979
	<u>2,393,188</u>	<u>2,028,759</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

11. TRADE RECEIVABLES

	<u>2016</u>	<u>2015</u>
Trade receivables	2,491,337	2,159,917
Less: Provision for impairment of receivables	<u>(266,625)</u>	<u>(269,929)</u>
Trade receivables – net	<u>2,224,712</u>	<u>1,889,988</u>

Changes in the provision are as follows:

	<u>2016</u>	<u>2015</u>
At 1 January	269,929	226,888
Provision for the year	16,724	60,779
Direct write off	(550)	(11,680)
Collected bad and doubtful debts	(23,304)	(2,339)
Translation differences	<u>3,826</u>	<u>(3,719)</u>
As at 31 December	<u>266,625</u>	<u>269,929</u>

	<u>2016</u>	<u>2015</u>
Up to 1 year	-	-
Over 1 year	<u>266,625</u>	<u>269,929</u>
At 31 December	<u>266,625</u>	<u>269,929</u>

12. OTHER CURRENT ASSETS

	<u>2016</u>	<u>2015</u>
Prepayments	56,766	46,478
Receivables from employees	60	214
Prepaid VAT	133,324	136,523
Other receivables	<u>75,576</u>	<u>88,426</u>
Less: non-current portion	<u>(8,728)</u>	<u>(3,091)</u>
	<u>256,998</u>	<u>268,550</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>2016</u>	<u>2015</u>
Other assets	<u>8,728</u>	<u>3,091</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

12. OTHER CURRENT ASSETS (Continued)

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

	<u>2016</u>	<u>2015</u>
	3.75%	3.25%

There is no concentration of credit risk with respect to trade receivables, as the Group 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>2016</u>	<u>2015</u>
Cash at banks	274,683	388,110
Cash in hands	1,123	1,337
Other	1,832	474
	<u>277,638</u>	<u>389,921</u>

14. SHARE CAPITAL

	<u>Number of shares</u>	<u>Ordinary shares</u>	<u>Treasury shares</u>	<u>Total</u>	<u>Share premiums</u>
At 1 January 2015	1,416,612	2,220,127	(23,032)	2,197,095	-
Purchase of treasury shares	-	-	-	-	-
As at 31 December 2015	<u>1,416,612</u>	<u>2,220,127</u>	<u>(23,032)</u>	<u>2,197,095</u>	<u>-</u>
Purchase of treasury shares	-	-	-	-	-
As at 31 December 2016	<u>1,416,612</u>	<u>2,220,127</u>	<u>(23,032)</u>	<u>2,197,095</u>	<u>-</u>

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

15. OTHER RESERVES

	<u>Transfer of reserves</u>	<u>Property, plant and equipment</u>	<u>Available for-sale investments</u>	<u>Fund for shares</u>	<u>Total</u>
At 1 January 2015	(9,604)	1,115,054	(1,136)	228,916	1,333,230
Increase	-	-	199	-	199
Translation differences	-	(13,566)	-	-	(13,566)
As at 31 December 2015	(9,604)	1,101,488	(937)	228,916	1,319,863
Increase	-	-	1,135	-	1,135
Translation differences	-	26,101	-	-	26,101
As at 31 December 2016	(9,604)	1,127,589	198	228,916	1,347,009

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.

16. BORROWINGS

	<u>2016</u>	<u>2015</u>
Non-current borrowings	67,620	25,055
Current borrowings	439,989	328,683
	<u>507,609</u>	<u>353,738</u>

Bank borrowings in amount of Denar 27,417 thousands are secured by the Property plant and equipment in net book value of Denar 75,433 thousands.

The maturity of the borrowings is as follows:

	<u>2016</u>	<u>2015</u>
Up to 1 year	439,989	328,683
Between 1 to 3 years	67,620	25,055
	<u>507,609</u>	<u>353,738</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

16. BORROWINGS (Continued)

The borrowings are denominated in following currencies:

	<u>2016</u>	<u>2015</u>
EUR	287,701	213,047
USD	39,973	-
MKD	179,368	139,824
Other	567	867
	<u>507,609</u>	<u>353,738</u>

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

	<u>31 December 2016</u>			<u>31 December 2015</u>		
	<u>EUR</u>	<u>USD</u>	<u>MKD</u>	<u>EUR</u>	<u>USD</u>	<u>MKD</u>
Interest rates	6 month EURIBOR +3,1 – 4,5%	3,1%	3,3– 6%	6 month EURIBOR +3,55 – 4,06%	-	4,2 – 6%

17. RETIREMENT BENEFIT OBLIGATIONS

	<u>2016</u>	<u>2015</u>
Retirement benefits	<u>26,885</u>	<u>25,898</u>

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

The amounts recognized in the Income statement are as follows:

	<u>2016</u>	<u>2015</u>
Beginning of the year	25,898	24,698
Increase in calculation	1,091	1,200
Decrease in calculation	(104)	-
At end of year	<u>26,885</u>	<u>25,898</u>

The principal actuarial assumptions used were as follows:

	<u>2016</u>	<u>2015</u>
Discount rate	<u>4.01%</u>	<u>4.04%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

18. DEFERRED TAX

	<u>2016</u>	<u>2015</u>
Deferred tax assets	(17,817)	(19,507)
Deferred tax liabilities	8	5
	<u>(17,809)</u>	<u>(19,502)</u>

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

	<u>2016</u>	<u>2015</u>
At 1 January	<u>(19,502)</u>	<u>(17,455)</u>
Net deferred tax in income statement	1,693	202
Realized deferred tax liabilities	-	(2,249)
As at 31 December	<u><u>(17,809)</u></u>	<u><u>(19,502)</u></u>

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

	<u>Accruals</u>	<u>Fair value</u>	<u>Total</u>
At 1 January 2015	<u>(17,455)</u>	<u>-</u>	<u>(17,455)</u>
Charged to Income statement	202	-	202
Realized deferred tax liabilities	(2,249)	-	(2,249)
As at 31 December 2015	<u>(19,502)</u>	<u>-</u>	<u>(19,502)</u>
Charged to Income statement	1,693	-	1,693
Realized deferred tax liabilities	-	-	-
As at 31 December 2016	<u>(17,809)</u>	<u>-</u>	<u>(17,809)</u>

19. TRADE AND OTHER PAYABLES

	<u>2016</u>	<u>2015</u>
Trade payables	1,333,161	1,093,696
Customers' prepayments	9,713	5,993
Payables to employees	94,000	80,456
Dividends	10,986	9,571
Other payables	144,565	131,073
	<u>1,592,425</u>	<u>1,320,789</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

20. PROVISION FOR OTHER LIABILITIES AND CHARGES

	<u>2016</u>	<u>2015</u>
Provision for retirement benefits	1,091	1,200
	<u>1,091</u>	<u>1,200</u>

21. OTHER INCOME

	<u>2016</u>	<u>2015</u>
Collected written-off receivables	23,304	612
Interest income	4,357	13,673
Foreign exchange transaction gains	174,025	258,103
Other income	98,937	111,825
	<u>300,623</u>	<u>384,213</u>

22. OTHER EXPENSES

	<u>2016</u>	<u>2015</u>
Interest expenses	153	301
Foreign exchange transaction loss	105,602	303,407
Other expenses	192,953	205,472
	<u>298,708</u>	<u>509,180</u>

23. EXPENSES BY NATURE

	<u>2016</u>	<u>2015</u>
Raw materials	2,207,867	1,932,501
Employee benefit expense	1,691,568	1,525,490
Depreciation and amortization	441,937	375,804
Energy	137,579	154,176
Impairment of trade receivables	16,724	60,779
Transportation	190,230	167,335
Changes in the inventories	(165,764)	5,462
Cost of trading goods	1,486,422	1,375,183
Other expenses	1,432,576	1,356,545
	<u>7,439,139</u>	<u>6,953,275</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

24. EMPLOYEE BENEFIT EXPENSE

	<u>2016</u>	<u>2015</u>
Gross salaries	1,462,425	1,327,333
Other employees benefits	229,143	198,157
	<u>1,691,568</u>	<u>1,525,490</u>
Number of employees as at 31 December	<u>1,725</u>	<u>1,610</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 recognize in Income statement:

Minimum operating leasing	<u>2016</u>	<u>2015</u>
	53,004	58,174
	<u>53,004</u>	<u>58,174</u>

Future non-cancellable obligations	<u>2016</u>	<u>2015</u>
Up to 1 year	40,613	36,248
Between 2 to 5 years	65,029	65,868
	<u>105,642</u>	<u>102,116</u>

26. FINANCE EXPENSES

	<u>2016</u>	<u>2015</u>
Net foreign exchange transaction gains/(losses) on borrowings	(1,208)	(110)
Interest expense on borrowings	(11,199)	(15,352)
	<u>(12,407)</u>	<u>(15,462)</u>

27. INCOME TAX

	<u>2016</u>	<u>2015</u>
Current income tax	108,702	99,245
Net deferred income tax (Note 18)	1,528	(202)
	<u>110,230</u>	<u>99,043</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

27. INCOME TAX (Continued)

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

	<u>2016</u>	<u>2015</u>
Profit before tax	842,048	765,510
Tax calculated at tax rate of 10%	84,205	76,551
Income not subject to tax	(72)	(2,949)
Expenses not deductible for tax purposes	61,087	60,108
Tax allowances	(34,990)	(34,398)
Net deferred income tax	-	(269)
Income tax	110,230	99,043

28. EARNINGS PER SHARE

	<u>2016</u>	<u>2015</u>
Basic earnings per share		
Profit attributable to shareholders (In Denar)	731,818,674	666,466,522
Average number of shares	1,416,612	1,416,612
Basic earnings per share (in Denar)	516.60	470.47

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 4 April 2016 were Denar 329,511 thousands. Approved dividends 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 6,779 thousands (2015: Denar 38,213 thousands).

31. CONTINGENCIES

The Group has contingent liabilities with respect to issued guaranties to third parties in the amount of Denar 150,426 thousands (2015: Denar 129,313 thousands).

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

32. RELATED PARTY TRANSACTIONS

The Group has no ultimate controlling party, the shares are widely held.

Key management compensations

No compensations were paid to the Management Board members. In 2016, the amount of Denar 4,207 thousands was paid to the Supervision Board members (2015: Denar 5,006 thousands).

33. EXCHANGE RATES OF PRINCIPAL CURRENCIES

Closing rates:

	<u>31.12.2016</u>	<u>31.12.2015</u>
EUR	61.48	61.59
RUR	0.96	0.91
USD	58.33	56.37
CHF	57.25	56.96