



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

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

FOR THE PERIOD JANUARY - DECEMBER 2019

February 2020

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1. General information

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

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

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

The main scope is production of pharmaceutical products.

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

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

The Company's Annual consolidated report on the performance has been prepared in accordance with the Trade Company Law ("Official Gazette of the Republic of Macedonia" no. 28/04, 84/05, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10, 8/11, 21/11, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16, 61/16, 64/18, 120/18, 195/2018, 225/2018 and 239/2018) 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)				
	2019		2018		IND
	Amount	%	Amount	%	19/18
Pharmacy	1,015,044	93	1,042,653	96	97
Chemistry Cosmetics Botanicals	76,588	7	39,084	4	196
Total:	1,091,632	100	1,081,737	100	101

4. Dividends

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

The dividends for 2018 approved by shareholders on 8 April 2019 were Denar 458,033 thousands. Approved dividends are paid and retained earnings are appropriately decreased.

5. Borrowings

Borrowings	(In 000 MKD)				
	2019		2018		IND
	Amount	%	Amount	%	19/18
Non-current	312,812	40	284,212	48	110
Current	466,656	60	303,990	52	154
Total:	779,468	100	588,202	100	133

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2019		2018		IND
	Amount	%	Amount	%	19/18
Up to 1 year	466,656	60	303,990	52	154
Between 1 to 3 years	312,812	40	284,212	48	110
Total:	779,468	100	588,202	100	133

6. Major Transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2019.

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	2019	2018
	% of ownership	% of ownership
Alkaloid DOO Zagreb, Croatia	100%	100%
Alkaloid DOO Beograd, Serbia	100%	100%
Alkaloid INT DOO Ljubljana, Slovenia	100%	100%
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	100%	100%
Alkaloidfarm SA Fribourg, Switzerland	100%	100%
Alkaloid EOOD Sofia, Bulgaria	100%	100%
ALK&KOS Shpk Prishtina, Kosovo	100%	100%
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	100%	100%
Alkaloid Kons DOOEL Skopje, Macedonia	100%	100%
Alkaloid USA LLC Columbus, Ohio US	49%	49%
Fund "Trajce Mukaetov" Skopje, Macedonia	100%	100%
Alkaloid DOO Podgorica, Montenegro	100%	100%
OOO Alkaloid RUS, Moscow, Russia	100%	100%
Alkaloid FARM DOO Ljubljana, Slovenia	100%	100%
Alkaloid Veledrogerija DOO Beograd, Serbia	100%	100%
Alkaloid ILAC TLS Istanbul, Turkey	100%	100%
ALKA-LAB DOO Ljubljana, Slovenia	100%	100%
Alkaloid Kiev CO. LTD., Ukraine	100%	100%
Alkaloid Shpk Tirana, Albania	100%	100%

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

In 2019 the company has increased its investment in two of its subsidiaries, in ALKA-LAB DOO Ljubljana, Slovenia by Denar 24,596 thousand equivalent to EUR 0.4 million and in Alkaloid DOO Beograd, Serbia by Denar 110,690 thousand equivalent to EUR 1.8 million.

The Company has representative offices in Russia and Ukraine. The operational results of the representation offices are included in the financial statements of the Company.

8. Share capital

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
At 1 January 2018	1,416,612	2,220,127	-23,032	2,197,095	-
Purchase of treasury shares	-	-	-	-	-
At 31 December 2018	1,416,612	2,220,127	-23,032	2,197,095	-
Purchase of treasury shares	-7,016	-	-10,713	-10,713	-65,060
At 31 December 2019	1,409,596	2,220,127	-33,745	2,186,382	-65,060

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 2019, the Company acquired 7,016 of its own shares through Macedonian stock exchange and held as treasury shares. The total number of treasury shares is 21,757. The number of 3,287 treasury shares is reserved for former proprietors out of which 3,228 are priority shares and 59 are ordinary shares.

Earning per share

	(In MKD)		
	2019 Amount	2018 Amount	IND 19/18
Profit attributable to shareholders (in denars)	1,015,259,965	862,410,928	118
Number of shares	1,415,132	1,416,612	100
Basic earning per share (in denars):	717.43	608.78	118

9. Key management compensations

No compensations were paid to the Management Board members in 2019 and 2018.

In 2019, the amount of Denar 4,402 thousands were paid to the Supervision Board members (2018: Denar 4,209 thousands).

Consolidated production in tons

Segment	(In tons)				
	2019		2018		IND
	Amount	%	Amount	%	19/18
Pharmacy	1,179	8	1,028	7	115
Chemistry Cosmetics Botanicals	14,135	92	13,878	93	102
Total:	15,314	100	14,906	100	103

The total amount produced for 2019 is 15,314 tons, which compared to last years' production amount of 14,906 tons has increased for 3%.

Total consolidated sales

(In 000 MKD)

Market	2019		2018		IND 19/18
	Amount	%	Amount	%	
Domestic market	3,907,246	35	3,624,093	37	108
Foreign market	7,195,562	65	6,159,193	63	117
Total:	11,102,808	100	9,783,286	100	113

The total sales revenues for 2019 are 11,102,808 which compared to last years' 9,783,286 have increased for 13%. The growth in total sales revenues is a result of the increase of sales revenues on domestic market for 8% and foreign market for 17%.

The largest portion of total sales revenues of 65%, is generated on foreign markets.

Total consolidated sales - segment reporting

(In 000 MKD)

Segment	2019		2018		IND 19/18
	Amount	%	Amount	%	
Pharmacy	9,555,573	86	8,358,622	85	114
Chemistry Cosmetics Botanicals	1,547,235	14	1,424,664	15	109
Total:	11,102,808	100	9,783,286	100	113

The largest portion in total sales revenues is generated on the Pharmacy segment with 9,555,573 thousand denars or 86%, which compared to last years' 8,358,622 thousand denars indicates an increase of 14%.

Consolidated domestic market sales - segment reporting

(In 000 MKD)

Segment	2019		2018		IND 19/18
	Amount	%	Amount	%	
Pharmacy	3,271,664	84	2,929,153	81	112
Chemistry Cosmetics Botanicals	635,582	16	694,940	19	91
Total:	3,907,246	100	3,624,093	100	108

Total sales revenues on domestic market are 3,907,246 thousand denars, which compared to last years' 3,624,093 thousand denars have increased for 8%.

The largest portion in total sales revenues on domestic market is generated on the Pharmacy segment with 3,271,664 thousand denars or 84%.

Consolidated foreign market sales - segment reporting

(In 000 MKD)

Segment	2019		2018		IND 19/18
	Amount	%	Amount	%	
Pharmacy	6,283,909	87	5,429,469	88	116
Chemistry Cosmetics Botanicals	911,653	13	729,724	12	125
Total:	7,195,562	100	6,159,193	100	117

Total sales on foreign market are 7,195,562 thousand denars, which compared to last years' 6,159,193 thousand denars have increased for 17%.

The largest portion of the foreign market sales of 6,283,909 or 87% is generated on the Pharmacy segment.

Consolidated foreign market sales by regions / countries

(In 000 MKD)

Region / country	2019		2018		IND 19/18
	Amount	%	Amount	%	
South Eastern Europe	3,610,619	50	3,384,574	55	107
Albania	66,703	1	70,364	1	95
Bosnia and Herzegovina	807,740	11	794,301	13	102
Kosovo	444,247	6	382,938	6	116
Serbia	2,052,438	29	1,916,251	31	107
Monte Negro	239,491	3	220,720	4	109
Russia and CIS	1,049,143	15	616,387	10	170
Russia	742,190	10	388,821	6	191
Georgia	18,845	-	16,309	-	116
Armenia	28,620	-	18,978	-	151
Ukraine	259,488	4	192,131	3	135
Azerbaijan	-	-	148	-	-
Western Europe (EU and EFTA)	2,242,842	31	2,015,106	33	111
Bulgaria	321,237	4	276,002	4	116
Croatia	861,578	12	817,998	13	105
Germany	75,689	1	48,070	1	157
Romania	227,013	3	159,858	3	142
Hungary	67,657	1	128,112	2	53
Czech	30,763	-	33,416	1	92
Slovakia	215	-	-	-	-
Poland	35,521	-	72,261	1	49
Slovenia	281,168	4	263,109	4	107
Great Britain	315,923	4	203,141	3	156
Spain	-	-	8,698	-	-
Lithuania	1,965	-	974	-	202
Sweden	630	-	-	-	-
Finland	1,759	-	1,174	-	150
Netherlands	300	-	-	-	-
Greece	15,194	-	2,112	-	719
Cyprus	-	-	154	-	-
Switzerland	6,230	-	27	-	23,074
Other countries	292,958	4	143,126	2	205
USA	268,203	4	124,792	2	215
Turkey	12,467	-	11,187	-	111
Other countries	12,288	-	7,147	-	172
Total:	7,195,562	100	6,159,193	100	117

The largest portion of foreign market sales of 50% is generated on the South Eastern Europe region, which compared to last year indicates an increase of 7%.

Consolidated Income statement

	(In 000 MKD)				
	2019		2018		IND
	Amount	%	Amount	%	19/18
Sales	11,102,808	98	9,783,286	97	113
Cost of sales	-5,974,145	-53	-5,354,335	-53	112
Gross profit	5,128,663	45	4,428,951	44	116
Research and development expenses	-109,931	-1	-86,125	-1	128
Selling and marketing expenses	-3,323,516	-29	-2,882,776	-29	115
Administrative expenses	-420,697	-4	-371,896	-4	113
Provision for other liabilities and charges	-10,499	-	-633	-	1,659
Other income	245,019	2	302,631	3	81
Other expenses	-308,167	-3	-407,403	-4	76
Operating profit	1,200,872	11	982,749	10	122
Finance expenses (net)	-12,561	-	-13,983	-	90
Profit before income tax	1,188,311	10	968,766	10	123
Income tax expense	-173,051	-2	-106,355	-1	163
Profit from continuing operations	1,015,260	9	862,411	9	118
Attributable to the:					
Shareholders of the Parent Company	1,015,318	9	862,445	9	118
Minority interests	-58	-	-34	-	171
Profit for the year	1,015,260	9	862,411	9	118

Sales by category

	(In 000 MKD)				
	2019		2018		IND
	Amount	%	Amount	%	19/18
Sales					
Sales of goods	8,076,115	71	7,263,842	72	111
Sales of commodities	2,934,861	26	2,432,049	24	121
Other sales revenues	91,832	1	87,395	1	105
Total:	11,102,808	98	9,783,286	97	113

Other income

(In 000 MKD)

Other income	2019		2018		IND
	Amount	%	Amount	%	19/18
Foreign exchange transaction gains	141,020	1	152,987	2	92
Collected written off receivables	588	-	7,547	-	8
Surpluses	8,635	-	5,724	-	151
Interest income	3,531	-	4,989	-	71
Other income	91,245	1	131,384	1	69
Total:	245,019	2	302,631	3	81

Finance income

(In 000 MKD)

Finance income	2019		2018		IND
	Amount	%	Amount	%	19/18
Foreign exchange transaction gains on borrowing	892	-	1,132	-	79
Interest income on borrowings	-	-	-	-	-
Total:	892	-	1,132	-	79

Total revenues: **11,348,719 100 10,087,049 100 113**

Total revenues for 2019 are 11,348,719 thousand denars, which compared to last year have increased for 13%.

The largest portion of total revenues 98%, belongs to sales of goods, sales of commodities and other sales revenues, which compared to last year have increased for 13%.

Other income have a portion in total revenues of 2% and compared to last year have decreased for 19%

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	2019		2018		IND
	Amount	%	Amount	%	19/18
Raw materials	2,953,140	29	2,650,378	29	111
Employee benefit expense	2,409,746	24	2,067,704	23	117
Depreciation and amortization	656,927	6	572,734	6	115
Energy	203,780	2	184,262	2	111
Impairments	6,481	-	6,445	-	101
Transportation	188,766	2	178,069	2	106
Changes in the inventories	-205,247	-2	-152,399	-2	135
Cost of commodities	1,995,624	20	1,699,132	19	117
Other expenses	1,629,571	16	1,489,440	16	109
	9,838,788	97	8,695,765	95	113

Employee benefit expense

(In 000 MKD)

Expenses	2019		2018		IND
	Amount	%	Amount	%	19/18
Gross salaries	2,079,222	20	1,795,638	20	116
Other employees benefits	330,524	3	272,066	3	121
	2,409,746	24	2,067,704	23	117

Other expenses

(In 000 MKD)

Expenses	2019		2018		IND
	Amount	%	Amount	%	19/18
Foreign exchange transaction loss	108,752	1	217,581	2	50
Shortages	34,715	-	33,879	-	102
Expenses from previous year	50,719	-	46,542	1	109
Other expenses	113,981	1	109,401	1	104
	308,167	3	407,403	4	76

Finance cost

(In 000 MKD)

Expenses	2019		2018		IND
	Amount	%	Amount	%	19/18
Foreign exchange transaction losses on borrowings	876	-	1,170	-	75
Interest expense on borrowings	12,577	-	13,945	-	90
Total:	13,453	-	15,115	-	89
Total expenses:	10,160,408	100	9,118,283	100	111

Total expenses in 2019 are 10,160,408 thousand denars, which compared to last years' 9,118,283 thousand denars have increased for 11%.

The largest portion in total expense of 29% belongs to Raw materials. Employee benefit expense has a portion of 24%, Other expenses 3%. Finance costs consist of expenses on borrowings, the portion in total expenses is insignificant.

Consolidated profit before taxes for 2019 is 1,188,311 thousand denars, which compared to last years' 968,766 thousand denars has increased for 23%. The portion of consolidated profit before taxes in total revenues is 10%.

Consolidated income tax for 2019 is 173,051 thousand denars, which compared to last years' 106,355 thousand denars has increased for 63%.

Consolidated Net profit for 2019 is 1,015,260 thousand denars, which compared to last years' 862,411 thousand denars has increased for 18%. The portion of consolidated Net profit in total revenues is 9%.

Consolidated Balance Sheet

(In 000 MKD)

	2019		2018		IND 19/18
	Amount	%	Amount	%	
Assets					
Non-current assets					
Property, plant and equipment	5,418,377	40	4,297,167	37	126
Intangible assets	1,732,098	13	1,601,687	14	108
Deferred tax assets	5,353	-	20,557	-	26
Available-for-sale financial assets	7,411	-	6,819	-	109
Other non current receivables	116,646	1	14,988	-	778
Total non-current assets:	7,279,885	54	5,941,218	51	123
Current assets					
Inventories	3,262,593	24	2,736,752	24	119
Trade receivables	2,405,172	18	2,218,485	19	108
Other receivables	288,902	2	266,685	2	108
Cash and cash equivalents	357,348	3	433,811	4	82
Total current assets:	6,314,015	46	5,655,733	49	112
Total assets:	13,593,900	100	11,596,951	100	117
Equity and liabilities					
Equity					
Share capital	2,186,382	16	2,197,095	19	100
Share premiums	-65,060	-	-	-	-
Legal reserves	616,138	5	614,437	5	100
Other reserves	1,670,216	12	848,847	7	197
Retained earnings	5,887,016	43	5,308,871	46	111
Minority interests	657	-	716	-	92
Total equity:	10,295,349	76	8,969,966	77	115
Liabilities					
Current liabilities					
Trade and other payables	2,416,637	18	1,992,113	17	121
Income taxes	61,767	-	16,444	-	376
Current borrowings	466,656	3	303,990	3	154
Total current liabilities:	2,945,060	22	2,312,547	20	127
Non-current liabilities					
Non-current borrowings	312,812	2	284,212	2	110
Non-current provisions	40,559	-	30,060	-	135
Deferred income tax liabilities	120	-	166	-	72
Total non-currents liabilities:	353,491	3	314,438	3	112
Total liabilities:	3,298,551	24	2,626,985	23	126
Total equity and liabilities:	13,593,900	100	11,596,951	100	117

Performance indicators

Indicators	(In %)		
	2019	2018	IND 19/18
Net profit margin (net profit / total revues)	8.95	8.55	105
Net profit margin (net profit / sales)	9.14	8.82	104
EBITDA	16.73	15.90	105
Current ratio	2.14	2.45	88
Net debt to equity ratio	4.10	1.72	238
Return of equity	10.54	9.67	109
Return of assets	8.06	7.53	107

Number of employees on 31 December

Segment	2019		2018		IND 19/18
	%	%	%	%	
Pharmacy	1,436	64	1,295	64	111
Chemistry Cosmetics Botanicals	215	10	199	10	108
Corporate unit	576	26	528	26	109
Total:	2,227	100	2,022	100	110

Total number of employees on 31 December 2019 is 2,227, which compared to last year has increased for 10%.

Alkaloid AD Skopje