



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

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

FOR THE PERIOD JANUARY - DECEMBER 2014

February 2015

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1. General information

Alkaloid AD Skopje, the Parent Company is a joint stock company, established and with head office in the Republic of Macedonia. The registered address of the Company is:
Aleksandar Makedonski 12 1000 Skopje, Republic of Macedonia.

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

Major business activity: Alkaloid AD Skopje produces and sells wide range of pharmaceutical, chemical and cosmetic products, as well as goods from herbal origin. According to the Trade Registry, Alkaloid AD Skopje can perform wholesale operations and foreign trading with food and non food products.

The main scope is production of pharmaceutical products.

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

Alkaloid AD Skopje is comprised of sixteen subsidiaries and one foundation in Republic of Macedonia and abroad. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Company's Annual consolidated report on the performance has been prepared in accordance with the Trade Company Law ("Official Gazette of the Republic of Macedonia" no. 28/04, 84/05, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10, 8/11, 21/11, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14) and the Rulebook for accounting ("Official Gazette of RM" no.159/09, 164/10 and 107/11). The consolidated report is prepared in accordance with the concept of purchase price, excluding the land property, construction buildings and available-for-sale financial assets, which are presented by their market value.

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

2. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The financial risk management is preformed by the Group's financial department, based on Decisions from Managing board.

Market risk

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

To manage the foreign exchange risk the Group provides enough cash in foreign currencies held in banks in order to maintain its future commercial transactions.

b) Price risk

The Group is exposed to equity securities price risk because of available-for-sale investments held by the Group. The Group is not exposed to commodity price risk.

Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Trade receivables consist of large number of balances. The Group has policies that limit the amount of credit exposure.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Interest risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flow are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. The Group has no specific policy, but in direct negotiation with lenders attempts to reduce interest rate risk. Interest rates of long-term borrowings are significantly lower than short term. Interest rates on short term borrowings are decreased in respect of previous year.

Fair value estimation

The fair value of available-for-sale financial assets traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the last traded price.

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

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3. Additions to non-current assets

Additions to non-current assets include additions to property, plant and equipment and Intangibles.

Additions to non-current assets - segment reporting

Segments	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Pharmacy	442.779	93	374.441	81	118
Chemistry Cosmetics Botanicals	34.400	7	87.169	19	39
Total:	477.179	100	461.610	100	103

4. Dividends

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

The dividends for 2013 approved by shareholders on 7 April 2014 were Denar 286,271 thousands. Tax of paid dividend was amounting Denar 31,808 thousands. Approved dividends are paid and retained earnings are appropriately decreased.

5. Borrowings

Borrowings	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Non-current	50.025	10	55.204	9	91
Current	465.178	90	564.238	91	82
Total:	515.203	100	619.442	100	83

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Up to 1 year	465.178	90	564.238	91	82
Between 1 to 3 years	50.025	10	55.204	9	91
Total:	515.203	100	619.442	100	83

6. Major Transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2014.

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

7. Related party transactions

The consolidated annual report on the performance includes the financial results of the parent Company and the following subsidiaries:

Subsidiary	2014	2013
	% of ownership	% of ownership
Alkaloid DOO Zagreb, Croatia	100%	100%
Alkaloid DOO Beograd, Serbia	100%	100%
Alkaloid INT DOO Ljubljana, Slovenia	100%	100%
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	100%	100%
Alkaloidfarm SA Fribourg, Switzerland	100%	100%
Alkaloid EOOD Sofia, Bulgaria	100%	100%
ALK&KOS Shpk Prishtina, Kosovo	100%	100%
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	100%	-
Alkaloid Kons DOOEL Skopje, Macedonia	100%	100%
Alkaloid USA LLC Columbus, Ohio US	49%	49%
Fund "Trajce Mukaetov" Skopje, Macedonia	100%	100%
Alkaloid DOO Podgorica, Montenegro	100%	100%
OOO Alkaloid RUS, Moscow, Russia	100%	100%
Alkaloid FARM DOO Ljubljana, Slovenia	100%	100%
Alkaloid Veledrogerija DOO Beograd, Serbia	100%	100%
Alkaloid ILAC TLS Istanbul, Turkey	100%	100%
ALKA-LAB DOO Ljubljana, Slovenia	100%	-

All subsidiaries are 100% owned by the Company, except the investment in Alkaloid USA with equity share of 49%.

Even though the investment in Alkaloid USA LLC Columbus, Ohio USA is the equity share of 49%, the Company exercises control.

During 2013 Alkaloid AD Skopje established a new subsidiary in Turkey, Alkaloid ILAC TLS Istanbul. During 2014, Alkaloid AD Skopje established a new subsidiary in Slovenia, ALKA-LAB DOO Ljubljana.

Alkaloid's representative offices in Russia, Ukraine, Bosnia and Herzegovina and Albania are included in the financial statements of the Company.

8. Share capital

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
At 1 January 2013	1.421.933	2.220.127	-14.779	2.205.348	-1.127
Transfer of reserves	-	-	-	-	1.127
At 31 December 2013	1.421.933	2.220.127	-14.779	2.205.348	-
Purchase of treasury shares	-5.321	-	-8.253	-8.253	-
At 31 December 2014	1.416.612	2.220.127	-23.032	2.197.095	-

The total authorized number of ordinary shares is 1,431,353 with a par value of EUR 25.56 (Denar 1,551) per share. All issued shares are fully paid.

During 2012 the Entity acquired 5,321 of its own shares through Macedonian stock exchange and held as treasury shares. The total number of treasury shares is 14,741. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares acquired from the right to dividend payments.

Earning per share

	(In MKD)		
	2014	2013	IND
	Amount	Amount	14/13
Profit attributable to shareholders (in denars)	618.454.482	600.426.217	103
Number of shares	1.416.612	1.421.933	100
Basic earning per share (in denars):	436,57	422,26	103

9. Key management compensations

No compensations were paid to the Management Board members in 2014 and 2013.

In 2014, the amount of Denar 4,208 thousands were paid to the Supervision Board members (2013: Denar 4,206 thousands).

Consolidated production in tons

Segment	(In tons)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Pharmacy	852	9	852	10	100
Chemistry Cosmetics Botanicals	8.223	91	7.922	90	104
Total:	9.075	100	8.774	100	103

The total amount produced for 2014 is 9,075 tons, which compared to last years' production amount of 8,774 tons has increased for 3%.

Total consolidated sales

Market	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Domestic market	3.175.437	43	3.122.867	44	102
Foreign market	4.222.399	57	3.974.732	56	106
Total:	7.397.836	100	7.097.599	100	104

The total sales revenues for 2014 are 7,397,836 which compared to last years' 7,097,599 have increased for 4%. The growth in total sales revenues is a result of the increase of sales revenues on domestic market for 2% and foreign market for 6%.

The largest portion of total sales revenues of 57%, is generated on foreign markets.

Total consolidated sales - segment reporting

Segment	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Pharmacy	6.263.886	85	5.966.410	84	105
Chemistry Cosmetics Botanicals	1.133.950	15	1.131.189	16	100
Total:	7.397.836	100	7.097.599	100	104

The largest portion in total sales revenues is generated on the Pharmacy segment with 6,263,886 thousand denars or 85%, which compared to last years' 5,966,410 thousand denars indicates an increase of 5%.

Consolidated domestic market sales - segment reporting

Segment	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Pharmacy	2.588.029	82	2.562.607	82	101
Chemistry Cosmetics Botanicals	587.408	18	560.260	18	105
Total:	3.175.437	100	3.122.867	100	102

Total sales revenues on domestic market are 3,175,437 thousand denars, which compared to last years' 3,122,867 thousand denars have increased for 2%.

The largest portion in total sales revenues on domestic market is generated on the Pharmacy segment with 2,588,029 thousand denars or 82%.

Consolidated foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Pharmacy	3.675.857	87	3.403.803	86	108
Chemistry Cosmetics Botanicals	546.542	13	570.929	14	96
Total:	4.222.399	100	3.974.732	100	106

Total sales on foreign market are 4,222,399 thousand denars, which compared to last years' 3,974,732 thousand denars have increased for 6%.

The largest portion of the foreign market sales of 3,675,857 or 87% is generated on the Pharmacy segment.

Consolidated foreign market sales by regions / countries

Region / country	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
South Eastern Europe	2.504.760	59	2.284.821	57	110
Albania	104.104	2	64.516	2	161
Bosnia and Herzegovina	699.441	17	646.005	18	108
Kosovo	308.915	7	308.122	8	100
Serbia	1.215.649	29	1.083.600	27	112
Monte Negro	176.651	4	182.578	5	97
Russia and CIS	380.331	9	360.100	9	106
Russia	343.182	8	313.709	8	109
Armenia	7.681	-	5.167	-	149
Georgia	1.579	-	1.003	-	157
Ukraine	27.594	1	40.221	1	69
Turkmenistan	295	-	-	-	-
Western Europe (EU and EFTA)	1.242.519	29	1.258.787	32	99
Bulgaria	205.351	5	186.958	5	110
Croatia	659.575	16	711.398	18	93
Germany	61.513	1	97.852	2	63
Romania	54.792	1	27.810	-	197
Hungary	328	-	-	-	-
Czech	9.357	-	5.960	-	157
Slovakia	12.454	-	28	-	-
Slovenia	215.385	5	228.352	6	94
Spain	23.171	1	-	-	-
Switzerland	285	-	429	-	66
Lithuania	308	-	-	-	-
Other countries	94.789	2	71.024	2	133
USA	80.644	2	53.584	1	151
Turkey	8.598	-	12.565	-	68
Other countries	5.547	-	4.875	-	114
Total:	4.222.399	100	3.974.732	100	106

The largest portion of foreign market sales of 59% is generated on the South Eastern Europe region, which compared to last year indicates an increase of 10%.

Consolidated Income statement

	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Sales	7.397.836	96	7.097.599	98	104
Cost of sales	-3.836.683	-50	-3.673.013	-50	104
Gross profit	3.561.153	46	3.424.586	47	104
Research and development expenses	-47.504	-1	-46.765	-1	102
Selling and marketing expenses	-2.182.665	-28	-2.262.544	-31	96
Administrative expenses	-295.006	-4	-267.821	-4	110
Provision for other liabilities and charges	-5.383	-	-	-	-
Other income	303.476	4	174.980	2	173
Other expenses	-558.447	-7	-306.926	-4	182
Operating profit	775.624	10	715.510	10	108
Finance expenses (net)	-29.578	-	-44.227	-1	67
Profit before income tax	746.046	10	671.283	9	111
Income tax expense	-127.592	-2	-70.857	-1	180
Profit from continuing operations	618.454	8	600.426	8	103
Profit/(Loss) from discontinued operations	-	-	-	-	-
Profit for the year	618.454	8	600.426	8	103
Attributable to the:					
Shareholders of the Parent Company	618.501	8	600.452	8	103
Minority interests	-47	-	-26	-	181
Profit for the year	618.454	8	600.426	8	103

Sales by category

	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Sales					
Sales of goods	5.773.184	75	5.600.249	77	103
Sales of commodities	1.550.642	20	1.438.668	20	108
Other sales revenues	74.010	1	58.682	1	126
Total:	7.397.836	96	7.097.599	98	104

Other income

(In 000 MKD)					
Other income	2014		2013		IND
	Amount	%	Amount	%	14/13
Foreign exchange transaction gains	187.644	3	92.406	2	203
Collected written off receivables	6.106	-	10.468	-	58
Surpluses	2.930	-	3.276	-	89
Interest income	20.078	-	9.673	-	208
Other income	86.718	1	59.157	1	147
Total:	303.476	4	174.980	3	173

Finance income

(In 000 MKD)					
Finance income	2014		2013		IND
	Amount	%	Amount	%	14/13
Foreign exchange transaction gains on borrowing	347	-	2.087	-	-
Interest income on borrowings	6	-	831	-	-
Total:	353	-	2.918	-	-
Total revenues:	7.701.665	100	7.275.497	100	106

Total revenues for 2014 are 7,701,665 thousand denars, which compared to last year have increased for 6%.

The largest portion of total revenues 96%, belongs to sales of goods, sales of commodities and other sales revenues, which compared to last year have increased for 4%.

Other income have a portion in total revenues of 4% and compared to last year have increased for 73%

Finance income consist of foreign exchange transaction gains on borrowings and interest income on borrowings. The portion in total revenues is insignificant.

Expenses by nature

(In 000 MKD)					
Expenses	2014		2013		IND
	Amount	%	Amount	%	14/13
Raw materials	1.690.912	24	1.860.217	28	91
Employee benefit expense	1.404.310	20	1.362.660	21	103
Depreciation and amortization	361.515	5	342.260	5	106
Energy	161.774	2	185.980	3	87
Impairments	22.246	-	63.997	1	35
Transportation	158.667	2	142.037	2	112
Changes in the inventories	-33.228	-	-168.138	-3	-
Cost of commodities	1.264.744	18	1.107.909	17	114
Other expenses	1.336.301	19	1.353.221	20	99
	6.367.241	92	6.250.143	95	102

Employee benefit expense

Expenses	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Gross salaries	1.232.802	18	1.195.942	18	103
Other employees benefits	171.508	2	166.718	3	103
	1.404.310	20	1.362.660	21	103

Other expenses

Expenses	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Foreign exchange transaction loss	436.925	7	163.865	3	267
Shortages	11.794	-	11.916	-	99
Expenses from last year	20.615	-	18.756	-	-
Other expenses	89.113	1	112.389	2	79
	558.447	8	306.926	5	182

Finance cost

Expenses	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Foreign exchange transaction losses on borrowings	673	-	4.055	-	17
Interest expense on borrowings	29.257	-	43.090	1	68
Total:	29.930	-	47.145	1	63
Total expenses:	6.955.618	100	6.604.214	100	105

Total expenses in 2014 are 6,955,618 thousand denars, which compared to last years' 6,604,214 thousand denars have increased for 5%.

The largest portion in total expense of 24% belongs to Raw materials. Employee benefit expense has a portion of 20%, Other expenses 8%. Finance costs consist of expenses on borrowings, the portion in total expenses is insignificant.

Consolidated profit before taxes for 2014 is 746,046 thousand denars, which compared to last years' 671,283 thousand denars has increased for 11%. The portion of consolidated profit before taxes in total revenues is 10%.

Consolidated income tax for 2014 is 127,592 thousand denars, which compared to last years' 70,857 thousand denars has increased for 80%.

Consolidated Net profit for 2014 is 618,454 thousand denars, which compared to last years' 600,426 thousand denars has increased for 3%. The portion of consolidated Net profit in total revenues is 8%.

Consolidated Balance Sheet

	(In 000 MKD)				
	2014		2013		IND
	Amount	%	Amount	%	14/13
Assets					
Non-current assets					
Property, plant and equipment	3.631.935	38	3.840.953	41	95
Intangible assets	896.933	9	760.008	8	118
Available-for-sale financial assets	3.721	-	3.191	-	117
Other non current receivables	29.080	-	20.998	-	138
Deferred tax assets	17.547	-	17.547	-	100
Total non-current assets:	4.579.216	48	4.642.697	49	99
Current assets					
Inventories	2.041.310	21	2.035.041	21	100
Trade receivables	2.206.720	23	2.196.438	23	100
Other receivables	208.902	2	198.764	2	105
Cash and cash equivalents	479.300	5	408.928	3	117
Total current assets:	4.936.232	52	4.839.171	51	102
Total assets:	9.515.448	100	9.481.868	100	100
Equity and liabilities					
Equity					
Share capital	2.197.095	23	2.205.348	23	100
Share premiums	-	-	-	-	-
Legal reserves	609.666	6	609.405	6	100
Other reserves	1.333.230	14	1.515.595	16	88
Retained earnings	3.529.699	37	3.216.316	34	110
Minority interests	1.132	-	1.179	-	96
Total equity:	7.670.822	81	7.547.843	80	102
Liabilities					
Current liabilities					
Trade and other payables	1.227.292	13	1.264.349	13	97
Income taxes	77.341	-	23.642	-	327
Current borrowings	465.178	5	564.238	6	82
Total current liabilities:	1.769.811	19	1.852.229	20	96
Non-current liabilities					
Non-current borrowings	50.025	1	55.204	1	91
Deferred income tax liabilities	24.698	-	19.379	-	127
Non-current provisions	92	-	7.213	-	1
Total non-currents liabilities:	74.815	1	81.796	1	91
Total liabilities:	1.844.626	19	1.934.025	20	95
Total equity and liabilities:	9.515.448	100	9.481.868	100	100

Performance indicators

Indicators	(In %)		
	2014	2013	IND 14/13
Net profit margin (net profit / total revues)	8,03	8,25	97
Net profit margin (net profit / sales)	8,36	8,46	99
EBITDA	15,37	14,90	103
Current ratio	2,79	2,61	107
Net debt to equity ratio	0,47	2,79	17
Return of equity	8,06	7,95	101
Return of assets	6,50	6,33	103

Number of employees on 31 December

Segment	2014		2013		IND 14/13
	%	%	%	%	
Pharmacy	994	64	969	65	103
Chemistry Cosmetics Botanicals	219	14	210	14	104
Corporate unit	329	21	309	21	106
Total:	1.542	100	1.488	100	104

Total number of employees on 31 December 2014 is 1,542, which compared to last year has increased for 4%.

Alkaloid AD Skopje