



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

**CONSOLIDATED ANNUAL REPORT
ON THE PERFORMANCE OF ALKALOID AD SKOPJE
FOR THE PERIOD JANUARY - DECEMBER 2010**

February 2011

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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 twelve 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 maintains its books of accounts and prepares its consolidated financial statements in accordance with the Trade Company Law ("Official Gazette of the Republic of Macedonia" no. 28/2004, 84/2005, 25/2007 and 87/2008) and the Rulebook for accounting ("Official Gazette of RM" no.94/2004, 11/2005, 116/2005, 159/2009 and 164/2010). According to this Rulebook, accounting standards applicable in the Republic of Macedonia are the International Accounting Standards (IAS), in effect as at 31 December 2003, established by the International Accounting Standards Board (IASB). The addition to this Rulebook dated 10 February 2005, relates to the application of the International Financial Reporting Standards (IFRS) 1, as well as the addition dated 28 December for application of IFRS 2, 3, 4, 5, 6 and 7.

A new Rulebook of accounting was issued on 29 December 2009 which relates to the changes in the IAS and the new IFRS established by IASB until 1 January 2009. The addition to this Rulebook dated 30 November 2010 relates to the application of IAS 10. This Rulebook is in effect from 1 January 2010.

The consolidated financial statements are prepared in accordance with the concept of purchase price, excluding the land property, construction buildings and investments in available-for-sale financial assets, which are presented by their market price.

The presentation of the consolidated financial statements in accordance with the Trade Companies Law and the Rulebook for Accounting requires management to make best estimates and reasonable assumptions that affect the amounts presented in the consolidated financial statements. These estimations and assumptions are based on information available to us, as of the date of preparation of the 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)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Pharmacy	320,317	96	495,850	97	65
Chemistry Cosmetics Botanicals	13,412	4	13,234	3	101
Coatings	-	-	-	-	-
Total:	333,729	100	509,084	100	66

4. Dividends

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

The dividends approved by shareholders on 19 April 2010 were Denar 216,293 thousands. Tax of paid dividend and other allocation of profit was amounting Denar 35,105 thousands. Approved dividends in 2010 in respect of 2009 are paid and retained earnings are appropriately decreased.

5. Borrowings

Borrowings	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Non-current	66,636	11	9,753	2	683
Current	530,364	89	459,466	98	115
Total:	597,000	100	469,219	100	127

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Up to 1 year	530,364	89	459,466	98	115
Between 1 to 3 years	66,636	11	9,753	2	683
Total:	597,000	100	469,219	100	127

6. Major Transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2009.

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

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 2010 Alkaloid AD, Skopje established a new subsidiary in Slovenia, Alkaloid Farm DOO Ljubljana. The new subsidiary is 100% owned by the Company. The existing subsidiary in Slovenia is rebranded into Alkaloid INT DOO Ljubljana.

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

8. Share capital

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
At 1 January 2009	1,422,846	2,220,127	-13,344	2,206,783	906
Treasury shares purchased	-150	-	-235	-235	-172
Sale of treasury shares	-	-	-	-	-
At 31 December 2009	1,422,696	2,220,127	-13,579	2,206,548	734
Treasury shares purchased	-	-	-	-	-
At 31 December 2010	1,422,696	2,220,127	-13,579	2,206,548	734

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

During 2010 the Entity has no purchases or sales of treasury shares. The total number of treasury shares is 8,657. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares.

Earning per share

	(In MKD)		
	2010	2009	IND
	Amount	Amount	10/09
Profit attributable to shareholders (in denars)	574,339,011	558,485,271	103
Number of shares	1,422,696	1,422,696	100
Basic earning per share (in denars):	403.70	392.55	103

9. Key management compensations

No compensations were paid to the Management Board members in 2010 and 2009.

In 2010, the amount of Denar 3,584 thousands were paid to the Supervision Board members (2009: Denar 3,391 thousands).

Consolidated production in tons

Segment	(In tons)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Pharmacy	825	11	782	11	105
Chemistry Cosmetics Botanicals	6,847	89	6,619	89	103
Total:	7,672	100	7,401	100	104

The total amount produced for 2010 is 7,672 tons, which is an increase of 4% compared to last years' production amount of 7,401 tons.

Total consolidated sales

Market	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Domestic market	2,485,019	42	2,237,773	41	111
Foreign market	3,449,309	58	3,228,616	59	107
Total:	5,934,328	100	5,466,389	100	109

The total sales revenues for 2010 are 5,934,328 which compared to last years' 5,466,389 have increased for 9%. The growth in total sales revenues is a result of the increase of sales revenues on domestic market for 11% and on foreign market for 7%.

The largest portion of total sales revenues of 55%, belongs to the foreign market sales.

Total consolidated sales - segment reporting

Segment	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Pharmacy	4,979,655	84	4,593,584	84	108
Chemistry Cosmetics Botanicals	954,673	16	872,805	16	109
Total:	5,934,328	100	5,466,389	100	109

The largest portion in total sales revenues belongs to the Pharmacy segment with 4,979,655 thousand denars or 84%, which compared to last years' 4,593,584 thousand denars indicates an increase of 8%.

Consolidated domestic market sales - segment reporting

Segment	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Pharmacy	2,002,121	81	1,789,239	80	112
Chemistry Cosmetics Botanicals	482,898	19	448,534	20	108
Total:	2,485,019	100	2,237,773	100	111

Total sales revenues on domestic market are 2,485,019 thousand denars, which compared to last years' 2,237,773 thousand denars have increased for 11%.

The largest portion in total sales revenues on domestic market belongs to the Pharmacy segment with 2,002,121 thousand denars or 81%.

Consolidated foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Pharmacy	2,977,534	86	2,804,345	87	106
Chemistry Cosmetics Botanicals	471,775	14	424,271	13	111
Total:	3,449,309	100	3,228,616	100	107

Total sales on foreign market are 3,449,309 thousand denars, which compared to last years' 3,228,616 thousand denars have increased for 7%. Foreign market sales growth is a result of the increase of sales in all

The largest portion of the foreign market sales of 2,977,534 or 86% belongs to the Pharmacy segment.

Consolidated foreign market sales by regions / countries

Region / country	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
South Eastern Europe	2,654,681	77	2,549,283	79	104
Albania	114,329	3	110,044	3	104
Bosnia and Herzegovina	624,039	18	595,222	18	105
Kosovo	269,111	8	239,934	7	112
Serbia	803,817	23	855,706	27	94
Croatia	675,663	20	600,944	19	112
Monte Negro	167,722	5	147,433	5	114
Russia and CIS	340,524	10	328,462	10	104
Russia	268,545	8	285,066	9	94
Georgia	-	-	286	-	-
Armenia	6,591	-	8,863	-	74
Ukraine	65,388	2	34,247	1	191
Western Europe (EU and EFTA)	412,936	12	302,945	9	136
Bulgaria	148,543	4	76,731	2	194
Germany	81,139	2	44,551	1	182
Romania	6,899	-	-	-	-
Slovenia	150,193	5	151,533	5	99
France	-	-	1,709	-	-
Hungary	25,396	1	23,821	1	107
Switzerland	766	-	4,600	-	17
Other countries	41,168	1	47,926	1	86
Australia	4,419	-	4,171	-	106
Jordan	1,239	-	1,365	-	91
Other countries	1,911	-	961	-	-
USA	33,599	1	41,429	1	81
Total:	3,449,309	100	3,228,616	100	107

Western Europe (EU and EFTA) region has the largest increase of 36% compared to last year.

The largest portion of foreign market sales of 77% belongs to the South Eastern Europe region, which compared to last year indicates an increase of 4%.

Consolidated Income statement

	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Sales	5,934,328	96	5,466,389	96	109
Cost of sales	-2,968,612	-48	-2,897,457	-51	102
Gross profit	2,965,716	48	2,568,932	45	115
Research and development expenses	-76,484	-1	-66,698	-1	115
Selling and marketing expenses	-1,922,228	-31	-1,630,263	-29	118
Administrative expenses	-257,817	-4	-246,538	-4	105
Provision for other liabilities and charges	-2,693	-	-1,901	-	142
Other income	237,904	4	238,515	4	100
Other expenses	-273,215	-4	-193,188	-3	141
Operating profit	671,183	11	668,859	12	100
Net foreign exchange transaction gains / (losses)	-7	-	-55	-	-
Finance expenses	-42,458	-1	-46,751	-1	91
Profit before income tax	628,718	10	622,053	11	101
Income tax expense	-54,379	-1	-63,568	-1	86
Profit from continuing operations	574,339	9	558,485	10	103
Profit/(Loss) from discontinued operations	-	-	-	-	-
Profit for the year	574,339	9	558,485	10	103
Attributable to the:					
Shareholders of the Parent Company	574,392	9	558,571	10	103
Minority interests	-53	-	-86	-	62
Profit for the year	574,339	9	558,485	10	103

Sales by category

	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Sales					
Sales of goods	5,017,122	81	4,637,067	81	108
Sales of commodities	853,702	14	775,715	14	110
Sales of services	2,801	-	39,209	1	7
Other sales revenues	60,703	1	14,398	-	-
Total:	5,934,328	96	5,466,389	96	109

Other income

Other income	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Collected written off receivables	12,789	-	70,506	1	18
Income from previous years	33,072	1	21,568	-	153
Dividend income	34	-	38	-	89
Interest income	536	-	2,458	-	22
Foreign exchange transaction gains	112,234	2	104,296	2	108
Other income	79,239	1	39,649	1	200
Total:	237,904	4	238,515	4	100

Finance income

Finance income	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Foreign exchange transaction gains on borrowing	-	-	37	-	-
Interest income on borrowings	49	-	126	-	39
Total:	49	-	163	-	30
Total revenues:	6,172,281	100	5,705,067	100	108

Total revenues for 2010 are 6,172,281 thousand denars, which compared to last year have increased for 8%.

The largest portion of total revenues 96%, belongs to sales of goods and sales of commodities, which compared to last year have increased for 9%.

Other income have a portion in total revenues of 4%.

Finance income consist of foreign exchange transaction gains on borrowings and interest income on borrowings. The portion in total revenues is irrelevant. Compared to last year finance income have decreased for 70%.

Expenses by nature

Expenses	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Raw materials	1,535,443	28	1,356,665	27	113
Employee benefit expense	1,234,521	22	1,216,119	24	102
Depreciation and amortization	273,287	5	263,480	5	104
Energy	156,392	3	119,413	2	131
Impairments	28,134	-	84,724	2	33
Transportation	103,068	2	65,318	1	158
Changes in the inventories	62,626	1	-45,496	-1	-
Cost of commodities	742,234	13	657,389	13	113
Other expenses	1,092,129	20	1,125,245	22	97
	5,227,834	94	4,842,857	95	108

Employee benefit expense

Expenses	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Gross salaries	1,064,133	19	899,138	18	118
Other employees benefits	170,388	3	316,981	6	54
	1,234,521	22	1,216,119	24	102

Other expenses

Expenses	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Interest expenses	1,341	-	992	-	135
Foreign exchange transaction loss	130,301	2	104,049	2	125
Effect of disposal of associate	55,104	1	21,129	1	261
Expenses from last year	21,954	-	22,511	-	98
Other expenses	64,515	1	44,507	1	145
	273,215	5	193,188	4	141

Finance cost

Expenses	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Foreign exchange transaction losses on borrowings	7	-	92	-	8
Interest expense on borrowings	42,508	1	46,877	1	91
Total:	42,515	1	46,969	1	91
Total expenses:	5,543,564	100	5,083,014	100	109

Total expenses in 2010 are 5,543,564 thousand denars, which compared to last years' 5,083,014 thousand denars have increased for 9%.

The largest portion in total expense of 28% belongs to Raw materials. Employee benefit expense has a portion of 22%, Other expenses 5% and Finance costs have a portion in total expenses of 1%.

Consolidated Income before taxes for 2010 is 628,718 thousand denars, which compared to last years' 622.053 thousand denars has increased for 1%. The portion of consolidated income before taxes in total revenues is 10%.

Consolidated income tax for 2010 is 54,379 thousand denars, which compared to last years' 63,568 thousand denars has decreased for 14%.

Consolidated Net Income for 2010 is 574,339 thousand denars, which compared to last years' 558,485 thousand denars has increased for 3%. The portion of consolidated Net Income in total revenues is 9%.

Consolidated Balance Sheet

	(In 000 MKD)				
	2010		2009		IND
	Amount	%	Amount	%	10/09
Assets					
Non-current assets					
Intangible assets	363,545	4	254,770	3	143
Property, plant and equipment	3,745,904	46	3,881,420	51	97
Investments in associate	-	-	-	-	-
Available-for-sale financial assets	5,695	-	6,394	-	89
Other non current assets	40,955	1	20,697	-	198
Deferred tax assets	10,557	-	11,288	-	94
Total non-current assets:	4,166,656	51	4,174,569	54	100
Current assets					
Inventories	1,499,576	18	1,238,006	16	121
Trade receivables	2,176,305	27	1,906,001	25	114
Other receivables	195,500	2	171,640	2	114
Cash and cash equivalents	149,686	2	187,838	3	80
Total current assets:	4,021,067	49	3,503,485	46	115
Total assets:	8,187,723	100	7,678,054	100	107
Equity and liabilities					
Equity					
Share capital	2,206,548	27	2,206,548	29	100
Share premiums	734	-	734	-	100
Legal reserves	599,813	7	599,416	8	100
Other reserves	1,504,953	18	1,558,488	20	97
Retained earnings	2,284,072	28	1,904,497	25	120
Minority interests	1,275	-	1,329	-	96
Total equity:	6,597,395	81	6,271,012	82	105
Liabilities					
Current liabilities					
Trade and other payables	937,039	11	894,980	12	105
Borrowings	530,364	6	459,466	6	115
Income taxes	13,201	-	16,480	-	80
Total current liabilities:	1,480,604	18	1,370,926	18	108
Non-current liabilities					
Borrowings	66,636	-	9,753	-	683
Deferred income tax liabilities	27,521	-	13,488	-	204
Retirement benefit obligations	15,567	-	12,875	-	121
Total non-currents liabilities:	109,724	1	36,116	-	304
Total liabilities:	1,590,328	19	1,407,042	18	113
Total equity and liabilities:	8,187,723	100	7,678,054	100	107

Performance indicators

Indicators	(In %)		
	2010	2009	IND 10/09
Net profit margin (net profit / total revues)	9.31	9.79	95
Net profit margin (net profit / sales)	9.68	10.22	95
EBITDA	15.92	17.06	93
Current ratio	2.72	2.56	106
Net debt to equity ratio	6.78	4.49	151
Return of equity	8.71	8.91	98
Return of assets	7.01	7.27	96

Number of employees on 31 December

Segment	2010		2009		IND 10/09
	Number	%	Number	%	
Pharmacy	871	66	776	64	112
Chemistry Cosmetics Botanicals	180	14	177	15	102
Corporate unit	271	20	264	22	103
Total:	1,322	100	1,217	100	109

Total number of employees on 31 December 2010 is 1,322, which compared to last year has increased for 9%.

21.02.2011
**General Manager
Zhivko Mukaetov**