ALKALOID AD SKOPJE
CONSOLIDATED
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2023

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

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Independent auditor's report

To the Supervisory Board and Shareholders of Alkaloid AD Skopje

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Alkaloid AD Skopje, which comprise the consolidated statement of financial position as of 31 December 2023 and the consolidated profit and loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting standards applicable in the Republic of North Macedonia and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing applicable in the Republic of North Macedonia (the "Standards"). The Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alkaloid AD Skopje as of 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with accounting standards applicable in the Republic of North Macedonia.

Report on other legal and regulatory requirements

Consolidated annual report was prepared by the Management in accordance with the requirement of the article 384 of the Company Law.

Management is also responsible for the preparation of the consolidated annual accounts and consolidated annual report of Alkaloid AD Skopje, which were approved by the Managing Board and Supervisory Board.

As required by the Audit Law, we report that the historical information presented in the consolidated annual report prepared by Management of Alkaloid AD Skopje in accordance with article 384 of the Company Law, is consistent, in all material respects, with the financial information presented in the consolidated annual accounts and audited consolidated financial statements of Alkaloid AD Skopje as of 31 December 2023 and for the year then ended.

Dragan Davitkov
General Manager

Dragan Davitkov
Certified Auditor

PricewaterhouseCoopers REVIZIJA DOO Skopje

29 February 2024
Skopje, Republic of North Macedonia

(In thousands of Denar)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at December 31 2023	2022
ASSETS			
Non-current assets			
Property, plant and equipment	6	8,059,289	6,976,234
Intangible assets	7	2,148,382	1,976,502
Deferred tax assets	18	24,243	27,980
Available-for-sale financial assets	9	9,231	8,551
Other non-current assets	12	90,692	307,437
		10,331,837	**9,296,704**
Current assets			
Inventories	10	5,577,893	4,899,072
Trade receivables	11	2,848,723	2,606,933
Other receivables	12	727,501	499,147
Cash and cash equivalents	13	467,955	287,400
		9,622,072	**8,292,552**
TOTAL ASSETS		**19,953,909**	**17,589,256**
EQUITY			
Share capital	14	2,220,127	2,220,127
Treasury shares	14	(109,285)	(109,285)
Legal reserves		626,632	623,368
Other reserves	15	2,083,175	1,660,233
Retained earnings		8,969,840	8,112,887
Minority interests		544	585
Total equity		**13,791,033**	**12,507,915**
LIABILITIES			
Non-current liabilities			
Non-current borrowings	16	714,239	588,881
Retirement benefit obligations	17	59,698	58,693
Deferred tax liabilities	18	4,410	5,889
		778,347	**653,463**
Current liabilities			
Trade and other payables	19	4,190,772	3,494,340
Income tax		38,285	32,752
Current borrowings	16	1,155,472	900,786
		5,384,529	**4,427,878**
Total liabilities		**6,162,876**	**5,081,341**
TOTAL EQUITY AND LIABILITIES		**19,953,909**	**17,589,256**

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

These consolidated financial statements were approved by the Group's Managing Board on 08 February 2024.

Approved by:

Zhivko Mukaetov General Manager	Viktor Stojcevski Finance Manager	Goran Minov Certified accountant ID number. 0101521

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

(In thousands of Denar)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	Year ended December 31 2023	2022
Sales	5	16,512,978	14,289,051
Cost of sales	22	(8,937,595)	(7,835,477)
Gross profit		**7,575,383**	**6,453,574**
Research and development expenses	22	(189,147)	(163,070)
Selling and marketing expenses	22	(4,726,887)	(4,089,940)
Administrative expenses	22	(805,911)	(660,667)
Other income	20	441,058	1,060,762
Other expenses	21	(471,707)	(930,693)
Operating profit		**1,822,789**	**1,669,966**
Finance expenses	25	(37,129)	(26,199)
Profit before income tax		**1,785,660**	**1,643,767**
Income tax	26	(208,796)	(180,346)
Profit for the year		**1,576,864**	**1,463,421**
Attributable to the:			
Shareholders of the Parent Company		1,576,905	1,463,426
Minority interests		(41)	(5)
Profit for the year		**1,576,864**	**1,463,421**
Earnings per share (In Denar)			
- Basic	27	1,121.92	1,041.20

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

(In thousands of Denar)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

		Year ended December 31	
	Note	**2023**	**2022**
Consolidated profit for the year		**1,576,864**	**1,463,421**
Other comprehensive income:			
Fair value of investments	15	680	(316)
Revaluation of land	15	446,882	-
Translation differences	15	(24,620)	4,145
Other consolidated comprehensive income, net of tax		**442,942**	**3,829**
Total consolidated comprehensive income for the year		**1,999,806**	**1,467,250**

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

(In thousands of Denar)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

	Share capital	Treasury shares	Legal reserves	Other reserves	Retained earnings	Minority interests	Total Equity
As at January 1, 2022	**2,220,127**	**(109,285)**	**620,479**	**1,656,404**	**7,274,270**	**590**	**11,662,585**
Purchase of treasury shares	-	-	-	-	-	-	-
Transfer to reserves	-	-	2,181	-	(2,181)	-	-
Dividend payments and tax on dividend paid out (Note 29)	-	-	-	-	(618,424)	-	(618,424)
Profit for the year	-	-	-	-	1,463,426	(5)	1,463,421
Other corrections	-	-	-	-	(35)	-	(35)
Consolidated statement of comprehensive income							
Fair value of gain on investments (Note 9)	-	-	-	(316)	-	-	(316)
Foreign exchange differences on translation of foreign operations	-	-	708	4,145	(4,169)		684
	-	-	708	3,829	(4,169)	-	368
As at December 31, 2022	**2,220,127**	**(109,285)**	**623,368**	**1,660,233**	**8,112,887**	**585**	**12,507,915**
Purchase of treasury shares	-	-	-	-	-	-	-
Transfer to reserves	-	-	2,318	-	(2,318)	-	-
Dividend payments and tax on dividend paid out (Note 29)	-	-	-	-	(688,699)	-	(688,699)
Profit for the year	-	-	-	-	1,576,905	(41)	1,576,864
Other corrections	-	-	-	-	(198)	-	(198)
Consolidated statement of comprehensive income							
Fair value of gain on investments (Note 9)	-	-	-	680	-	-	680
Fair value of land	-	-	-	446,882	-	-	446,882
Foreign exchange differences on translation of foreign operations	-	-	946	(24,620)	(28,737)		(52,411)
	-	-	946	422,942	(28,737)	-	395,151
As at December 31, 2023	**2,220,127**	**(109,285)**	**626,632**	**2,083,175**	**8,969,840**	**544**	**13,791,033**

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

(In thousands of Denar)

CONSOLIDATED CASH FLOW STATEMENT

	Year ended December 31	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	16,498,488	14,130,899
Cash paid to suppliers and employees	(14,603,940)	(12,946,989)
Cash generated from operations	**1,894,548**	**1,183,910**
Interest received	15,532	12,939
Net cash generated from operating activities	**1,910,080**	**1,196,849**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(1,324,262)	(1,222,119)
Sale of property, plant and equipment	-	983
Subsidies received	(4,281)	193,027
Acquisition/Sale of investment in available-for-sale securities, net	-	2,136
Net cash used in investing activities	**(1,328,543)**	**(1,025,973)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	4,156,696	3,060,574
Repayments of borrowings	(3,791,158)	(2,779,018)
Interest paid	(41,266)	(20,158)
Purchase of treasury shares	-	-
Dividends paid to shareholders, tax on dividends paid out and other profit distribution	(688,313)	(618,904)
Net cash used in financing activities	**(364,041)**	**(357,506)**
Net increase/(decrease) in cash and cash equivalents	**217,496**	**(186,630)**
Cash and cash equivalents at beginning of year	287,400	496,555
Translation differences	(36,941)	(22,525)
Cash and cash equivalents at the end of year	**467,955**	**287,400**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Alkaloid AD Skopje (the "Parent Company") and its subsidiaries produce and sell a wide range of pharmaceutical, chemical and cosmetic products, as well as goods from herbal origin. The Parent Company (hereinafter referred to as "the Group") 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 2.2. Production facilities of the Group are located in Skopje and Belgrade.

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 Parent 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 consolidated 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 the Consolidated Financial Statements

Pursuant to the provisions of the Company Law (Official Gazette nos. 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, 13/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16, 61/16, 64/18, 120/18, 195/2018, 225/2018, 239/2018, 290/20, 215/21 and 99/22) legal entities in the Republic of North Macedonia are required to maintain their books of account and to prepare their financial statements in conformity with the International Financial Reporting Standards published in the Official Gazette of the Republic of North Macedonia.

A newly-issued Rulebook for Chart of Accounts (Official Gazette nos. 159/09, 164/10 and 107/11) was adopted on 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 from January 1, 2010.

Until the date of preparation of the accompanying consolidated financial statements, the amendments of the International Financial Reporting Standards ("IFRS/ISA") and interpretations of IFRIC in effect for the annual periods beginning on or after January 1, 2009, have not yet been translated and published in the Republic of North Macedonia.

Given the potentially material effects which the departures of accounting regulations applicable in Republic of North Macedonia from the International Financial Reporting Standards may have on the fairness of presentation made in the Company's consolidated financial statements, the accompanying consolidated financial statements cannot be treated as a set of consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis of Preparation and Presentation of Financial Statements (Continued)

The accompanying consolidated financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder. In the preparation of the accompanying consolidated financial statements, the Company adhered to the accounting policies described in Note 2.

The financial statements are prepared on going concern basis.

All amounts in the Company's consolidated financial statements are stated in thousands of Macedonian Denars (MKD). The Denar is the official reporting currency in the Republic of North Macedonia.

The preparation of the consolidated financial statements in accordance with the Law on Trade Companies and the Rulebook on Accounting requires the application of estimates and assumptions by the management of the Company, which affect the positions expressed in the consolidated financial statements. Although management estimates are based on reasonable information and knowledge of events and activities, the actual results may differ from those estimated. Management estimates are shown in Note 4.

2.2. Subsidiaries

Subsidiaries are all legal entities over which the Parent 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 Parent 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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date that control ceases.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2. Subsidiaries (Continued)

The accompanying consolidated financial statements include the financial statements of the Parent Company Alkaloid AD Skopje and the following subsidiaries:

	2023 % of ownership	2022 % of ownership
Alkaloid DOO Zagreb, Croatia	100%	100%
Alkaloid DOO Beograd, Serbia	100%	100%
Alkaloid INT DOO Ljubljana, Slovenia	100%	100%
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	100%	100%
Alkaloidpharm SA Fribourg, Switzerland	100%	100%
Alkaloid EOOD Sofia, Bulgaria	100%	100%
ALK&KOS Shpk Prishtina, Kosovo	100%	100%
Alkaloid Bilna apteka DOOEL Skopje, N, Macedonia	100%	100%
Alkaloid Kons DOOEL Skopje, N, Macedonia	100%	100%
Alkaloid USA LLC Columbus, Ohio USA	49%	49%
Fund “Trajce Mukaetov” Skopje, N, Macedonia	100%	100%
Alkaloid DOO Podgorica, Montenegro	100%	100%
OOO Alkaloid RUS Moscow, Russia	100%	100%
Alkaloid FARM DOO Ljubljana, Slovenia	100%	100%
Alkaloid Veledrogerija DOO Beograd, Serbia	100%	100%
Alkaloid ILAC TLS Istanbul, Turkey	100%	100%
ALKA-LAB DOO Ljubljana, Slovenia	100%	100%
Alkaloid Shpk Tirana, Albania	100%	100%
Alkaloid Kiev CO, LTD,, Ukraine	100%	100%
Alkaloid LGL DOO Zagreb, Croatia	100%	100%
Alkaloid UK Limited, Great Britain	100%	100%
HC Alkaloid Handball Skopje , N, Macedonia	100%	100%
HC Multi Essence Skopje , N, Macedonia	100%	100%
Alkaloid Bucharest S,R,L,, Romania	100%	100%
Alkaloid SEE DOO Beograd, Serbia	100%	-

The investment in Alkaloid USA LLC Columbus, Ohio USA is the equity share of 49%, but the Parent Company exercises control.

In 2022 a new subsidiary was established in Romania with a name Alkaloid Bucharest S.R.L. The subsidiary is 100% owned by the Company. In 2023 a new subsidiary was established in Serbia with a name Alkaloid SEE DOO Beograd. The subsidiary is 100% owned by the Company.

Alkaloid’s representative offices in Russia and Ukraine are included in the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Segment reporting

Operating segments are reported in a manner with the internal reporting provided to the Managing Board, Managing Board is responsible for strategic decisions for each segment.

As at December 31, 2023, the Group 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.

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, universities, clinics, pharmaceutical and cosmetic industry, as well as in the production processes of other industries.

Alkaloid’s Cosmetics Unit develops and produces skincare products, children's skincare, soaps, hair care products, dental care products, men’s perfume collection, women’s perfume collection, as well as household cleaners. The ingredients that are used in the products are purchased from suppliers that satisfy our high-quality standards and are in accordance with the requirements of the European directive for quality cosmetic products.

The activities in Botanical unit consists of processing blending and packing herbal materials like roots, leaves, fruits, seeds etc.

Segment revenue is revenue reported in the Group’s income statement that is directly attributable to a segment and the relevant portion of the Group 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. Group assets and liabilities principally consist of net liquidity (cash, cash equivalents and other current financial assets less financial debts) and deferred and current taxes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Segment reporting (Continued)

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

2.4. Lease

Leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated profit and loss on straight-line basis over the period of the lease.

2.5. Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in thousands of Macedonian Denar (Denar or MKD), which is the Group's functional currency and the presentation currency for the consolidated financial statements.

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 consolidated income statement. Translation differences of non-monetary assets denominated in foreign currency are recognized in equity.

Group companies

Assets and liabilities are translated at the closing rate at the date of the consolidated statement of financial position. The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

For the purposes of the consolidated financial statements presentation, assets and liabilities of the Group's foreign operations are translated at the reporting date currency.

Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and All resulting differences are recognized as a separate component of equity.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Property, plant and equipment

Property plant and equipment are initially recorded at cost. Land is measured at fair value, based on the appraisal performed by external independent appraisers. 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are 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 consolidated 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 consolidated reporting date.

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

The carrying amount of disposed property, plant and equipment is eliminated from the consolidated 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 disposals and the carrying amount of the assets and included in the consolidated income statement.

2.7. 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.
The following are the ranges of useful life of the intangible assets:

Software	5	years
Internally generated assets	10	years
Trademarks and patents	10	years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. 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 to 10 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.

Patents

Patents are measured initially at purchase cost and are amortized on a straight-line basis over their estimated useful lives of 10 years.

2.8. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the consolidated statement of financial position (Note 2.11).

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 consolidated statement of financial position date.

Regular purchases and sales of investments are recognized on trade date, the date on which the Group 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 Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. The Group 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. 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 the consolidated statement of comprehensive income, except for impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement. Dividends on available-for-sale equity instruments are recognized in the consolidated income statement when the Group'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 Group 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 consolidated income statement. Method for evaluation of impairment of trade receivables is explained in Note 2.11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10. Inventories

Inventories are stated at the lower of cost and net realizable value.. The cost of finished goods and work in progress comprises direct production costs and related production overheads. Net realisable value is the actual or estimated selling price of an asset (net of trade discounts but before settlement discounts) less all further costs of completion and all costs to be incurred in marketing, selling, and distributing.

The costs of purchase of inventories include the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), haulage, handling, and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

2.11. 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 Group 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 consolidated income statement within "selling and marketing costs".

2.12. Cash and cash equivalents

Cash and cash equivalents include cash balances held on bank accounts and cash in hand.

2.13. Share capital

Ordinary shares are classified as equity, Purchases of the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs are deducted from equity attributable to the Parent 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 Parent Company's equity holders.

2.14. 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 Group has an unconditional right to defer settlement of the liability for at least 12 months after the consolidated reporting date.

2.15. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. 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 in the Republic of North Macedonia at the rate of 10% applicable to the taxable income, which is the profit as determined in the Consolidated statement of comprehensive income, adjusted for certain items as defined by the local tax legislation. In respect of the Group's subsidiaries the current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income.

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 consolidated 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 Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17. Employee benefits

Pension liabilities
The Group 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 Group pays contributions into publicly and privately administered pension plans on a mandatory basis. The Group 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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17.Employee benefits (Continued)

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits
Termination benefits are payable when employees are terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group 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 Group 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 Group recognizes a liability and an expense for bonuses and profit-sharing, based on a decision of a Managing Board. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18. Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

2.19.Revenue recognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19. Revenue recognition (Continued)

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income

Dividend income is recognized when the right to receive payment is established.

2.20. Dividends

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

2.21. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent company Alkaloid AD Skopje and its subsidiaries (Note 2.2). The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Parent Company until the date that control ceases.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

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 consolidated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT

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

b) Price risks

The Group is exposed to equity securities price risk because of Investments in equity instruments 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 wholesales of products are made to customers with an appropriate credit history. Trade receivables consist of a 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 rate 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 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 Investments in equity instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the last traded price.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2. Fair value assessment (Continued)

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 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.

3.3. Capital risk management

The Group's objectives when managing capital are to safeguard the Group'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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. ACCOUNTING ESTIMATES AND JUDGMENTS

The Group 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 a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Depreciation and amortization rates

The determination of the useful lives of assets is based on historical experiences with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position and results of operations. If depreciation cost is decreased/increased by 10%, this would result in change of annual depreciation expense of approximately 58,705 MKD thousand (2022: MKD 54,275 thousand).

Useful life of intangible assets

The determination of the useful lives of intangible assets is based on historical experiences with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions. Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position and results of operations. If depreciation cost is decreased/increased by 10%, this would result in change of annual depreciation expense of approximately 34,014 MKD thousand (2022: MKD 32,498 thousand).

Fair value of land

The fair value of the land is analysed by the Group at the balance sheet date in order to determine whether any significant changes on the market price have occurred. The fair value of the land is determined by the independent valuator on an annual basis, applying the methodology for valuation of land published in Official Gazette of Republic of North Macedonia. The impact of any changes in these assumptions which are used in the process of valuation of the land could be material to our financial position and results of operations. If the price of the land decreased/increased by 3%, this would result in change of the value of the land/revalorisation reserves annually of approximately 63,587 MKD thousand (2022: MKD 36,015 thousand).

Fair value of financial assets

The available-for-sale financial assets that are not traded in an active market are stated at their cost. The Group estimation is that the difference between their fair value and cost is not material, and do not affect the result. This financial assets are insignificant both in the books in the Group and as a percentage of participation in the issuer capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Impairment of Trade and Other Receivables

The allowance for impairment of doubtful receivables is formed based on the estimated losses arising from customer's default. The management's assessment is based on the ageing analysis of accounts receivable, historical write-offs, customer creditworthiness and changes in the terms of sale, identified upon determining the adequacy of allowance for impairment of doubtful receivables. This includes the assumptions on future customer behavior and future collections arising therefrom. The management believes that no allowance for impairment, except for the provisions already included in the financial statements, is necessary.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured and recorded as the best estimate of the expenditure required to settle the present obligation at the financial statement date. The provision charge is recognized in the consolidated profit and loss for the year.

Estimates for accounting for employee benefits

IAS19, Employee Benefits, requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations. These mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover and discount rates. Substantial changes in the assumed development of any one of these variables may change the Company's retirement benefit obligation.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING

Reportable segments - Products

Segment information reported to the Management Board is based on product types and customer categories. The segment information by product is more relevant to the Group.

Principal product types are pharmaceutical and non-pharmaceutical products (chemicals cosmetics and botanicals). The principal customer category Group's products are wholesalers.

Segments revenues and results for the year ended December 31, is as follows:

	Segment revenue		Segment operating profit	
	2023	**2022**	**2023**	**2022**
Pharmaceutical products	14,816,742	12,604,165	1,798,225	1,649,118
Chemical products	314,771	362,627	7,366	16,209
Cosmetic products	1,127,403	1,020,711	15,858	2,448
Botanical products	254,062	301,548	1,340	2,191
Total	**16,512,978**	**14,289,051**	**1,822,789**	**1,669,966**
Finance expenses			(37,129)	(26,199)
Profit before tax			**1,785,660**	**1,643,767**
Income tax			(208,796)	(180,346)
Profit for the year			**1,576,864**	**1,463,421**

Revenue reported above represents revenue generated from external customers.

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

Segment assets	**2023**	**2022**
Pharmaceutical products	18,769,780	16,576,036
Chemical products	634,309	520,197
Cosmetic products	378,415	313,238
Botanical products	171,405	179,785
Total assets	**19,953,909**	**17,589,256**

Segment liabilities	**2023**	**2022**
Pharmaceutical products	5,791,014	4,716,602
Chemical products	144,136	131,468
Cosmetic products	186,265	185,239
Botanical products	41,461	48,032
Total liabilities	**6,162,876**	**5,081,341**

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

	Depreciation and amortization		Addition to non-current assets	
	2023	**2022**	**2023**	**2022**
Pharmaceutical products	806,716	764,787	1,592,088	1,285,571
Chemical products	28,671	19,377	33,568	98,319
Cosmetic products	50,824	46,390	83,165	52,274
Botanical products	40,980	37,177	32,741	38,049
Total liabilities	**927,191**	**867,731**	**1,741,562**	**1,474,213**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

Geographical information

The Republic of North Macedonia is the domicile country of the Group where part of the activities are performed.

	Revenue from external customers		Non-current assets	
	2023	**2022**	**2023**	**2022**
North Macedonia	5,193,459	4,594,347	10,044,898	8,778,929
Serbia	2,800,257	2,568,099	92,973	105,147
Russia	2,305,002	1,883,714	3,220	3,365
Croatia	1,101,567	975,991	4,379	5,120
Bosnia and Herzegovina	933,401	844,535	5,916	1,078
Kosovo	578,631	571,010	3,070	5,222
Other countries	3,600,661	2,851,355	53,215	53,875
Total	**16,512,978**	**14,289,051**	**10,207,671**	**8,952,736**

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

Non-current assets are consisted of 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 Chemicals products, there is one major customer with a share of 21.9% (2022: 22.1%) in direct sales.

In the sales of Cosmetics products, there is one major customer with a share of 17.2% (2022: 17.2%) in direct sales.

In the sales of Botanicals products, there is a single major customer with a share of 26.5% (2022: 40.3%) in direct sales.

Sales by category	**2023**	**2022**
Sales of goods	12,150,210	10,770,158
Sales of commodities	4,225,899	3,397,958
Other revenue	136,869	120,935
	16,512,978	**14,289,051**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Construction in progress	Total
Cost or valuation					
At January 1, 2022	**1,672,705**	**3,907,669**	**6,045,501**	**240,183**	**11,866,058**
Additions	-	3,950	26,252	1,039,905	1,070,107
Transfer from construction in progress	-	289,297	426,818	(716,115)	-
Disposals	-	(17,088)	(51,493)	-	(68,581)
Revaluation	-	-	-	-	-
Translation differences	-	(184)	(1,471)	99	(1,556)
As at December 31, 2022	**1,672,705**	**4,183,644**	**6,445,607**	**564,072**	**12,866,028**
Accumulated depreciation					
At January 1, 2022	**-**	**2,044,508**	**3,369,409**	**-**	**5,413,917**
Depreciation charge in 2022	-	100,400	442,350	-	542,750
Disposals	-	(15,400)	(50,203)	-	(65,603)
Translation differences	-	(98)	(1,172)	-	(1,270)
As at December 31, 2022	**-**	**2,129,410**	**3,760,384**	**-**	**5,889,794**
Net book value as at December 31, 2022	**1,672,705**	**2,054,234**	**2,685,223**	**564,072**	**6,976,234**
Cost or valuation					
At January 1, 2023	**1,672,705**	**4,183,644**	**6,445,607**	**564,072**	**12,866,028**
Additions	-	-	55,473	1,170,357	1,225,830
Transfer from construction in progress	-	312,726	579,852	(892,578)	-
Disposals	-	(55)	(58,496)	(332)	(58,883)
Revaluation	446,882	-	-	-	446,882
Translation differences	-	5	(1,409)	-	(1,404)
As at December 31, 2023	**2,119,587**	**4,496,320**	**7,021,027**	**841,519**	**14,478,453**
Accumulated depreciation					
At January 1, 2023	**-**	**2,129,410**	**3,760,384**	**-**	**5,889,794**
Depreciation charge in 2023	-	104,930	482,120	-	587,050
Disposals	-	(55)	(56,855)	-	(56,910)
Translation differences	-	14	(784)	-	(770)
As at December 31, 2023	**-**	**2,234,299**	**4,184,865**	**-**	**6,419,164**
Net book value as at December 31, 2023	**2,119,587**	**2,262,021**	**2,836,162**	**841,519**	**8,059,289**

The fair value of the land was determined by the independent valuator “Drustvo za ulugi Centar za procena DOO Skopje” as at 31 December 2023, applying the methodology for valuation of land published in Official Gazette of Republic of North Macedonia. The revaluation surplus/deficit was credited to other reserves within shareholders’ equity (Note 15).

(In thousands of Denar)

NOTES TO THE CONSOLIDATED 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, 2022	**371,199**	**3,455,320**	**112,718**	**49,230**	**3,988,467**
Additions	-	482	868	402,756	404,106
Transfer from construction in progress	-	380,947	10,256	(391,203)	-
Elimination	(23)	(3,076)	-	(160)	(3,259)
Translation differences	(503)	303	620		420
As at December 31, 2022	**370,673**	**3,833,976**	**124,462**	**60,623**	**4,389,734**
Accumulated amortization					
At January 1, 2022	**355,664**	**1,652,904**	**82,338**	**-**	**2,090,906**
Charge for the year	6,494	310,310	8,177	-	324,981
Elimination	(23)	(3,076)	-	-	(3,099)
Translation differences	(3)	326	121	-	444
As at December 31, 2022	**362,132**	**1,960,464**	**90,636**	**-**	**2,413,232**
Net book value as at December 31, 2022	**8,541**	**1,873,512**	**33,826**	**60,623**	**1,976,502**
Cost or valuation					
At January 1, 2023	**370,673**	**3,833,976**	**124,462**	**60,623**	**4,389,734**
Additions	68	14,053	436	501,175	515,732
Transfer from construction in progress	-	489,122	6,913	(496,035)	-
Elimination	-	(1,081)	-	(3,640)	(4,721)
Translation differences	(500)	(1,379)	116	1	(1,762)
As at December 31, 2023	**370,241**	**4,334,691**	**131,927**	**62,124**	**4,898,983**
Accumulated amortization					
At January 1, 2023	**362,132**	**1,960,464**	**90,636**	**-**	**2,413,232**
Charge for the year	3,655	328,793	7,693	-	340,141
Elimination	-	(1,043)	-	-	(1,043)
Translation differences	-	(1,343)	(386)	-	(1,729)
As at December 31, 2023	**365,787**	**2,286,871**	**97,943**	**-**	**2,750,601**
Net book value as at December 31, 2023	**4,454**	**2,047,820**	**33,984**	**62,124**	**2,148,382**

The net book value of software is Denar 57,608 thousand (2022: Denar 71,093 thousand), and the rest of the amount is internally generated intangibles.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS

Capital risk management

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

	2023	2022
Debt	1,869,711	1,489,667
Cash and cash equivalents	(467,955)	(287,400)
Net debt	1,401,756	1,202,267
Equity	13,791,033	12,507,915
Net debt to equity ratio	10.16%	9.61%

Categories of financial instruments and risk management objectives

The Group'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 Group is exposed to the following risks:

Foreign currency risk

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

	Liabilities		Assets	
	2023	2022	2023	2022
EUR	1,789,277	1,462,054	1,767,663	1,363,222
RUR	101,456	91,218	185,669	288,741
USD	297,186	213,131	13,410	8,191
CHF	10,280	13,268	16,384	10,345
Other currencies	240,684	273,612	992,040	892,294

The Group is mainly exposed to Euro and Russian Ruble currencies.

The following table details the Group'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 date of the Consolidated Statement of financial position. A positive amount below indicates an increase in profit in Consolidated Income Statement, while a negative amount indicates a decrease.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk (Continued)

	Increase of 10%		Decrease of 10%	
	2023	2022	2023	2022
EUR	2,161	9,883	(2,161)	(9,883)
RUR	(8,422)	(19,752)	8,422	19,752
USD	28,378	20,494	(28,378)	(20,494)
CHF	(610)	292	610	(292)
Other currencies	(75,136)	(61,869)	75,136	61,869
Impact on the income statement and equity	**(53,629)**	**(50,952)**	**53,629**	**50,952**

The Group's sensitivity to foreign currency rates has increased during the current period mainly due to the increase in foreign trade receivables and liabilities.

Interest rate risk

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

The sensitivity analysis below has 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 a decrease in profit and equity, while a negative amount indicates an increase.

	Increase of 10%		Decrease of 10%	
	2023	2022	2023	2022
Borrowings	4,071	2,605	(4,071)	(2,605)
Income statement and equity	**(4,071)**	**(2,605)**	**4,071**	**2,605**

Had the interest rates been 10% higher the Group's profit for the year ended December 31, 2023 and retained earnings would have decreased by Denar 4,071 thousand and vice versa, had the interest rates been 10% lower, the Group's profit for the year ended December 31, 2023 and retained earnings would have increased by Denar 4,071 thousand.

Liquidity risk

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

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

The following tables detail the Group's remaining contractual maturities of its financial liabilities:

2023	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	1,656,711	1,159,481	258,649	10,991	**3,085,832**
Borrowings	36,093	78,681	1,070,536	748,017	**1,933,327**
	1,692,804	**1,238,162**	**1,329,185**	**759,008**	**5,019,159**

2022	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	1,401,407	872,587	270,553	7,804	**2,552,351**
Borrowings	22,142	74,496	804,149	588,880	**1,489,667**
	1,423,549	**947,083**	**1,074,702**	**596,684**	**4,042,018**

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

2023	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,318,827	1,355,449	174,447	-	**2,848,723**
Cash and cash equivalents	467,955	-	-	-	**467,955**
	1,786,782	**1,355,449**	**174,447**	**-**	**3,316,678**

2022	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,197,069	1,252,669	1,252,669	-	**2,606,933**
Cash and cash equivalents	287,400	-	-	-	**287,400**
	1,484,469	**1,252,669**	**1,252,669**	**-**	**2,894,333**

Credit risk

The following table represents Company exposure to credit risk as of 31 December 2023 and 31 December 2022:

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

	2023	**2022**
Cash and cash equivalents	466,702	286,395
Trade receivables	2,848,723	2,606,933
Other receivables - financial	727,501	499,147
	4,042,926	**3,392,475**

Cash and cash equivalents in the table above excludes cash on hand as no credit risk exists for this category.
The receivables are summarized as follows:

	31 December 2023	**31 December 2022**
	Trade receivables	**Trade receivables**
Neither past due nor impaired	2,241,952	2,070,379
Past due but not impaired	606,771	536,554
Impaired	229,918	232,604
Gross	3,078,641	2,839,537
Less: allowance for impairment	(229,918)	(232,604)
Net	**2,848,723**	**2,606,933**

Neither past due nor impaired

Trade receivables of MKD 2.241.952 thousand (2022: MKD 2,070,379 thousand) were neither past due not impaired. These relate mainly to customers s for which there is no recent history of default and the Group has longterm cooperation

Past due but not impaired

Trade receivables of MKD 606,771 thousand (2022: MKD 536,554 thousand) were neither past due not impaired. These relate mainly to customers s for which there is no recent history of default and the Group has longterm cooperation

The ageing structure of the receivables past due, but not impaired as of December 31, 2023 and 2022 is as follows:

	2023	**2022**
Less than 30 days	284,390	220,591
Between 31 and 60 days	178,566	171,380
Between 61 and 90 days	97,678	135,543
Over 90 days	46,137	9,040
	606,771	**536,554**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Credit risk arising from cash and cash equivalents

Management is focused on dealing with most reputable banks in foreign and domestic ownership on the domestic market. Even though most of the financial institutions and commercial banks in North Macedonia do not have a credit rating assigned by the credit rating companies, the Group prudently chooses the banks for its placements. The Groupy focuses its analyses mainly on the following: net assets, profitability, portfolio, customer base. When the analyses provide positive score, the selection is performed The Company collaborate with reputable banks in Republic of North Macedonia and the main focus are the largest banks (as per the National bank classification). In relation to the cash in the other countries where the Parent Company has its own subsidiaries, the Group in the analyses applies the risk grades estimated by external international rating agencies (Fitch, Moody's)

The following table discloses the cash and cash equivalents per bank:

	2023	2022
Domestic banks	219,655	67,454
Banca Intesa Serbia (BBB)	10,054	1,620
ProCredit Bank Serbia (BBB-)	39,653	43,339
OTP Serbia (Baa1)	17,094	196
Societe Serbia	271	-
OTP Croatia (Baa1)	255	313
Raiffeisenbank Croatia (BBB+)	19,311	30,500
ZABA Croatia (BBB)	26,623	16,039
UniCredit Slovenia	25,601	33,724
NLB Slovenia(BBB+	7,174	356
SKB Slovenia (BBB+)	10,103	1,876
Other foreign banks	90,908	90,978
	466,702	**286,395**

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2023	2022
At January 1	**8,551**	**8,867**
Additions	1,113	30
Disposals	(433)	(346)
As at December 31	**9,231**	**8,551**

Available-for-sale financial assets consist of:

	2023	2022
Available-for-sale financial assets in non-quoted companies	2,679	2,405
Available-for-sale financial assets in quoted companies	6,552	6,146
Available-for-sale financial assets in non-related parties	**9,231**	**8,551**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

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 and bonds are presented by market values of identical assets. The unlisted shares that are not traded in an active market are stated at cost. The Group considers that cost approximates their fair value.

9. INVENTORIES

	2023	2022
Raw materials	1,807,971	1,714,002
Spare parts	1,029	1,104
Tools and consumable supplies	2,417	3,254
Work in progress	413,588	353,901
Finished goods	2,288,319	1,938,744
Trading goods	1,064,569	888,067
	5,577,893	**4,899,072**

10. TRADE RECEIVABLES

	2023	2022
Trade receivables	3,078,641	2,839,537
Less: Provision for impairment of receivables	(229,918)	(232,604)
Trade receivables - net	**2,848,723**	**2,606,933**

Changes in the provision are as follows:

	2023	2022
At January 1	**232,604**	**240,057**
Provision for the year	96	47
Write off	(2,587)	(7,419)
Collected bad and doubtful debts	(256)	(1,179)
Translation differences	61	1,098
As at December 31	**229,918**	**232,604**

Ageing of impaired trade receivables are as follows:

	2023	2022
Up to 1 year	-	-
Over 1 year	229,918	232,604
As at December 31	**229,918**	**232,604**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. TRADE RECEIVABLES (Continued)

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

11. OTHER RECEIVABLES

	2023	2022
Prepayments	113,188	88,254
Receivables from employees	374	140
Prepaid VAT	340,913	265,147
Government grants	122,987	-
Other receivables	150,039	145,606
	727,501	**499,147**

Prepayments for VAT are refunded from the Tax authorities on a regular basis.

	2023	2022
Other receivables - financial	263,601	234,000
Other receivables - non financial	463,900	265,147

Other non-current receivables

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

The fair values of non-current other assets are as follows:

	2023	2022
Other assets	90,692	307,437

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

	2023	2022
	5.25%	1.75%

13. CASH AND CASH EQUIVALENTS

	2023	2022
Cash balances held with banks	464,797	285,099
Cash in hand	1,253	1,005
Other	1,905	1,296
	467,955	**287,400**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE CAPITAL

	Ordinary shares	Treasury shares	Total
At January 1, 2022	**2,220,127**	**(109,285)**	**2,110,842**
Purchase of treasury shares	-	-	-
As at December 31, 2022	**2,220,127**	**(109,285)**	**2,110,842**
Purchase of treasury shares	-	-	-
As at December 31, 2023	**2,220,127**	**(109,285)**	**2,110,842**

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 in. As of 31.12.2023, the number of voting shares is 1,405,509 shares.

During 2023 no shares were acquired. The total number of treasury shares is 22,557. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares.

15. OTHER AND LEGAL RESERVES

	Transfer of reserves	Land	Investments in equity instruments	Fund for shares	Total
At January 1, 2022	**(9,604)**	**1,449,460**	**4,416**	**212,132**	**1,656,404**
Increase(Note 9)	-	-	(316)	-	(316)
Translation differences	-	4,145	-	-	4,145
As at December 31, 2022	**(9,604)**	**1,453,605**	**4,100**	**212,132**	**1,660,233**
Increase (Note 9)	-	-	680	-	680
Revaluation	-	446,882	-	-	446,882
Translation differences	-	(24,620)	-	-	(24,620)
As at December 31, 2023	**(9,604)**	**1,875,867**	**4,780**	**212,132**	**2,083,175**

The nature and rights of distribution of each class of other reserves are:

- Revaluation reserves for land are created based on valuation of the land. These reserves are not distributable to shareholders.
- The reserves for Investments in equity instruments are 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 decision of the Shareholder assembly and are distributable to shareholders if not utilized.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. OTHER AND LEGAL RESERVES (Continued)

	Legal reserves
At January 1, 2022	**620,479**
Increase	2,181
Decrease	-
FX differences	708
As at December 31, 2022	**623,368**
Increase	2,318
Decrease	-
FX differences	946
As at December 31, 2023	**626,632**

The Group shall have a mandatory general reserve as a general reserve fund established by retaining funds from the net profit. This reserve shall be calculated and allocated as percentage determined in the company's agreement, that is, the statute and cannot be less than 5% of the profit until the reserve of the company reach an amount equal to one tenth of the basic capital. If the reserve generated in this way decreases, it has to be supplemented in the same manner.

16. BORROWINGS

	2023	2022
Non-current borrowings	714,239	588,881
Current borrowings	1,155,472	900,786
	1,869,711	**1,489,667**

The maturity of the borrowings is as follows:

	2023	2022
Up to 1 year	1,155,472	900,786
Between 1 and 3 years	714,239	588,881
	1,869,711	**1,489,667**

The borrowings are denominated in following currencies:

	2023	2022
EUR	206,072	261,756
MKD	1,663,461	1,227,718
Other	178	193
	1,869,711	**1,489,667**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. BORROWINGS (Continued)

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

	December 31, 2023			December 31, 2022		
	EUR	USD	MKD	EUR	USD	MKD
	Fixed interest			3 - 6 month EURIBOR		
Interest rates	+0.89 – 4.4%	-	1.6-3.4%	+0.59 – 1.3%	-	1.4-2.7%

As at 31 December 2023, the Parent Company maintains the financial ratios (debt ratio in relation to equity and EBITDA and total equity/total assets) determined based on the agreement signed with the banks.

17. RETIREMENT BENEFIT OBLIGATIONS

	2023	2022
Retirement benefits	**59,698**	**58,693**

The retirement benefits are calculated based on the Group'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:

	2023	2022
Beginning of the year	**58,693**	**58,995**
Increase in calculation	1,002	-
Foreign exchange differences	3	(302)
As at December 31	**59,698**	**58,693**

The principal actuarial assumptions used were as follows:

- Average monthly salary based on public available data in Republic of North Macedonia in the last three months of the year 2023;
- Retirement condition: 64 years (men) иand 62 years (women) as well as 15 years working experience;
- Nominal annual increase of the salary

	2023	2022
Discount rate	3.58%	3.00%

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. DEFERRED TAX

	2023	2022
Deferred tax assets	24,243	27,980
Deferred tax liabilities	(4,410)	(5,889)
	19,833	**22,091**

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

	2023	2022
At January 1,	**22,091**	**16,257**
Deferred tax included in the income statement (Note 27)	3,239	(8,759)
Realized deferred tax liabilities	(5,497)	14,593
As at December 31,	**19,833**	**22,091**

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

	Accruals	Fair value	Total
At January 1, 2022	**16,257**	**-**	**16,257**
Charged to the income statement	(8,759)	-	(8,759)
Realized deferred tax liabilities	14,593	-	14,593
As at December 31, 2022	**22,091**	**-**	**22,091**
Charged to the income statement	3,239	-	3,239
Realized deferred tax liabilities	(5,497)	-	(5,497)
As at December 31, 2023	**19,833**	**-**	**19,833**

19. TRADE AND OTHER PAYABLES

	2023	2022
Trade payables	3,085,832	2,552,351
Customer’s prepayments	32,709	31,692
Payables to employees	234,162	196,755
Dividends	9,304	9,304
Deferred subsidies revenues	403,743	385,447
Provisions and other payables	425,022	318,791
	4,190,772	**3,494,340**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. OTHER INCOME

	2023	2022
Collected written-off receivables	256	-
Interest income	3,614	5,070
Foreign exchange transaction gains	226,119	811,657
Subsidies revenues	100,410	89,565
Other income	110,695	154,470
	441,058	**1,060,762**

21. OTHER EXPENSES

	2023	2022
Interest expenses	1,728	685
Foreign exchange transaction losses	313,094	795,207
Write off and shortage of inventory	120,339	84,505
Other expenses	36,547	50,296
	471,707	**930,693**

22. EXPENSES BY NATURE

	2023	2022
Raw materials	4,300,596	3,826,386
Employee benefit expense	3,795,651	3,268,686
Depreciation and amortization	927,191	867,731
Energy	330,632	434,744
Impairment of trade receivables	96	47
Transportation	217,223	183,254
Changes in the inventories	(163,812)	(303,510)
Cost of trading goods	2,777,980	2,255,705
Lease	252,653	217,793
Marketing	1,567,961	1,286,332
Other expenses	653,369	711,986
	14,659,540	**12,749,154**

In the category "Other expenses" an amount of MKD 31,002 thousands is related to the solidarity tax. In accordance with the Solidarity tax law published in Official Gazzette at 25 September 2023, this represent one-off tax for 2023.The calculation and payment of the solidarity tax for the year 2023 the Parent Company has performed in accordance with the Solidarity Tax Law.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. EMPLOYEE BENEFIT EXPENSES

	2023	2022
Gross salaries	3,339,874	2,867,484
Other employees benefits	455,777	401,202
	3,795,651	**3,268,686**
Number of employees as at December 31,	**2,843**	**2,617**

24. OPERATING LEASING

Operating leasing relates to rent of premises and vehicles. The lease term is between 3-5 years. The Group do not has option to re-purchase premises and vehicles.

Minimum operating leasing	**2023**	**2022**
	252,653	217,793
	252,653	**217,793**

Future non-cancellable obligations	**2023**	**2022**
Up to 1 year	144,790	182,571
Between 2 to 5 years	259,341	191,849
	404,131	**374,420**

25. FINANCE EXPENSES

	2023	2022
Net foreign exchange transaction (losses)/gains on borrowings	(79)	(152)
Interest expense on borrowings	(37,050)	(26,047)
	(37,129)	**(26,199)**

26. INCOME TAX

	2023	2022
Current income tax	205,557	189,105
Net deferred income tax (Note18)	3,239	(8,759)
	208,796	**180,346**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. INCOME TAX (Continued)

The income tax reconciliation for the year 2023 and 2022 is presented in the table below:

	2023	2022
Profit before tax	**1,785,660**	**1,643,767**
Tax calculated at tax rate of 10%	165,184	153,313
Expenditure reconciliation	132,935	115,776
Tax allowances	(92,562)	(79,984)
Deferred income tax	3,239	(8,759)
Income tax	**208,796**	**180,346**
Effective tax rate	**11.69%**	**10.97%**

27. EARNINGS PER SHARE

	2023	2022
Basic earnings per share		
Profit attributable to the shareholders (In Denar)	1,576,864,006	1,463,420,874
Weighted average number of shares outstanding	1,405,509	1,405,509
Basic earnings per share (in Denar)	**1,121.92**	**1,041.20**

28. DIVIDENDS

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

The dividends approved by shareholders on April 3, 2023 amounted to Denar 701,363 thousands for the year ended December 31, 2022. 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.

29. COMMITMENTS

Capital expenditures contracted for acquisition of property, plant and equipment at the reporting date but not yet incurred amount to Denar 175,728 thousand (2022: Denar 657,379 thousand).

30. CONTINGENT LIABILITIES

The Group has contingent liabilities with respect to the guaranties issued to third parties in the amount of Denar 461,774 thousand (2022: Denar 422,051 thousand).

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31. RELATED PARTY TRANSACTIONS

The Group has no ultimate controlling party, the shares are widely held.

Key management compensations

The management team of Alkaloid consists of 160 individuals, including members of the Management Board. In the reporting year, the total allowances for gross salaries and awards, annual leave allowance, New Year’s bonus, management insurance, severance pay, jubilee awards, and private health insurance for the management team amounted to a total of MKD 735.5 million (2022: MKD 730.4 million) on a gross basis. This amount comprises MKD 586.4 million (2022: MKD 577.1 million) fixed compensation and MKD 149.1 million (2022: MKD 153.3 million) variable compensation. No compensations were paid to the Management Board members for the purpose of participation in the Management Board. In 2023, the amount of MKD 4,799 thousand were paid to the Supervision Board members.

32. EXCHANGE RATES OF PRINCIPAL CURRENCIES

The exchange rates used for translation on 31 December 2023 and 31 December 2022 were as follows:
Closing rates:

	31 Dec 2023	31 Dec 2022
EUR	61.50	61.49
RUR	0.61	0.78
USD	55.65	57.65
CHF	66.41	62.45

34. TAXATION RISK

The Republic of North Macedonia currently has several tax laws in effect, as imposed by the Ministry of Finance of the Republic of North Macedonia. The applicable taxes include: value added tax, corporate income tax, and personal income tax, among others. Apart from that, the regulations governing these taxes were not enforced for substantial periods of time; in contrast to similar legislation in more developed market economies. Moreover, the regulations defining the implementation of these laws are often unclear or non-existent. Hence, few precedents with regard to tax issues have been established in the Republic of North Macedonia. Often, contrary opinions pertaining to legal interpretations exist both among, and within, governmental ministries and organizations, thus creating uncertainties and areas of legal contention. Tax returns, together with all other areas regulated by the law (such as customs) are reviewed and controlled by competent authorities by several authorized vested in powers to assess severe fines and penalties.

The Company performs significant transactions with its related parties. Although the management believes that the Company possesses sufficient and adequate documentation on transfer prices, it is still uncertain whether the tax and other authorities' requirements and interpretations of the tax legislation will differ from those of the management. The management believes that any varying interpretations will have no material effects on the Company's consolidated financial statements.

The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. 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 periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years. The abovementioned explanations pose tax risks in the Republic of North Macedonia which are materially more significant than those common in the countries with more developed tax systems.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. EVENTS AFTER THE REPORTING PERIOD

On 24 February 2022, Russia engaged in military actions on Ukraine territory.

Following these events, the Group has taken necessary measures to protect its employees, and tries to provide safety conditions.

As of 31 December 2023, the Group has exposures arising from the operations in the two countries directly affected by the conflict, as follows:

in MKD 000	Russia			Ukraine		
	Trade receivables	Inventory	Revenue	Trade receivables	Inventory	Revenue
Balance as of 12/31/2023	**14,883**	**359,861**	**2,255,049**	**63,850**	**/**	**386,010**
Subsequent collection of receivables (in 2024, to date)	(4,597)	/	/	(59,258)	/	/
Subsequent sales of the inventories (in 2024, to date)	/	(359,861)	/	/	/	/
Net exposure	**10,286**	**0**	**N/A**	**4,592**	**N/A**	**N/A**

The Group includes 100% owned subsidiary in Russia OOO Alkaloid RUS, Moscow through which the Group generated 14% of consolidated revenue during the 12 months period ended as of 31 December 2023. In addition, the Group includes 100% owned subsidiary in Ukraine TOV Alkaloid Kiev which has no significant business operation yet. However, the parent Company makes direct sales to third parties on the Ukraine market, which represented 2% of consolidated revenue for the year ended 31 December 2023.

Since most of receivables and inventories held on these two markets as of 31 December 2023 have been subsequently realized, management of the Group believes that no adjustments are needed on the amounts presented in the consolidated financial statements for the year then ended.

As the conflict continues to evolve, it is challenging to predict the full extent and duration of its business and economic implications. Consequently, these circumstances may impact Group members with challenges relating to the business operations mostly in Russia and Ukraine due to the respective governmental bodies measures and policies which have already been implemented or might be implemented in the future.

The Group management is closely monitoring developments that may impact trading activities including sanctions, actions by governments and developments in Ukraine itself. Management will further assess the impact on business operations and will take any potential actions needed, as facts and circumstances are subject to change and may be influencing trading strategies and barriers in the markets affected by the conflict. At this stage, management is not able to reliably estimate prolonged impact on Group future revenues and overall business, since the events are unfolding day-by-day.

There have been no events that would require additional disclosures in or any adjustments to the consolidated financial statements (adjusting events) until the date of their issuance.

APPENDIX 1 - CONSOLIDATED ANNUAL REPORT

APPENDIX 2 - CONSOLIDATED ANNUAL ACCOUNTS