ALKALOID AD SKOPJE
SEPARATE FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

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

CONTENTS **Page**

Translation of the Auditor's Report issued in the Macedonian language

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD OF ALKALOID AD SKOPJE

We have audited the accompanying separate financial statements (page 3 to 40) of ALKALOID AD Skopje (the "Company"), which comprise the separate statement of financial position as at December 31, 2018, and the separate statement of comprehensive income, separate statement of changes in equity and separate 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 separate financial statements in accordance with the accounting regulations prevailing in the Republic of North Macedonia, and for such internal control as management determines is necessary to enable the preparation of separate 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 separate financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and the applicable auditing standards in the Republic of North Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements present fairly, in all material respects, the financial position of Alkaloid AD Skopje as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of North Macedonia.

(Continued)

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 separate annual report (Appendix 1 to the financial statements) and the Company's separate annual account (Appendix 2 to the financial statements) in accordance with the Company Law, which were adopted and approved by the management and for which the Company is obliged to submit to the Central Register of the Republic of North Macedonia. Our responsibility is to express an opinion on the consistency of the separate annual report with the separate annual account and the separate financial statements of the Company. We have performed our audit procedures in accordance with the Audit Law and International Standard on Auditing 720 – The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, applicable in the Republic of North Macedonia. In our opinion, the historical financial information disclosed in the separate annual report is consistent with the separate annual account and the accompanying audited separate financial statements of the Company for the year ended December 31, 2018.

Lidija Nanus
Certified Auditor
Director

Jane Ivanov
Certified Auditor

March 5, 2019

Deloitte DOO Skopje

** This is an English translation of the original Independent Auditors' Report issued in the Macedonian language and is not to be signed. This translation is provided for references purposes only*

(In thousands of Denar)

SEPARATE STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Note	**2018**	**2017**
Assets			
Non-current assets			
Property, plant and equipment	6	4,564,972	4,212,549
Intangible assets	7	1,598,027	1,452,689
Deferred tax assets	19	17,817	17,817
Available-for-sale financial assets	9	6,819	5,110
Investments in subsidiaries	10	374,691	374,691
Other non-current assets	13	13,056	80,296
		6,575,382	**6,143,152**
Current assets			
Inventories	11	2,110,233	2,049,857
Trade receivables	12	2,033,479	2,079,731
Other receivables	13	201,845	211,020
Cash and cash equivalents	14	189,540	77,220
		4,535,097	**4,417,828**
Total assets		**11,110,479**	**10,560,980**
Equity			
Capital and reserves			
Share capital	15	2,197,095	2,197,095
Legal reserves		596,146	596,146
Other reserves	16	1,123,819	1,122,110
Retained earnings		5,246,235	4,776,836
		9,163,295	**8,692,187**
Liabilities			
Non-current liabilities			
Non-current borrowings	17	218,935	268,624
Retirement benefit obligations	18	29,460	29,168
		248,395	**297,792**
Current liabilities			
Trade and other payables	20	1,554,327	1,364,578
Income tax		13,506	6,345
Current borrowings	17	130,956	200,078
		1,698,789	**1,571,001**
Total liabilities		**1,947,184**	**1,868,793**
Total equity and liabilities		**11,110,479**	**10,560,980**

The accompanying notes form an integral part of these separate financial statements.

These separate financial statements were approved by the Company's Managing Board on 8 February 2019.

Approved and signed on behalf of Alkaloid AD Skopje by:

Zhivko Mukaetov
General Manager

Viktor Stojcevski
Finance Manager

(In thousands of Denar)

SEPARATE STATEMENT OF PROFIT OR LOSS

	Notes	Year ended 31 December 2018	2017
Sales	5	7,506,114	6,932,176
Cost of sales	24	(4,604,215)	(4,207,768)
Gross profit		**2,901,899**	**2,724,408**
Research and development expenses	24	(86,125)	(76,421)
Selling and marketing expenses	24	(1,638,232)	(1,632,818)
Administrative expenses	24	(371,897)	(356,110)
Provision for other liabilities and charges	21	(292)	(2,438)
Other income	22	378,642	323,338
Other expense	23	(255,981)	(155,171)
Operating profit		**928,014**	**824,788**
Finance expenses (net)	26	(11,174)	(1,501)
Profit before income tax		**916,840**	**823,287**
Income tax	27	(68,641)	(57,332)
Profit for the year		**848,199**	**765,955**
Earnings per share (in Denar)			
- Basic	28	598.75	540.69

The accompanying notes form an integral part of these separate financial statements.

(In thousands of Denar)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Notes	**2018**	**2017**
Profit for the year		**848,199**	**765,955**
Other comprehensive income:			
- Fair value gain on investments	16	1,709	461
Other comprehensive income, net of tax		**1,709**	**461**
Total comprehensive income for the year		**849,908**	**766,416**

The accompanying notes form an integral part of these separate financial statements.

(In thousands of Denar)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Legal reserves	Other reserves	Retained earnings	Total
As at January 1, 2017	**2,197,095**	**596,146**	**1,121,649**	**4,365,329**	**8,280,219**
Fair value gain on investments (Note 9)	-	-	461	-	**461**
Dividend payment and tax on dividend paid out	-	-	-	(354,448)	**(354,448)**
Profit for the year	-	-	-	765,955	**765,955**
As at December 31, 2017	**2,197,095**	**596,146**	**1,122,110**	**4,776,836**	**8,692,187**
Fair value gain on investments (Note 9)	-	-	1,709	-	**1,709**
Dividend payment and tax on dividend paid out	-	-	-	(382,485)	**(382,485)**
Correction from previous years	-	-	-	3,685	**3,685**
Profit for the year	-	-	-	848,199	**848,199**
As at December 31, 2018	**2,197,095**	**596,146**	**1,123,819**	**5,246,235**	**9,163,295**

The accompanying notes form an integral part of these separate financial statements.

(In thousands of Denar)

SEPARATE STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2018	**2017**
Cash flows from operating activities		
Cash receipts from customers	7,413,130	6,666,209
Cash paid to suppliers and employees	(6,067,817)	(5,877,369)
Cash generated from operations	**1,345,313**	**788,840**
Net cash generated from operating activities	**1,345,313**	**788,840**
Cash flows from investing activities		
Purchases of property, plant and equipment	(851,685)	(696,623)
Sales of property, plant and equipment	-	943
Investments in subsidiaries (Note 10)	-	(1,542)
Dividends received	162,256	153,547
Subsidies received	35,293	-
Other payments to employees	(63,980)	(62,570)
Net cash used in investing activities	**(718,116)**	**(606,245)**
Cash flows from financing activities		
Proceeds from borrowings	1,235,510	1,639,147
Repayments of borrowings	(1,359,396)	(1,482,485)
Interest paid	(12,096)	(13,850)
Dividends paid to shareholders, tax on dividends paid out and other profit	(378,895)	(324,234)
Net cash used in financing activities	**(514,877)**	**(181,422)**
Net increase in cash and cash equivalents	**112,320**	**1,173**
Cash and cash equivalents at beginning of year	77,220	76,047
Cash and cash equivalents at the end of year	**189,540**	**77,220**

The accompanying notes form an integral part of these separate financial statements.

NOTES TO THE SEPARATE 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 eighteen subsidiaries and one Foundation in the Republic of North Macedonia and other countries. For the list of the subsidiaries please refer to Note 10.

The production facilities of the Company are located in Skopje.

Alkaloid AD Skopje, the parent company, is a joint stock company, incorporated and registered (with its head office) in the Republic of North Macedonia. The registered address of the Company is:
Aleksandar Makedonski 12
1000 Skopje,
Republic of North 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 separate financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of Preparation and Presentation of Financial Statements

Pursuant to the provisions of the Company Law (Official Gazette of the Republic of North 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, 61/16, 64/18 and 120/18) legal entities in North 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 North Macedonia and published in the Official Gazette of the Republic of North Macedonia.

A newly-issued Rulebook for chart of accounts (Official Gazette of the Republic of North 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 North 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 North 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation and Presentation 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 2.

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 North Macedonia.

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of North Macedonia

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 North 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);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of North Macedonia (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);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of North Macedonia (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);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of North Macedonia (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 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);

- 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 IFRS 12 due to "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);

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of North Macedonia (Continued)

- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after 1 January 2018);
- 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 IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 due to “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 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);

2.3 New Standards and amendments to existing standards in issue not yet adopted

At the date of authorisation of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019);
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021);
- Amendments to IFRS 3 “Business Combinations” – definition of Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);
- 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 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 19 “Employees Benefits” – Plan Amendment, Curtailments or Settlement (effective for annual periods beginning on or after 1 January 2019);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 New Standards and amendments to existing standards in issue not yet adopted (Continued)

- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019);

- Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019);

- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020);

- IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

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.

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 Company. The cost of acquisition is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. 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 December 31, 2018, the Company was organized on a worldwide basis into four reportable segments:

- **Pharmaceuticals** - Production of medicines for human use;
- **Chemicals** - Production of chemicals products;
- **Cosmetics** - Production of cosmetics;
- **Botanicals** - Production of botanicals products.

The pharmaceutical overall production program of the products of Alkaloid Pharmaceuticals is comprised 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting (Continued)

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

Alkaloid Chemical products today are developed program 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 the Botanical unit consists of Processing blending and packing herbal materials like roots, leaves, fruits, seeds etc.

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

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

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

The accounting policies of the reportable segments are the same as the Company’s accounting policies. This is the measure reported to the managing board for decision making purposes in the field of resource allocation and assessment of segment performance.

2.6 Foreign currency translation

Functional and presentation currency

The separate financial statements are presented in thousands of Macedonian Denar, which is the Company’s functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange differences 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment

Property plant and equipment are initially recorded at cost. Land, buildings and a portion of equipment are subsequently stated at fair value, based on the appraisal performed by external independent appraisers, less accumulated 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.

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	10 - 40	years
Machinery	10 - 20	years
Vehicles	4	years
Furniture, fittings and equipment	3 - 10	years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if higher than its estimated recoverable amount.

The carrying amount of disposed property, plant and equipment items is eliminated from the separate statement of financial position together with the carrying amount of accumulated depreciation. Gains and/or losses on disposals are determined as the difference between the proceeds on disposal and the carrying amount of the assets and included in the income statement.

2.8 Intangible assets

Intangible assets are consisted of trademarks, licenses and software. Intangible assets are carried at cost less accumulated amortization. The cost value includes the invoiced expense of purchased intangible assets increased by all expenditures that are 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, maximum of 10 years.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets (Continued)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives, i.e. up to10 years. The estimated useful life and amortization method are reviewed at the end of each reporting period.

Internally-generated intangible assets – research and development expenditure

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

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

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

The amount initially recognized 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 recognized, development expenditure is recognized 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 amortization 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial assets (Continued)

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 date on which the Company commits to purchase or sell the asset. The purchase value of investments includes transaction costs. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the 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 consider that cost approximates their fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the available-for-sale financial assets are presented in the equity and statement of comprehensive income, except for the impairment losses of the financial assets, calculated interests using the effective interest method and foreign exchange differences which are recognized in the profit and loss statement.

When securities classified as available-for-sale are sold or impaired, 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. 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. The 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. The net realizable value is the estimated selling price in the ordinary course of business, less estimated cost of completion and applicable variable selling expenses.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the 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 balances held on bank accounts and cash in hand.

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 reporting sheet date.

2.16 Trade and other payables

All financial liabilities are measured subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

2.17 Income tax

Current income tax is calculated and paid in accordance with the Income tax Law. The estimated tax liability is paid in advance on a monthly basis. The final tax is payable at the rate of 10% applicable to the taxable income, which is the profit as determined in the Statement of comprehensive income adjusted for certain tax deductible items as defined by the local tax legislation.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Income tax (Continued)

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 reported in the separate financial statements. However, the deferred income tax is not accounted for, if arising from initial recognition of an asset or a 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 reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on investments in subsidiaries excepts where timing of the reversal of temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

Pension liabilities

The Company has both defined benefit and defined contribution plans.

- Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

- A defined contribution plan is a pension plan under which the 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 separate 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Employee benefits (Continued)

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 a Managing Board. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.19 Provisions

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

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the 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 a Company 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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Dividends

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

2.22 Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.
Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the separate statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.
Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

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 sufficient cash in foreign currencies held on bank accounts in order to maintain its future commercial transactions.

b) Price risks

The Company is exposed to equity securities price risk because of Investments in equity instruments 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 a large number of balances. The Company has policies that limit the amount of credit exposure.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

Liquidity risk

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

Interest risk

As the 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 lower than short term. Interest rates on short term borrowings are decreased in respect of previous year.

3.2 Fair value assessment

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.

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

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The assumptions of the Company are based on past experience and other factors, including the expectation of future events that are probable at the reporting date.

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 AND JUDGMENTS

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 land and buildings 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.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

4. ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Fair value of financial assets

The available-for-sale financial assets that are not traded in an active market on the Macedonian Stock Exchange 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 taking in consideration that 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 are 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.

5. SEGMENT REPORTING

Segment information reported to the Management Board is based on product types and customer categories.

Principal product types are pharmaceutical and non-pharmaceutical products (chemicals, cosmetics and botanicals). The principal customer’s category for the Company’s products are wholesalers.

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

	Segment revenue		Segment operating profit	
	2018	2017	2018	2017
Pharmaceutical product	6,081,354	5,535,481	905,987	799,628
Chemical products	234,075	284,543	14,946	19,498
Cosmetic products	899,451	841,972	4,561	18,381
Botanical products	291,234	270,180	2,520	(12,719)
Total	**7,506,114**	**6,932,176**	**928,014**	**824,788**
Finance costs			(11,174)	(1,501)
Profit before tax			**916,840**	**823,287**
Income tax expense			(68,641)	(57,332)
Profit for the year			**848,199**	**765,955**

Revenue reported above represents revenue generated from external customers.

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

Segment assets

	2018	2017
Pharmaceutical product	8,888,017	8,421,894
Chemical products	22,981	192,959
Cosmetic products	1,582,349	1,345,772
Botanical products	617,132	600,355
Total assets	**11,110,479**	**10,560,980**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

Segment liabilities

	2018	2017
Pharmaceutical product	1,600,552	1,460,605
Chemical products	106,996	104,146
Cosmetic products	200,131	215,938
Botanical products	39,505	88,104
Total liabilities	**1,947,184**	**1,868,793**

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

	Depreciation and amortization		Addition to non-current assets	
	2018	2017	2018	2017
Pharmaceutical product	492,832	427,137	1,009,876	774,989
Chemical products	11,104	9,815	13,608	17,708
Cosmetic products	24,127	21,330	11,287	27,671
Botanical products	22,813	22,685	14,189	11,199
Total liabilities	**550,876**	**480,967**	**1,048,960**	**831,567**

Geographical information
The Republic of North Macedonia is the domicile country of the Company.

	Sales revenue		Non-current assets	
	2018	2017	2018	2017
Republic of North Macedonia	2,756,152	2,654,759	6,162,999	5,665,238
Serbia	1,503,110	1,097,115	-	-
Bosnia and Herzegovina	794,301	778,615	-	-
Croatia	467,735	464,260	-	-
Other countries	1,984,816	1,937,427	-	-
Total	**7,506,114**	**6,932,176**	**6,162,999**	**5,665,238**

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. There are no major customer shares in the direct sales of Pharmaceutical products.
In the sales of Chemical products, there is one major customer with a share of 20.5% (2017: 26%) in direct sales.
In the sales of Cosmetic products, there is one major customer with a share of 16% (2017: 15.9%) in direct sales.
In the sales of Botanical products, there is one major customer with a share of 42.7% (2017: 37.5%) in direct sales.

Sales by category	**2018**	**2017**
Sales of goods	6,000,708	5,548,341
Sales of commodities	1,389,210	1,264,688
Revenue from services	47,725	31,021
Other revenue	68,471	88,126
	7,506,114	**6,932,176**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Construction in progress	Total
Cost or valuation					
At January 1, 2017	**833,525**	**2,012,241**	**3,196,951**	**45,024**	**6,087,741**
Additions	-	-	18,040	494,529	512,569
Transfer from construction in progress	-	112,918	309,323	(422,241)	-
Elimination of cost	-	(34)	(24,711)	(203)	(24,948)
As at December 31, 2017	**833,525**	**2,125,125**	**3,499,603**	**117,109**	**6,575,362**
Accumulated depreciation					
At January 1, 2017	**-**	**135,449**	**1,972,515**	**-**	**2,107,964**
Depreciation charge	-	57,566	221,697	-	279,263
Elimination of accumulated depreciation	-	(4)	(24,410)	-	(24,414)
As at December 31, 2017	**-**	**193,011**	**2,169,802**	**-**	**2,362,813**
Net book value as at December 31, 2017	**833,525**	**1,932,114**	**1,329,801**	**117,109**	**4,212,549**
Cost or valuation					
At January 1, 2018	**833,525**	**2,125,125**	**3,499,603**	**117,109**	**6,575,362**
Additions	-	-	13,143	662,300	675,443
Transfer from construction in progress	1,978	42,588	561,414	(605,980)	-
Elimination of cost	-	-	(20,505)	-	(20,505)
As at December 31, 2018	**835,503**	**2,167,713**	**4,053,655**	**173,429**	**7,230,300**
Accumulated depreciation					
At January 1, 2018	**-**	**193,011**	**2,169,802**	**-**	**2,362,813**
Depreciation charge	-	60,553	262,144	-	322,697
Elimination of accumulated depreciation	-	-	(20,182)	-	(20,182)
As at December 31, 2018	**-**	**253,564**	**2,411,764**	**-**	**2,665,328**
Net book value as at December 31, 2018	**835,503**	**1,914,149**	**1,641,891**	**173,429**	**4,564,972**

Land and buildings were revalued as at 31 December 2014 by an independent appraiser. The revaluation surplus/deficit was credited to other reserves within shareholders' equity (Note 16).

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

7. INTANGIBLE ASSETS

	Trademarks and licenses	Software and Internally generated intangibles	Other assets	Construction in progress	Total
Cost or valuation					
At January 1, 2017	**363,436**	**1,579,384**	**70,043**	**90,633**	**2,103,496**
Additions	-	5,406	129	313,463	318,998
Transfer from construction in progress	5,669	272,813	7,853	(286,335)	-
Elimination of cost	(29,481)	-	-	-	(29,481)
As at December 31, 2017	**339,624**	**1,857,603**	**78,025**	**117,761**	**2,393,013**
Accumulated depreciation					
At January 1, 2017	**319,955**	**415,238**	**32,908**	**-**	**768,101**
Depreciation charge	20,302	174,149	7,253	-	201,704
Elimination of depreciation	(29,481)	-	-	-	(29,481)
As at December 31, 2017	**310,776**	**589,387**	**40,161**	**-**	**940,324**
Net book value as at December 31, 2017	**28,848**	**1,268,216**	**37,864**	**117,761**	**1,452,689**
Cost or valuation					
At January 1, 2018	**339,624**	**1,857,603**	**78,025**	**117,761**	**2,393,013**
Additions	-	9,154	-	364,363	373,517
Transfer from construction in progress	19,010	385,306	8,747	(413,063)	-
As at December 31, 2018	**358,634**	**2,252,063**	**86,772**	**69,061**	**2,766,530**
Accumulated depreciation					
At January 1, 2018	**310,776**	**589,387**	**40,161**	**-**	**940,324**
Depreciation charge	15,221	205,335	7,623	-	228,179
As at December 31, 2018	**325,997**	**794,722**	**47,784**	**-**	**1,168,503**
Net book value as at December 31, 2018	**32,637**	**1,457,341**	**38,988**	**69,061**	**1,598,027**

The net book value of software is Denar 83,109 thousand (2017: Denar 45,858 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.

	2018	2017
Debt	349,891	468,702
Cash and cash equivalents	(189,540)	(77,220)
Net debt	160,351	391,482
Equity	9,163,295	8,692,187
Net debt to equity ratio	1.75%	4.50%

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

(In thousands of Denar)

NOTES TO THE SEPARATE 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 North Macedonia.

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

	Liabilities		Assets	
	2018	**2017**	**2018**	**2017**
EUR	709,459	727,872	1,601,019	1,470,365
RUR	-	-	322,572	441,097
USD	166,382	127,036	64,239	56,644
CHF	4,597	13,078	6,963	1,033
Other currencies	1,061	4,409	1,016	928

The Company is mainly exposed to Euro and Russian Ruble currencies.
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 amount below indicates an increase in profit and equity, while a negative amount indicates a decrease.

	Increase of 10% in MKD		Decrease of 10% in MKD	
	2018	**2017**	**2018**	**2017**
EUR	(89,156)	(74,249)	89,156	74,249
RUR	(32,257)	(44,110)	32,257	44,110
USD	10,214	7,039	(10,214)	(7,039)
CHF	(237)	1,204	237	(1,204)
Other currencies	5	348	(5)	(348)
Impact on the profit or loss and equity	**(111,431)**	**(109,768)**	**111,431**	**109,768**

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

Interest rate risk

The Company is exposed to interest risk arising from variable interest rate on borrowings, which depend on the financial market trends.

The sensitivity analyses below have been determined based on the interest rate exposure as a result of a 10% increase or decrease in rates on foreign borrowings at the reporting date. A positive amount below indicates an increase in the profit and equity, while a negative amount indicates a decrease.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk (Continued)

	Increase of 10%		Decrease of 10%	
	2018	**2017**	**2018**	**2017**
Borrowings	1.114	1,211	(1,114)	(1,211)
Profit and loss and equity	**(1.114)**	**(1,211)**	**1,114**	**1,211**

Had the interest rates been 10% higher the Company's profit for the year ended December 31, 2018 and retained earnings would have decreased by Denar 1,114 thousand and vice versa, had the interest rates been 10% lower, the Company's profit for the year ended December 31, 2018 and retained earnings would have increased by Denar 1,114 thousand.

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 maturities of its financial liabilities.

2018	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**12 - 60 months**	**Total**
Trade payables	723,714	516,157	106,172	-	**1,346,043**
Borrowings	-	5,000	125,956	218,935	**349,891**
	723,714	**521,157**	**232,128**	**218,935**	**1,695,934**

2017	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**12 - 60 months**	**Total**
Trade payables	719,868	368,144	110,114	-	**1,198,126**
Borrowings	-	31,368	168,710	268,624	**468,702**
	719,868	**399,512**	**278,824**	**268,624**	**1,666,828**

The following tables detail the Company's remaining contractual maturities of its financial assets:

2018	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**12 - 60 months**	**Total**
Trade receivables	283,924	778,332	971,223	-	**2,033,479**
Available-for-sale financial assets	-	-	-	6,819	**6,819**
Cash and cash equivalents	189,540	-	-	-	**189,540**
	473,464	**778,332**	**971,223**	**6,819**	**2,229,838**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

2017	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	493,662	781,103	804,966	-	**2,079,731**
Available-for-sale financial assets	-	-	-	5,110	**5,110**
Cash and cash equivalents	77,220	-	-	-	**77,220**
	570,882	**781,103**	**804,966**	**5,110**	**2,162,061**

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. During 2018 the Company's accounting transactions were subject to an inspection by the tax authorities regarding VAT for the period October 1 to October 31, 2018, for which a tax inspection protocol was issued without any findings identified.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018	2017
At January 1	**5,110**	**4,649**
Additions	5,039	606
Disposals	(3,330)	(145)
At 31 December	**6,819**	**5,110**

Available-for-sale financial assets consist of:

	2018	2017
Available-for-sale financial assets in non-quoted companies	2,272	1,930
Available-for-sale financial assets in quoted companies	4,547	3,180
	6,819	**5,110**

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 consider that cost approximates their fair value.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES

	2018	2017
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, N. Macedonia	308	308
Alkaloid Kons DOOEL Skopje, N. Macedonia	130,154	130,154
Fund “Trajce Mukaetov” Skopje, N. 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 Veledrogerija 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 Shpk Tirana, Albania	308	308
Alkaloid Kiev CO. LTD., Ukraine	2,157	2,157
	374,691	**374,691**

All subsidiaries are solely (100%) owned by the Company, except for the investment in Alkaloid USA which is an equity share of 49%. Although the investment of Alkaloid AD Skopje in Alkaloid USA LLC Columbus, Ohio USA is 49%, the Company exercises control over this entity.

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

11. INVENTORIES

	2018	2017
Raw materials	950,943	920,382
Spare parts	400	573
Tools and consumable supplies	2,788	1,636
Work in progress	325,423	377,362
Finished goods	604,420	482,582
Commodities	226,259	267,322
	2,110,233	**2,049,857**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

12. TRADE RECEIVABLES

	2018	2017
Trade receivables	2,210,306	2,258,580
Less: provision for impairment of receivables	(176,827)	(178,849)
Trade receivables – net	**2,033,479**	**2,079,731**

Changes in the provision are as follows:

	2018	2017
At January 1	**178,849**	**178,199**
Charge for the year	321	1,314
Write off	(1,596)	(18)
Collected bad and doubtful debts	(747)	(646)
As at December 31	**176,827**	**178,849**

Ageing of impaired trade receivables are as follows:

	2018	2017
Up to 1 year	-	-
Over 1 year	176,827	178,849
As at December 31	**176,827**	**178,849**

13. OTHER RECEIVABLES

	2018	2017
Prepayments	40,800	26,017
Prepaid taxes	99,602	102,749
Other receivables	61,443	82,254
	201,845	**211,020**

Non-current receivables relates to prepayments for property, plant and equipment that are due in more than 1 year.

The fair values of non-current receivables are as follows:

	2018	2017
Prepayments for property, plant and equipment	13,056	80,296

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

	2018	2017
The effective interest rate	3.00%	3.25%

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 SEPARATE FINANCIAL STATEMENTS

14. CASH AND CASH EQUIVALENTS

	2018	2017
Cash balances held with banks	188,916	76,702
Cash in hand	624	518
	189,540	**77,220**

15. SHARE CAPITAL

	Number of shares	Ordinary shares	Treasury shares	Total
At January 1, 2017	**1,416,612**	**2,220,127**	**(23,032)**	**2,197,095**
Purchase of treasury shares	-	-	-	-
As at December 31, 2017	**1,416,612**	**2,220,127**	**(23,032)**	**2,197,095**
Purchase of treasury shares	-	-	-	-
As at December 31, 2018	**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 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

	Property, plant and equipment	Available-for-sale investments	Fund for shares	Total
At January 1, 2017	**892,535**	**198**	**228,916**	**1,121,649**
Increase	-	461	-	**461**
As at December 31, 2017	**892,535**	**659**	**228,916**	**1,122,110**
Increase	-	1,709	-	**1,709**
As at December 31, 2018	**892,535**	**2,368**	**228,916**	**1,123,819**

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 the relevant decisions of the Shareholder assembly and are distributable to shareholders if not utilized.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

17. BORROWINGS

	2018	2017
Non-current borrowings	218,935	268,624
Current borrowings	130,956	200,078
	349,891	**468,702**

The maturity of the borrowings is as follows:

	2018	2017
Up to 1 year	130,956	200,078
Between 1 and 3 years	218,935	268,624
	349,891	**468,702**

The borrowings are denominated in following currencies:

	2018	2017
EUR	186,725	188,564
MKD	163,166	280,138
	349,891	**468,702**

The effective interest rates at the reporting date were as follows:

	December 31, 2018			December 31, 2017		
	EUR	**USD**	**MKD**	**EUR**	**USD**	**MKD**
Interest rates	6 month EURIBOR +2.4 – 2.5%	-	2.2– 2.8%	6 month EURIBOR +2.5 – 4.5%	-	2.8– 3.1%

18. RETIREMENT BENEFIT OBLIGATIONS

	2018	2017
Retirement benefits	29,460	29,168

The retirement benefits are calculated based on the Company’s legal obligation to pay two monthly net salaries to a vesting employee on the retirement date according to the actuarial calculation.

The amounts recognized in the Income statement are as follows:

	2018	2017
As at January 1	**29,168**	**26,729**
Increase in calculation	292	2,438
Decrease in calculation	-	1
As at December 31	**29,460**	**29,168**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

18. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	3.98%	3.66%

19. DEFERRED TAX

	2018	2017
Deferred tax assets	17,817	17,817
	17,817	**17,817**

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

	2018	2017
At January 1	**17,817**	**17,817**
Deferred tax included in income statement	-	-
As at December 31	**17,817**	**17,817**

The movements on deferred tax assets and liabilities were as follows:

	Accruals	Fair value	Total
At January 1, 2017	**17,817**	**-**	**17,817**
Charged to the income statement	-	-	-
Realized deferred tax liabilities	-	-	-
As at December 31, 2017	**17,817**	**-**	**17,817**
Charged to the income statement	-	-	-
Realized deferred tax liabilities	-	-	-
As at December 31, 2018	**17,817**	**-**	**17,817**

20. TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	1,346,043	1,198,126
Customer’s prepayments	11,973	2,070
Payables to employees	64,136	65,361
Dividends	9,304	12,102
Other payables	122,871	86,919
	1,554,327	**1,364,578**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

21. PROVISION FOR OTHER LIABILITIES AND CHARGES

	2018	2017
Provision for retirement benefits	292	2,438
	292	**2,438**

22. OTHER INCOME

	2018	2017
Collected written-off receivables	747	646
Dividends income	162,256	153,547
Interest income	211	822
Foreign exchange transaction gains	115,624	114,012
Other income	99,804	54,311
	378,642	**323,338**

23. OTHER EXPENSES

	2018	2017
Interest expenses	3	139
Foreign exchange transaction losses	177,658	104,641
Write-off of non-current assets	-	436
Write-off of inventories	55,821	36,053
Other expenses	22,499	13,902
	255,981	**155,171**

24. EXPENSES BY NATURE

	2018	2017
Raw materials	2,351,807	2,059,779
Employee benefit expenses	1,377,581	1,317,604
Depreciation and amortization	550,876	480,967
Utilities	148,304	134,430
Impairment of trade receivables	321	1,314
Transportation	153,127	192,437
Changes in the inventories	(124,834)	(53,454)
Other expenses	2,243,287	2,140,040
	6,700,469	**6,273,117**

25. EMPLOYEE BENEFIT EXPENSES

	2018	2017
Gross salaries	1,150,069	1,101,439
Other employees benefits	227,512	216,165
	1,377,581	**1,317,604**
Number of employees at December 31	**1,540**	**1,430**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

26. FINANCE EXPENSES

	2018	2017
Net foreign exchange transaction gains/(losses) on borrowings	(38)	10,607
Interest expense on borrowings	(11,136)	(12,108)
	(11,174)	**(1,501)**

27. INCOME TAX

	2018	2017
Current income tax	68,641	57,332
Deferred income tax (Note 19)	-	-
	68,641	**57,332**

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

	2018	2017
Profit before tax	**916,840**	**823,287**
Tax calculated at tax rate of 10%	91,684	82,329
Income not subject to tax	(2,048)	(3,293)
Tax on expenses not deductible for tax purposes	29,991	31,639
Tax allowances	(50,986)	(53,343)
	68,641	**57,332**

28. EARNINGS PER SHARE

	2018	2017
Basic earnings per share		
Profit attributable to the shareholders (in Denar)	848,199,255	765,954,710
Number of shares	1,416,612	1,416,612
Basic earnings per share (in Denar)	**598.75**	**540.69**

29. DIVIDENDS

The Company does not recognize the dividend payable before it is approved at the Annual General Meeting.

The dividends approved by shareholders on April 2, 2018 amounted to Denar 386,465 thousands for the year ended December 31, 2017. The approved dividends were paid and retained earnings appropriately decreased. The dividend and the tax related to the dividend are disclosed as decrease of retained earnings.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

30. COMMITMENTS

Capital expenditures contracted for acquisition of property, plant and equipment at the reporting date but not yet incurred amount to Denar 58,920 thousand; (2017: Denar 12,143 thousand).

31. CONTINGENT LIABILITIES

The Company has contingent liabilities with respect to the guaranties issued to third parties in the amount of Denar 33,090 thousand (2017: Denar 19,278 thousand).

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

	2018	**2017**
Alkaloid DOO Belgrade, Serbia	292,177	143,967
Alkaloid DOO Zagreb, Croatia	-	14,759
Alkaloid INT DOO Ljubljana, Slovenia	1,237,262	997,889
Alkaloid EOOD Sofia, Bulgaria	-	(123)
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	211,462	197,861
Alkaloidpharm SA Fribourg, Switzerland	28	128
Alkaloid Kons DOOEL Skopje, N. Macedonia	185,497	171,495
OOO Alkaloid RUS, Moscow, Russia	223,872	350,266
Alkaloid Veledrogerija DOO Beograd, Serbia	798,177	600,454
Alkaloid ILAC TLS Istanbul, Turkey	-	3,882
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	6,735	6,623
	2,955,210	**2,487,201**

Purchase of goods and services

	2018	**2017**
Alkaloid DOO Belgrade, Serbia	14,346	15,227
Alkaloid DOO Zagreb, Croatia	12,466	9,338
Alkaloid DOO Ljubljana INT, Slovenia	26,305	35,093
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	106,601	94,167
Alkaloid EOOD Sofia, Bulgaria	1,106	50,649
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	19,849	30,710
Alkaloidpharm SA Fribourg, Switzerland	472,588	181,570
Alkaloid Kons DOOEL Skopje, N. Macedonia	2,070	2,057
Alkaloid DOO Podgorica, Montenegro	42,410	40,426
Fund “Trajce Mukaetov” Skopje, N. Macedonia	8,802	9,372
OOO Alkaloid RUS, Moscow, Russia	92,267	82,527
Alkaloid Veledrogerija DOO Beograd, Serbia	4,084	3,985
Alkaloid ILAC TLS Istanbul, Turkey	9,887	9,574
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	2,680	2,600
Alkaloid Shpk Tirana, Albania	3,681	3,814
Alkaloid Kiev CO. LTD., Ukraine	107,528	44,800
	926,670	**615,909**

(In thousands of Denar)

NOTES TO THE SEPARATE 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 receivable	**2018**	**2017**
Alkaloid DOO Belgrade, Serbia	188,393	72,723
Alkaloid DOO Zagreb, Croatia	-	14,758
Alkaloid DOO Ljubljana INT, Slovenia	322,087	342,360
Alkaloid EOOD Sofia, Bulgaria	-	131
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	74,364	80,163
Alkaloid Kons DOOEL Skopje, N. Macedonia	46,824	61,511
OOO Alkaloid RUS, Moscow, Russia	219,445	333,153
Alkaloid Veledrogerija DOO Beograd, Serbia	360,486	247,376
Alkaloid ILAC TLS Istanbul, Turkey	4,393	7,001
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	2,493	2,481
	1,218,485	**1,161,657**

Accounts payable	**2018**	**2017**
Alkaloid DOO Belgrade, Serbia	2,874	241
Alkaloid DOO Zagreb, Croatia	1,682	1,896
Alkaloid DOO Ljubljana INT, Slovenia	25,292	18,085
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	11,575	13,684
Alkaloid EOOD Sofia, Bulgaria	126	4,987
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	3,971	4,815
Alkaloidpharm SA Fribourg, Switzerland	128,770	69,892
Alkaloid Kons DOOEL Skopje, N. Macedonia	398	933
Alkaloid DOO Podgorica, Montenegro	6,860	6,904
Alkaloid Veledrogerija DOO Beograd, Serbia	801	1,006
Alkaloid ILAC TLS Istanbul, Turkey	1,370	-
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	838	708
Alkaloid Shpk Tirana, Albania	615	123
Alkaloid Kiev CO. LTD., Ukraine	1,163	8,005
	186,335	**131,279**

Advances given to related parties	**2018**	**2017**
Alkaloidpharm SA Fribourg, Switzerland	-	66,410
	-	**66,410**

Short-term loans	**2018**	**2017**
Alkaloid DOO Belgrade, Serbia	1,929	1,928
	1,929	**1,928**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS (Continued)

Key management compensations
No compensations were paid to the Managing Board members in 2018 for the purpose of participation in the Managing board. In 2018, the amount of Denar 4,209 thousand was paid to the Supervisory Board members (2017: Denar 4,207 thousand).

33. EXCHANGE RATES OF PRINCIPAL CURRENCIES

Closing rates:

	31-Dec-2018	31-Dec-2017
EUR	61.50	61.49
RUR	0.77	0.89
USD	53.69	51.27
CHF	54.77	52.55

34. EVENTS AFTER THE REPORTING PERIOD

After the reporting date, there have been no events that would require additional disclosures in or any adjustments to the separate financial statements (adjusting events) until the date of their issuance.

APPENDIX 1 - SEPARATE ANNUAL REPORT

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

APPENDIX 2 - SEPARATE ANNUAL ACCOUNTS