



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

<b>CONTENTS</b>	<b>Page</b>
INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF FINANCIAL POSITION	3
INCOME STATEMENT	4
STATEMENT OF COMPREHENSIVE INCOME	5
STATEMENT OF CHANGES IN EQUITY	6
CASH FLOW STATEMENT	7
NOTES TO THE FINANCIAL STATEMENTS	8
GENERAL INFORMATION	8
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	8
FINANCIAL RISK MANAGEMENT	22
ACCOUNTING ESTIMATES	23
SEGMENT REPORTING	24
PROPERTY, PLANT AND EQUIPMENT	26
INTANGIBLE ASSETS	27
FINANCIAL INSTRUMENTS	27
AVAILABLE-FOR-SALE FINANCIAL ASSETS	30
INVESTMENTS IN SUBSIDIARIES	31
INVENTORIES	31
TRADE RECEIVABLES	32
OTHER CURRENT ASSETS	32
CASH AND CASH EQUIVALENTS	33
SHARE CAPITAL	33
OTHER RESERVES	33
BORROWINGS	34
RETIREMENT BENEFIT OBLIGATIONS	34
DEFERRED TAX	35
TRADE AND OTHER PAYABLES	35
PROVISION FOR OTHER LIABILITIES AND CHARGES	36
OTHER INCOME	36
OTHER EXPENSE	36
EXPENSES BY NATURE	36
EMPLOYEE BENEFIT EXPENSE	36
FINANCE EXPENSES	37
INCOME TAX	37
EARNINGS PER SHARE	37
DIVIDENDS	37
COMMITMENTS	38
CONTINGENCIES	38
RELATED PARTY TRANSACTIONS	38
EXCHANGE RATES OF PRINCIPAL CURRENCIES	40

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD OF ALKALOID AD SKOPJE

We have audited the accompanying financial statements (page 3 to 40) of ALKALOID AD Skopje (the "Company"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and 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 Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 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 annual report and the Company's annual account 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 annual report with the annual account and the 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 Financial Statements. In our opinion, the historical financial information disclosed in the annual report is consistent with the annual account and the accompanying audited 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

(In thousands of Denar)

**STATEMENT OF FINANCIAL POSITION**

	Note	Year ended 31 December	
		2016	2015
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	3,979,777	3,841,306
Intangible assets	7	1,335,395	1,197,399
Deferred tax assets	19	17,817	17,817
Available-for-sale financial assets	9	4,649	3,514
Investments in subsidiaries	10	373,149	372,226
Other non-current assets	13	7,991	2,355
		<b>5,718,778</b>	<b>5,434,617</b>
<b>Current assets</b>			
Inventories	11	1,954,086	1,642,266
Trade receivables	12	2,065,705	1,810,300
Other current assets	13	173,083	197,994
Cash and cash equivalents	14	76,047	152,004
		<b>4,268,921</b>	<b>3,802,564</b>
<b>Total assets</b>		<b>9,987,699</b>	<b>9,237,181</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital	15	2,197,095	2,197,095
Legal reserves		596,146	596,146
Other reserves	16	1,121,649	1,120,514
Retained earnings		4,365,329	3,987,539
		<b>8,280,219</b>	<b>7,901,294</b>
<b>Non-current liabilities</b>			
Non-current borrowings	17	25,802	5,133
Retirement benefit obligations	18	26,729	25,638
		<b>52,531</b>	<b>30,771</b>
<b>Current liabilities</b>			
Trade and other payables	20	1,353,765	1,074,046
Income tax		13,130	7,898
Current borrowings	17	288,054	223,172
		<b>1,654,949</b>	<b>1,305,116</b>
<b>Total liabilities</b>		<b>1,707,480</b>	<b>1,335,887</b>
<b>Total equity and liabilities</b>		<b>9,987,699</b>	<b>9,237,181</b>

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

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

Approved by:

Zhivko Mukaetov  
General Manager

Viktor Stojcevski  
Finance Manager

(In thousands of Denar)

**INCOME STATEMENT**

	Notes	Year ended 31 December	
		2016	2015
Sales	5	6,418,581	6,017,938
Cost of sales	24	(3,785,049)	(3,410,893)
<b>Gross profit</b>		<b>2,633,532</b>	<b>2,607,045</b>
Research and development expenses	24	(71,498)	(58,942)
Selling and marketing expenses	24	(1,524,521)	(1,544,195)
Administrative expenses	24	(385,509)	(308,408)
Provision for other liabilities and charges	21	(1,091)	(1,041)
Other operating income	22	272,583	330,180
Other operating expense	23	(136,490)	(307,846)
<b>Operating profit</b>		<b>787,006</b>	<b>716,793</b>
Finance expenses (net)	26	(8,962)	(8,113)
<b>Profit before income tax</b>		<b>778,044</b>	<b>708,680</b>
Income tax	27	(73,774)	(63,026)
<b>Profit for the year</b>		<b>704,270</b>	<b>645,654</b>
<b>Earnings per share (in Denar)</b>			
- Basic	28	497.15	455.77

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

**STATEMENT OF COMPREHENSIVE INCOME**

	<b>Notes</b>	<b>Year ended 31 December</b>	
		<b>2016</b>	<b>2015</b>
<b>Profit for the year</b>		<b>704,270</b>	<b>645,654</b>
<b>Other comprehensive income:</b>			
Fair value of investments	16	1,135	199
<b>Other comprehensive income, net of tax</b>		<b>1,135</b>	<b>199</b>
<b>Total comprehensive income</b>		<b>705,405</b>	<b>645,853</b>

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

(In thousands of Denar)

**STATEMENT OF CHANGES IN EQUITY**

	Year ended 31 December					Total
	Share capital	Share premiums	Legal reserves	Other reserves	Retained earnings	
<b>As at 1 January 2015</b>	<b>2,197,095</b>	-	<b>596,146</b>	<b>1,120,315</b>	<b>3,640,491</b>	<b>7,554,047</b>
Fair value of investments (Note 9)	-	-	-	199	-	<b>199</b>
Dividends and tax of paid dividend (Note 29)	-	-	-	-	(298,606)	<b>(298,606)</b>
Profit for the year	-	-	-	-	645,654	<b>645,654</b>
<b>As at 31 December 2015</b>	<b>2,197,095</b>	-	<b>596,146</b>	<b>1,120,514</b>	<b>3,987,539</b>	<b>7,901,294</b>
Fair value of investments (Note 9)	-	-	-	1,135	-	<b>1,135</b>
Dividends and tax of paid dividend (Note 29)	-	-	-	-	(326,480)	<b>(326,480)</b>
Profit for the year	-	-	-	-	704,270	<b>704,270</b>
<b>As at 31 December 2016</b>	<b>2,197,095</b>	-	<b>596,146</b>	<b>1,121,649</b>	<b>4,365,329</b>	<b>8,280,219</b>

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

(In thousands of Denar)

**CASH FLOW STATEMENT**

	<b>Year ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flow from operating activities</b>		
Cash receipts from customers	6,212,690	6,377,624
Cash paid to suppliers and employees	(5,377,241)	(5,016,064)
<b>Cash generated from operations</b>	<b>835,449</b>	<b>1,361,560</b>
Interest paid	-	-
<b>Net cash generated from operating activities</b>	<b>835,449</b>	<b>1,361,560</b>
<b>Cash flow from investing activities</b>		
Purchases of property, plant and equipment	(608,927)	(774,817)
Investments in subsidiaries (Note 10)	(923)	(208,611)
Dividends received	63,601	58,702
Other payments to employees	(63,291)	(70,033)
Proceeds from loans granted to subsidiary undertakings	26,000	46,884
<b>Net cash used in investing activities</b>	<b>(583,540)</b>	<b>(947,875)</b>
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	1,031,923	1,388,681
Repayments of borrowings	(1,051,513)	(1,492,485)
Interest paid	(9,266)	(9,305)
Compensation to shareholders and tax of paid dividend and other allocation of profit	(299,010)	(273,494)
<b>Net cash used in financing activities</b>	<b>(327,866)</b>	<b>(386,603)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(75,957)</b>	<b>27,082</b>
Cash and cash equivalents at beginning of year	152,004	124,922
<b>Cash and cash equivalents at the end of year</b>	<b>76,047</b>	<b>152,004</b>

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

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

Alkaloid AD Skopje (the Company) produces and sells a wide range of pharmaceutical, chemical and cosmetic products, as well as goods from herbal origin. The Company has seventeen subsidiaries and one Foundation in the Republic of Macedonia and other countries. For the list of the subsidiaries refer to Note 10.

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 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 financial statements are set out below. These policies have been consistently applied to the year presented.

#### **2.1 Basis of preparation of 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 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 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 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 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.

In accordance with the afore 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 financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IAS and IFRS.

(In thousands of Denar)

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **2.1 Basis of preparation of Financial Statements (Continued)**

The financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder. In the preparation of the accompanying financial statements, the Company adhered to the accounting policies described in Note 3.

All amounts in the Company's 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 Interpretation in Issue, but not yet Translated and Adopted**

As of the 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);
- 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);

**(In thousands of Denar)**

## **NOTES TO THE 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 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);
- 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);

(In thousands of Denar)

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

- 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);
- 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),

(In thousands of Denar)

## **NOTES TO THE 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 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);
- 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 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),

**(In thousands of Denar)**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

- 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).

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 financial statements.

The presentation of the financial statements in accordance with the Trade Companies Law and the Rulebook for Accounting requires management to make best estimates and reasonable assumptions that affect the amounts presented in the financial statements. These estimations and assumptions are based on information available, as of the date of preparation of the financial statements. However, actual results may vary from these estimates. The management assessments are stated in Note 4.

(In thousands of Denar)

## NOTES TO THE 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.

#### 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Managing Board. The 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 has 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.

**(In thousands of Denar)**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **2.5 Segment reporting (Continued)**

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.

Net operating assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables less operating liabilities. Company net financial assets principally consist of 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 Foreign currency translation**

##### **Functional and presentation currency**

The stand-alone financial statements are presented in thousands of Macedonian Denar, which is the Company's functional and presentation currency. The amounts included in the financial statements are presented in thousands of Denar, unless otherwise stated.

##### **Transactions and balances**

Foreign currency transactions are translated into Macedonian Denar 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 monetary securities denominated in foreign currency classified as available-for-sale are recognized in equity.

#### **2.7 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 recognized in other comprehensive income, 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.

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.8 Property, plant and equipment (Continued)

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 other equipment	4 - 10 Years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 property, plant and equipment is eliminated from the statement of financial position together with the carrying amount of accumulated depreciation. Gains and losses on these disposals are included in the income statement.

#### 2.8 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.

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.8 Intangible assets (Continued)

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.

#### 2.9 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.

#### 2.10 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 balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the Statement of financial position (Note 2.12).

##### **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 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 Company 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, because the Company considers that cost approximates their fair value. Loans and receivables are carried at amortized cost using the effective interest method.

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.10 Financial assets (Continued)

##### Available-for-sale financial assets (Continued)

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, 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, the accumulated fair value adjustments recognized in equity are included in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company's right to receive payments is established.

The fair values of quoted investments are based on last traded prices on the Macedonian stock exchange. 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 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 income statement. Method for evaluation of impairment of trade receivables is explained in Note 2.12.

#### 2.11 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 estimated cost of completion and applicable variable selling expenses.

#### 2.12 Trade receivables

Trade receivables are recognized initially at fair value, 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'.

#### 2.13 Cash and cash equivalents

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

**(In thousands of Denar)**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **2.14 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.

#### **2.15 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 balance sheet date.

#### **2.16 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 at the rate of 10% calculated based on the profit as determined in the Statement of comprehensive income adjusted for certain tax deductible items as defined by the local tax legislation.

#### **Deferred tax**

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 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 except 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.

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.17 Employee benefits

##### Pension liabilities

The Company has an obligation to pay compensations to the employees which are classified as "Defined benefit" and "Defined contribution". The Company has both defined as:

- 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 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.

##### 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.

##### Profit-sharing and bonus plans

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

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 2.18 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.

#### 2.19 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 an 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.

#### 2.20 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.

(In thousands of Denar)

## NOTES TO THE 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. To manage the foreign exchange risk the Company provides enough cash in foreign currencies held in banks in order to maintain its future commercial transactions.

##### b) Price 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 increased 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 Company is the last traded price.

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 3. FINANCIAL RISK MANAGEMENT (Continued)

#### 3.2 Fair value estimation (Continued)

The fair value of financial instruments that are not traded in an active market is determined by makes assumptions that are based on public information for recent arm's length transactions or reference to other instruments that are substantially the same.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company 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.

### 4. ACCOUNTING ESTIMATES

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 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 property, plant and equipment 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.

#### **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.

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**5. SEGMENT REPORTING**

Segment information reported to the Management Board is based on goods and category of customers.

Principal categories of goods are pharmaceutical and non-pharmaceutical products (chemicals, cosmetics and botanicals). Principal categories of customers for the goods of the Company are wholesalers.

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

	<b>Segment revenue</b>		<b>Segment operating profit</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Pharmaceutical products	5,034,633	4,748,918	714,254	675,934
Chemical products	257,490	218,138	25,532	11,241
Cosmetic products	825,059	785,988	22,951	9,881
Botanical products	301,399	264,894	24,269	19,737
<b>Total</b>	<b>6,418,581</b>	<b>6,017,938</b>	<b>787,006</b>	<b>716,793</b>
Finance costs			(8,962)	(8,113)
<b>Profit before tax</b>			<b>778,044</b>	<b>708,680</b>
Income tax expense			(73,774)	(63,026)
<b>Profit for the year</b>			<b>704,270</b>	<b>645,654</b>

Revenue reported above represents revenue generated from external customers.

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

**Segment assets**

	<b>2016</b>	<b>2015</b>
Pharmaceutical products	7,989,235	7,746,504
Chemical products	222,694	39,676
Cosmetic products	1,194,833	974,433
Botanical products	580,937	476,568
<b>Total assets</b>	<b>9,987,699</b>	<b>9,237,181</b>

**Segment liabilities**

	<b>2016</b>	<b>2015</b>
Pharmaceutical products	1,341,790	1,088,354
Chemical products	87,329	62,931
Cosmetic products	179,065	141,043
Botanical products	99,296	43,559
<b>Total liabilities</b>	<b>1,707,480</b>	<b>1,335,887</b>

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

	<b>Depreciation and amortization</b>		<b>Addition to non-current assets</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Pharmaceutical products	374,100	312,655	584,201	936,670
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
<b>Total</b>	<b>421,743</b>	<b>353,303</b>	<b>698,310</b>	<b>972,701</b>

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**5. SEGMENT REPORTING (Continued)**

**Secondary reportable segments - Geographical information**

The Republic of Macedonia is the domicile country of the Company.

	<b>Sales revenue</b>		<b>Non-current assets</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Macedonia	2,509,795	2,394,855	5,315,172	5,038,705
Serbia	1,116,541	951,382	-	-
Bosnia and Herzegovina	752,467	789,721	-	-
Croatia	413,233	424,951	-	-
Other countries	1,626,545	1,457,029	-	-
<b>Total</b>	<b>6,418,581</b>	<b>6,017,938</b>	<b>5,315,172</b>	<b>5,038,705</b>

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

Non-current assets include property, plant and equipment 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 Chemical products, there is one major customer with participation of 27.5% (2015: 33.5%) in direct sales.

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

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

<b>Sales by category</b>	<b>2016</b>	<b>2015</b>
Sales of goods	5,203,102	5,046,145
Sales of commodities	1,119,183	908,598
Revenue from services	12,919	11,900
Other revenue	83,377	51,295
	<b>6,418,581</b>	<b>6,017,938</b>

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**6. PROPERTY, PLANT AND EQUIPMENT**

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Construction in progress</u>	<u>Total</u>
<b>Cost or valuation</b>					
<b>At 1 January 2015</b>	<b>798,411</b>	<b>1,851,707</b>	<b>2,508,442</b>	<b>15,186</b>	<b>5,173,746</b>
Additions	-	1,166	7,045	527,110	535,321
Transfer from construction in progress	34,535	20,063	140,147	(194,745)	-
Elimination of cost	-	-	(9,156)	-	(9,156)
<b>As at 31 December 2015</b>	<b>832,946</b>	<b>1,872,936</b>	<b>2,646,478</b>	<b>347,551</b>	<b>5,699,911</b>
<b>Accumulated depreciation</b>					
<b>At 1 January 2015</b>	-	<b>27,216</b>	<b>1,613,855</b>	-	<b>1,641,071</b>
Depreciation charge for 2015	-	53,069	173,453	-	226,522
Elimination of depreciation	-	-	(8,988)	-	(8,988)
<b>As at 31 December 2015</b>	-	<b>80,285</b>	<b>1,778,320</b>	-	<b>1,858,605</b>
<b>Net book value as at 31 December 2015</b>	<b>832,946</b>	<b>1,792,651</b>	<b>868,158</b>	<b>347,551</b>	<b>3,841,306</b>
<b>Cost or valuation</b>					
<b>At 1 January 2016</b>	<b>832,946</b>	<b>1,872,936</b>	<b>2,646,478</b>	<b>347,551</b>	<b>5,699,911</b>
Additions	-	-	21,559	374,201	395,760
Transfer from construction in progress	579	139,317	536,832	(676,728)	-
Elimination of cost	-	(12)	(7,918)	-	(7,930)
<b>As at 31 December 2016</b>	<b>833,525</b>	<b>2,012,241</b>	<b>3,196,951</b>	<b>45,024</b>	<b>6,087,741</b>
<b>Accumulated depreciation</b>					
<b>At 1 January 2016</b>	-	<b>80,285</b>	<b>1,778,320</b>	-	<b>1,858,605</b>
Depreciation charge for 2016	-	55,168	202,020	-	257,188
Elimination of depreciation	-	(4)	(7,825)	-	(7,829)
<b>As at 31 December 2016</b>	-	<b>135,449</b>	<b>1,972,515</b>	-	<b>2,107,964</b>
<b>Net book value as at 31 December 2016</b>	<b>833,525</b>	<b>1,876,792</b>	<b>1,224,436</b>	<b>45,024</b>	<b>3,979,777</b>

Land and buildings were revaluated as at 31 December 2014 by independent appraiser. The revaluation effect was credited to other reserves in shareholders' equity (Note 16).

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**7. INTANGIBLE ASSETS**

	Trademarks and licenses	Software and Internally generated intangibles	Other assets	Construction in progress	Total
<b>Cost or valuation</b>					
<b>At 1 January 2015</b>	<b>367,360</b>	<b>818,558</b>	<b>53,371</b>	<b>142,441</b>	<b>1,381,730</b>
Additions	-	-	-	437,381	437,381
Transfer from construction in progress	10,238	475,853	13,999	(500,090)	-
Elimination of cost	-	-	-	-	-
<b>As at 31 December 2015</b>	<b>377,598</b>	<b>1,294,411</b>	<b>67,370</b>	<b>79,732</b>	<b>1,819,111</b>
<b>Accumulated depreciation</b>					
<b>At 1 January 2015</b>	<b>259,858</b>	<b>216,416</b>	<b>18,656</b>	-	<b>494,930</b>
Depreciation charge for the year	45,410	74,555	6,817	-	126,782
Elimination of depreciation	-	-	-	-	-
<b>As at 31 December 2015</b>	<b>305,268</b>	<b>290,971</b>	<b>25,473</b>	-	<b>621,712</b>
<b>Net book value as at 31 December 2015</b>	<b>72,330</b>	<b>1,003,440</b>	<b>41,897</b>	<b>79,732</b>	<b>1,197,399</b>
<b>Cost or valuation</b>					
<b>At 1 January 2016</b>	<b>377,598</b>	<b>1,294,411</b>	<b>67,370</b>	<b>79,732</b>	<b>1,819,111</b>
Additions	-	394	205	301,951	302,550
Transfer from construction in progress	4,003	284,579	2,468	(291,050)	-
Elimination of cost	(18,165)	-	-	-	(18,165)
<b>As at 31 December 2016</b>	<b>363,436</b>	<b>1,579,384</b>	<b>70,043</b>	<b>90,633</b>	<b>2,103,496</b>
<b>Accumulated depreciation</b>					
<b>At 1 January 2016</b>	<b>305,268</b>	<b>290,971</b>	<b>25,473</b>	-	<b>621,712</b>
Depreciation charge	32,853	124,267	7,435	-	164,555
Elimination of depreciation	(18,166)	-	-	-	(18,166)
<b>As at 31 December 2016</b>	<b>319,955</b>	<b>415,238</b>	<b>32,908</b>	-	<b>768,101</b>
<b>Net book value as at 31 December 2016</b>	<b>43,481</b>	<b>1,164,146</b>	<b>37,135</b>	<b>90,633</b>	<b>1,335,395</b>

The net book value of software is Denar 45,212 thousand (2015: Denar 52,105 thousand), and the rest of the amount is internally generated intangibles.

**8. FINANCIAL INSTRUMENTS**

**Capital risk management**

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

	<b>2016</b>	<b>2015</b>
Debt	313,856	228,305
Cash and cash equivalents	(76,047)	(152,004)
Net debt	237,809	76,301
Equity	8,280,219	7,901,294
Net debt to equity ratio	2.87%	0.97%

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

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**8. FINANCIAL INSTRUMENTS (Continued)**

**Categories of financial instruments and risk management objectives**

The Company'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 Company is exposed to the following risks:

**Foreign currency risk**

The Company 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 Company 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 Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	<b>Liabilities</b>		<b>Assets</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
EUR	612,438	518,962	1,355,628	1,276,956
RUR	-	-	471,024	332,777
USD	233,333	140,956	58,262	66,397
CHF	71,215	44,082	6,012	168
Other currencies	361	252	2,183	1,493

The Company is mainly exposed to Euro and Russian Ruble currency.

The following table details the Company'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.

	<b>Increase of 10% in MKD</b>		<b>Decrease of 10% in MKD</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
EUR	(74,328)	(75,799)	74,328	75,799
RUR	(47,102)	(33,278)	47,102	33,278
USD	17,507	7,456	(17,507)	(7,456)
CHF	6,520	4,391	(6,520)	(4,391)
Other currencies	(182)	(124)	182	124
<b>Profit and loss and equity</b>	<b>(97,585)</b>	<b>(97,354)</b>	<b>97,585</b>	<b>97,354</b>

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

**Interest rate risk**

The Company is exposed to interest risk arising from variable interest rate on borrowings.

The sensitivity analyses below have been determinate 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.

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**8. FINANCIAL INSTRUMENTS (Continued)**

**Interest rate (Continued)**

	Increase of 10%		Decrease of 10%	
	2016	2015	2016	2015
Borrowings	775	800	(775)	(800)
<b>Profit and loss and equity</b>	<b>(775)</b>	<b>(800)</b>	<b>775</b>	<b>800</b>

If interest rates had been 10% higher the Company's profit for the year ended 31 December 2016 and retained earnings would decrease by Denar 775 thousands and opposite, if interest rates had been 10% lower the Company's profit for the year ended 31 December 2016 and retained earnings would increase by Denar 775 thousands.

**Liquidity risk**

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

The following tables detail the Company's remaining contractual maturity for its financial liabilities.

	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
<b>31 December 2016</b>					
Trade payables	776,870	314,808	82,475	9,627	<b>1,183,780</b>
Borrowings	-	-	288,054	25,802	<b>313,856</b>
	<b>776,870</b>	<b>314,808</b>	<b>370,529</b>	<b>35,429</b>	<b>1,497,636</b>
<b>31 December 2015</b>					
Trade payables	576,219	249,412	79,352	10,270	<b>915,253</b>
Borrowings	-	1,649	221,253	5,133	<b>228,305</b>
	<b>576,219</b>	<b>251,061</b>	<b>300,875</b>	<b>15,403</b>	<b>1,143,558</b>

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

	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
<b>31 December 2016</b>					
Trade receivables	562,689	744,472	758,544	-	2,065,705
Available-for-sale financial assets	-	-	-	4,649	4,649
Cash and cash equivalents	76,047	-	-	-	76,047
	<b>638,736</b>	<b>744,472</b>	<b>758,544</b>	<b>4,649</b>	<b>2,146,401</b>

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**8. FINANCIAL INSTRUMENTS (Continued)**

**Liquidity risk (Continued)**

<b>31 December 2015</b>	<b>Less than 1 month</b>	<b>1 - 3 months</b>	<b>3 - 12 months</b>	<b>12 - 60 months</b>	<b>Total</b>
Trade receivables	699,485	556,331	554,484	-	1,810,300
Available-for-sale financial assets	-	-	-	3,514	3,514
Cash and cash equivalents	152,004	-	-	-	152,004
	<b>851,489</b>	<b>556,331</b>	<b>554,484</b>	<b>3,514</b>	<b>1,965,818</b>

**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 Company may be assessed additional taxes, penalties and interest, which can be significant. The period that remains open for review by the tax and customs authorities with respect to tax liabilities is five years.

**9. AVAILABLE-FOR-SALE FINANCIAL ASSETS**

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

**Available-for-sale financial assets consist of:**

	<b>2016</b>	<b>2015</b>
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
	<b>4,649</b>	<b>3,514</b>

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 are presented by market value. The unlisted shares that are not traded in an active market are stated at cost, because the Company considers that cost approximates their fair value.

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**10. INVESTMENTS IN SUBSIDIARIES**

	<u>2016</u>	<u>2015</u>
Alkaloid DOO Beograd, Serbia	62,566	62,566
Alkaloid DOO Zagreb, Croatia	15,439	15,439
Alkaloid INT DOO Ljubljana, Slovenia	866	866
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	39	39
Alkaloid EOOD Sofia, Bulgaria	2,748	2,748
ALK&KOS Shpk Prishtina, Kosovo	307	307
Alkaloidpharm SA Fribourg, Switzerland	4,285	4,285
Alkaloid USA LLC Columbus, Ohio USA	3,873	3,873
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	308	308
Alkaloid Kons DOOEL Skopje, Macedonia	130,154	130,154
Fund "Trajce Mukaetov" Skopje, Macedonia	3,000	3,000
Alkaloid DOO Podgorica, Montenegro	-	-
OOO Alkaloid RUS, Moscow, Russia	119,359	119,359
Alkaloid FARM DOO Ljubljana, Slovenia	461	461
Alkaloid Veleadrogerija DOO Beograd, Serbia	7,720	7,720
Alkaloid ILAC TLS Istanbul, Turkey	2,616	2,616
ALKA-LAB DOO Ljubljana, Slovenia	18,485	18,485
Alkaloid Kiev CO. LTD., Ukraine	308	-
Alkaloid Shpk Tirana, Albania	615	-
	<u><b>373,149</b></u>	<u><b>372,226</b></u>

All subsidiaries are 100% owned by the Company, except investment in Alkaloid USA with the equity share of 49%. Although the investment of Alkaloid AD Skopje in Alkaloid USA LLC Columbus, Ohio USA is 49%, the Company exercises control. During 2016, Alkaloid AD Skopje established a new subsidiary in Tirana, Albania, and a new subsidiary in Kiev, Ukraine.

In 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.

**11. INVENTORIES**

	<u>2016</u>	<u>2015</u>
Raw materials	864,740	737,990
Spare parts	602	519
Tools and consumable stores	1,598	1,613
Work in progress	276,808	248,386
Finished goods	581,326	478,633
Commodities	229,012	175,125
	<u><b>1,954,086</b></u>	<u><b>1,642,266</b></u>

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**12. TRADE RECEIVABLES**

<b>Trade receivables:</b>	<u>2016</u>	<u>2015</u>
Trade receivables	2,243,904	1,988,474
Less: provision for impairment of receivables	(178,199)	(178,174)
<b>Trade receivables - net</b>	<u><b>2,065,705</b></u>	<u><b>1,810,300</b></u>

Changes in the provision are as follows:

	<u>2016</u>	<u>2015</u>
<b>At beginning of year</b>	<u><b>178,174</b></u>	<u><b>169,829</b></u>
Provision for the year	1,189	10,077
Direct write off	(440)	-
Collected bad and doubtful debts	(724)	(1,732)
<b>At end of year</b>	<u><b>178,199</b></u>	<u><b>178,174</b></u>
	<u>2016</u>	<u>2015</u>
Up to 1 year	-	-
Over 1 year	178,199	178,174
<b>As at 31 December</b>	<u><b>178,199</b></u>	<u><b>178,174</b></u>

**13. OTHER CURRENT ASSETS**

	<u>2016</u>	<u>2015</u>
Prepayments	27,871	23,470
Prepaid taxes	110,022	119,240
Other receivables	43,181	57,639
Less: non-current portion	(7,991)	(2,355)
	<u><b>173,083</b></u>	<u><b>197,994</b></u>

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

The fair value of non-current trade and other receivables are as follows:

	<u>2016</u>	<u>2015</u>
Non-current receivables	<u>7,991</u>	<u>2,355</u>

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

	<u>2016</u>	<u>2015</u>
The effective interest rate	<u>3.75%</u>	<u>3.25%</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.

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**14. CASH AND CASH EQUIVALENTS**

	<u>2016</u>	<u>2015</u>
Cash at banks	75,488	151,484
Cash in hands	559	520
	<u>76,047</u>	<u>152,004</u>

**15. SHARE CAPITAL**

	<u>Number of shares</u>	<u>Ordinary shares</u>	<u>Treasury shares</u>	<u>Total</u>	<u>Share premiums</u>
<b>As at 1 January 2015</b>	<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	-	-	-	-	-
<b>As at 31 December 2015</b>	<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	-	-	-	-	-
<b>As at 31 December 2016</b>	<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.

**16. OTHER RESERVES**

	<u>Property, plant and equipment</u>	<u>Available- for-sale investments</u>	<u>Fund for shares</u>	<u>Total</u>
<b>At 1 January 2015</b>	<u>892,535</u>	<u>(1,136)</u>	<u>228,916</u>	<u>1,120,315</u>
Increase	-	199	-	199
<b>As at 31 December 2015</b>	<u>892,535</u>	<u>(937)</u>	<u>228,916</u>	<u>1,120,514</u>
Increase	-	1,135	-	1,135
<b>As at 31 December 2016</b>	<u>892,535</u>	<u>198</u>	<u>228,916</u>	<u>1,121,649</u>

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 Reserve for Available-for-sale investments is 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 Shareholder assembly and are distributable to shareholders if not utilized.

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**17. BORROWINGS**

	<u>2016</u>	<u>2015</u>
Non-current borrowings	25,802	5,133
Current borrowings	288,054	223,172
	<u><b>313,856</b></u>	<u><b>228,305</b></u>

The maturity of the borrowings is as follows:

	<u>2016</u>	<u>2015</u>
Up to 1 year	288,054	223,172
Between 1 to 3 years	25,802	5,133
	<u><b>313,856</b></u>	<u><b>228,305</b></u>

The borrowings are denominated in following currencies:

	<u>2016</u>	<u>2015</u>
EUR	121,931	128,480
USD	39,973	-
MKD	151,952	99,825
	<u><b>313,856</b></u>	<u><b>228,305</b></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>
	6 month EURIBOR			6 month EURIBOR		
Interest rates	+3,1 – 4,5%	3,1%	3,3– 6%	+3,55 – 4,06%	-	4,2 – 6%

**18. RETIREMENT BENEFIT OBLIGATIONS**

	<u>2016</u>	<u>2015</u>
Retirement benefits	26,729	25,638

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

The amounts recognized in the Income statement are as follows:

	<u>2016</u>	<u>2015</u>
<b>As at 1 January</b>	<b>25,638</b>	<b>24,598</b>
Increase in calculation	1,091	1,041
Decrease in calculation	-	(1)
<b>As at 31 December</b>	<u><b>26,729</b></u>	<u><b>25,638</b></u>

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**18. RETIREMENT BENEFIT OBLIGATIONS (Continued)**

The principal actuarial assumptions used were as follows:

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

**19. DEFERRED TAX**

	<u>2016</u>	<u>2015</u>
Deferred tax assets	(17,817)	(17,817)
	<u>(17,817)</u>	<u>(17,817)</u>

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

	<u>2016</u>	<u>2015</u>
<b>At 1 January</b>	<b>(17,817)</b>	<b>(17,548)</b>
Deferred tax in Income statement	-	(269)
<b>As at 31 December</b>	<b>(17,817)</b>	<b>(17,817)</b>

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

	<u>Accruals</u>	<u>Fair value</u>	<u>Total</u>
<b>At 1 January 2015</b>	<b>(17,548)</b>	-	<b>(17,548)</b>
Charged to Income statement	(269)	-	(269)
Realized deferred tax liabilities	-	-	-
<b>As at 31 December 2015</b>	<b>(17,817)</b>	-	<b>(17,817)</b>
Charged to Income statement	-	-	-
Realized deferred tax liabilities	-	-	-
<b>As at 31 December 2016</b>	<b>(17,817)</b>	-	<b>(17,817)</b>

**20. TRADE AND OTHER PAYABLES**

	<u>2016</u>	<u>2015</u>
Trade payables	1,183,780	915,253
Customer's prepayments	2,024	2,490
Payables to employees	56,777	52,665
Dividends	10,986	9,571
Other payables	100,198	94,067
	<u>1,353,765</u>	<u>1,074,046</u>

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**21. PROVISION FOR OTHER LIABILITIES AND CHARGES**

	<u>2016</u>	<u>2015</u>
Provision for retirement benefits	1,091	1,041
	<u><b>1,091</b></u>	<u><b>1,041</b></u>

**22. OTHER INCOME**

	<u>2016</u>	<u>2015</u>
Collected written-off receivables	724	6
Dividends income	63,601	58,702
Interest income	481	2,247
Foreign exchange transaction gains	148,171	191,480
Other income	59,606	77,745
	<u><b>272,583</b></u>	<u><b>330,180</b></u>

**23. OTHER EXPENSE**

	<u>2016</u>	<u>2015</u>
Interest expenses	2	61
Foreign exchange transaction loss	72,689	234,694
Write-off of non-current assets	7,130	108
Write-off of inventories	36,772	48,058
Other expenses	19,897	24,925
	<u><b>136,490</b></u>	<u><b>307,846</b></u>

**24. EXPENSES BY NATURE**

	<u>2016</u>	<u>2015</u>
Raw materials	2,054,164	1,735,403
Employee benefit expense	1,192,317	1,081,048
Depreciation and amortization	421,743	353,303
Utilities	113,694	130,635
Impairment of trade receivables	1,189	10,077
Transportation	173,905	149,327
Changes in the inventories	(186,512)	(2,086)
Other expenses	1,996,077	1,864,731
	<u><b>5,766,577</b></u>	<u><b>5,322,438</b></u>

**25. EMPLOYEE BENEFIT EXPENSE**

	<u>2016</u>	<u>2015</u>
Gross salaries	998,026	914,318
Other employees benefits	194,291	166,730
	<u><b>1,192,317</b></u>	<u><b>1,081,048</b></u>

Number of employees at 31 December	<u><b>1,359</b></u>	<u><b>1,265</b></u>
------------------------------------	---------------------	---------------------

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**26. FINANCE EXPENSES**

	<u>2016</u>	<u>2015</u>
Net foreign exchange transaction (losses)/gains on borrowings	(1,207)	(110)
Interest expense on borrowings	(7,755)	(8,003)
	<u><b>(8,962)</b></u>	<u><b>(8,113)</b></u>

**27. INCOME TAX**

	<u>2016</u>	<u>2015</u>
Current income tax	73,774	63,295
Deferred income tax (Note 19)	-	(269)
	<u><b>73,774</b></u>	<u><b>63,026</b></u>

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>
<b>Profit before tax</b>	<u><b>778,044</b></u>	<u><b>708,680</b></u>
Tax calculated at tax rate of 10%	77,804	70,868
Income not subject to tax	(72)	(2,949)
Tax on expenses not deductible for tax purposes	31,032	29,774
Tax allowances	(34,990)	(34,398)
Deferred tax in income statement	-	(269)
<b>Income tax</b>	<u><b>73,774</b></u>	<u><b>63,026</b></u>

**28. EARNINGS PER SHARE**

	<u>2016</u>	<u>2015</u>
<b>Basic earnings per share</b>		
Profit attributable to shareholders (in Denar)	704,269,882	645,653,544
Number of shares	1,416,612	1,416,612
<b>Basic earnings per share (in Denar)</b>	<u><b>497.15</b></u>	<u><b>455.77</b></u>

**29. DIVIDENDS**

The Company 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 329,211 thousands. Approved dividends are paid and retained earnings are appropriately decreased.

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**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 Company has contingent liabilities with respect to issued guaranties to third parties in the amount of Denar 41,920 thousands (2015: Denar 37,007 thousands).

**32. RELATED PARTY TRANSACTIONS**

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

Alkaloid AD Skopje has investments in subsidiaries stated in Note 10 above. Sales and purchases of goods and services between related parties are based on regular market terms and prices.

The transactions with the related parties are stated below:

**Sale of goods and services**

	<b>2016</b>	<b>2015</b>
Alkaloid DOO Belgrade, Serbia	120,537	151,690
Alkaloid INT DOO Ljubljana, Slovenia	746,080	693,917
Alkaloid EOOD Sofia, Bulgaria	-	254
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	232,717	246,046
Alkaloidpharm SA Fribourg, Switzerland	184	434
Alkaloid Kons DOOEL Skopje, Macedonia	160,844	143,054
OOO Alkaloid RUS, Moscow, Russia	267,001	254,192
Alkaloid DOO Ljubljana FARM, Slovenia	-	113
Alkaloid Veleđrogerija DOO Beograd, Serbia	675,278	507,032
Alkaloid ILAC TLS Istanbul, Turkey	4,905	1,131
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	7,253	6,430
	<b>2,214,799</b>	<b>2,004,293</b>

**Purchase of goods and services**

	<b>2016</b>	<b>2015</b>
Alkaloid DOO Belgrade, Serbia	11,391	10,968
Alkaloid DOO Zagreb, Croatia	13,217	14,183
Alkaloid DOO Ljubljana INT, Slovenia	22,770	13,613
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	69,497	34,925
Alkaloid EOOD Sofia, Bulgaria	94,587	94,346
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	34,593	43,483
Alkaloidpharm SA Fribourg, Switzerland	180,267	321,342
Alkaloid Kons DOOEL Skopje, Macedonia	2,084	2,267
Alkaloid DOO Podgorica, Montenegro	34,093	33,762
Fund "Trajce Mukaetov" Skopje, Macedonia	9,906	10,261
OOO Alkaloid RUS, Moscow, Russia	66,596	62,042
Alkaloid ILAC TLS Istanbul, Turkey	10,472	9,188
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	2,550	2,560
Alkaloid Shpk Tirana, Albania	1,967	-
	<b>553,990</b>	<b>652,940</b>

(In thousands of Denar)

**NOTES TO THE FINANCIAL STATEMENTS**

**32. RELATED PARTY TRANSACTIONS (Continued)**

Balances and transactions between the Company and its subsidiaries arising from the sales and purchases of goods and services, advances and other transactions are presented below:

**Accounts receivables**

	<u>2016</u>	<u>2015</u>
Alkaloid DOO Belgrade, Serbia	74,690	63,815
Alkaloid DOO Ljubljana INT, Slovenia	266,279	306,174
Alkaloid EOOD Sofia, Bulgaria	253	254
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	85,811	83,112
Alkaloidpharm SA Fribourg, Switzerland	3	51
Alkaloid Kons DOOEL Skopje, Macedonia	56,878	50,425
OOO Alkaloid RUS, Moscow, Russia	346,287	213,688
Alkaloid DOO Ljubljana FARM, Slovenia	-	114
Alkaloid Veleddrogerija DOO Beograd, Serbia	337,442	299,213
Alkaloid ILAC TLS Istanbul, Turkey	3,743	1,132
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	3,033	2,134
ALKA-LAB DOO Ljubljana, Slovenia	2,041	-
	<u><b>1,176,460</b></u>	<u><b>1,020,112</b></u>

**Accounts payables**

	<u>2016</u>	<u>2015</u>
Alkaloid DOO Belgrade, Serbia	156	1
Alkaloid DOO Zagreb, Croatia	1,564	1,529
Alkaloid DOO Ljubljana INT, Slovenia	32,186	16,127
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	10,718	7,595
Alkaloid EOOD Sofia, Bulgaria	27,345	18,600
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	4,313	5,651
Alkaloidpharm SA Fribourg, Switzerland	154,241	161,781
Alkaloid Kons DOOEL Skopje, Macedonia	544	556
Alkaloid DOO Podgorica, Montenegro	2,773	3,264
Alkaloid DOO Ljubljana FARM, Slovenia	-	-
Alkaloid ILAC TLS Istanbul, Turkey	-	773
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	826	826
Alkaloid Shpk Tirana, Albania	123	-
	<u><b>234,789</b></u>	<u><b>216,703</b></u>

**Short-term loans**

	<u>2016</u>	<u>2015</u>
Alkaloid DOO Belgrade, Serbia	1,928	1,932
Alkaloid Kons DOOEL Skopje, Macedonia	-	465
	<u><b>1,928</b></u>	<u><b>2,397</b></u>

**Key management compensations**

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

**NOTES TO THE FINANCIAL STATEMENTS**

**33. EXCHANGE RATES OF PRINCIPAL CURRENCIES**

Closing rates:

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