



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

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

FOR THE PERIOD JANUARY - DECEMBER 2013

February 2014

CONTENTS

1. General information
2. Financial risk management
3. Additions to non-current assets
4. Dividends
5. Borrowings
6. Major transactions
7. Related party transactions
8. Share capital
9. Key management compensations

Production and sales

Consolidated sales

Consolidated total sales

Consolidated sales by segments

Consolidated domestic market sales by segments

Consolidated foreign market sales by segments

Consolidated foreign market sales by regions/countries

Total revenues, determination and allocation of profit

Consolidated total revenues

Consolidated total expenses

Consolidated Income statement

Consolidated Balance sheet

Consolidated Performance indicators

Number of employees

1. General information

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

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

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

The main scope is production of pharmaceutical products.

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

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

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

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

2. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The financial risk management is 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 enough cash in foreign currencies held in banks in order to maintain its future commercial transactions.

b) Price risk

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

Credit risk

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

Liquidity risk

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

Interest risk

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

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

Fair value estimation

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

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

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

3. Additions to non-current assets

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

Additions to non-current assets - segment reporting

Segments	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Pharmacy	374,441	81	421,450	90	89
Chemistry Cosmetics Botanicals	87,169	19	47,448	10	184
Total:	461,610	100	468,898	100	98

4. Dividends

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

The dividends approved by shareholders on 08 April 2013 were Denar 262,410 thousands. Tax of paid dividend was amounting Denar 26,695 thousands. Approved dividends are paid and retained earnings are appropriately decreased.

5. Borrowings

Borrowings	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Non-current	55,204	9	208,342	27	26
Current	564,238	91	558,545	73	101
Total:	619,442	100	766,887	100	81

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Up to 1 year	564,238	91	558,545	73	101
Between 1 to 3 years	55,204	9	208,342	27	26
Total:	619,442	100	766,887	100	81

6. Major Transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2013.

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

7. Related party transactions

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

Subsidiary	2013	2012
	% of ownership	% of ownership
Alkaloid DOO Zagreb, Croatia	100%	100%
Alkaloid DOO Beograd, Serbia	100%	100%
Alkaloid INT DOO Ljubljana, Slovenia	100%	100%
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	100%	100%
Alkaloidfarm SA Fribourg, Switzerland	100%	100%
Alkaloid EOOD Sofia, Bulgaria	100%	100%
ALK&KOS Shpk Prishtina, Kosovo	100%	100%
Alkaloid Kons DOOEL Skopje, Macedonia	100%	100%
Alkaloid USA LLC Columbus, Ohio US	49%	49%
Fund "Trajce Mukaetov" Skopje, Macedonia	100%	100%
Alkaloid DOO Podgorica, Montenegro	100%	100%
OOO Alkaloid RUS, Moscow, Russia	100%	100%
Alkaloid FARM DOO Ljubljana, Slovenia	100%	100%
Alkaloid Veledrogerija DOO Beograd, Serbia	100%	100%
Alkaloid ILAC TLS Istanbul, Turkey	100%	-

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

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

During 2010 Alkaloid AD, Skopje established a new subsidiary in Slovenia, Alkaloid Farm DOO Ljubljana. The new subsidiary is 100% owned by the Company. The existing subsidiary in Slovenia is rebranded into Alkaloid INT DOO Ljubljana. During 2011 Alkaloid AD Skopje established a new subsidiary in Serbia, Alkaloid Veledrogerija DOO Beograd. During 2013 Alkaloid AD Skopje established a new subsidiary in Turkey, Alkaloid ILAC TLS Istanbul.

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

8. Share capital

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
At 1 January 2012	1,422,596	2,220,127	-13,736	2,206,391	493
Treasury shares purchased	-663	-	-1,043	-1,043	-1,620
Sale of treasury shares	-	-	-	-	-
At 31 December 2012	1,421,933	2,220,127	-14,779	2,205,348	-1,127
Transfer ov reserves	-	-	-	-	1,127
At 31 December 2013	1,421,933	2,220,127	-14,779	2,205,348	-

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

During 2012 the Entity acquired 663 of its own shares through Macedonian stock exchange and held as treasury shares. The total number of treasury shares is 9,420. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares acquired from the right to dividend payments.

Earning per share

	(In MKD)		
	2013	2012	IND
	Amount	Amount	13/12
Profit attributable to shareholders (in denars)	600,426,217	583,730,219	103
Number of shares	1,421,933	1,421,933	100
Basic earning per share (in denars):	422.26	410.52	103

9. Key management compensations

No compensations were paid to the Management Board members in 2013 and 2012.

In 2013, the amount of Denar 4,206 thousands were paid to the Supervision Board members (2012: Denar 4,203 thousands).

Consolidated production in tons

Segment	(In tons)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Pharmacy	852	10	875	10	97
Chemistry Cosmetics Botanicals	7,922	90	7,598	90	104
Total:	8,774	100	8,473	100	104

The total amount produced for 2013 is 8,774 tons, which compared to last years' production amount of 8,473 tons has increased for 4%.

Total consolidated sales

Market	(In 000 MKD)				
	2013		2011		IND
	Amount	%	Amount	%	13/12
Domestic market	3,122,867	44	2,877,739	42	109
Foreign market	3,974,732	56	3,910,894	58	102
Total:	7,097,599	100	6,788,633	100	105

The total sales revenues for 2013 are 7,097,599 which compared to last years' 6,788,633 have increased for 5%. The growth in total sales revenues is a result of the increase of sales revenues on domestic market for 9% and foreign market for 2%.

The largest portion of total sales revenues of 56%, is generated on foreign markets.

Total consolidated sales - segment reporting

Segment	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Pharmacy	5,966,410	84	5,708,116	84	105
Chemistry Cosmetics Botanicals	1,131,189	16	1,080,517	16	105
Total:	7,097,599	100	6,788,633	100	105

The largest portion in total sales revenues is generated on the Pharmacy segment with 5,966,410 thousand denars or 84%, which compared to last years' 5,708,116 thousand denars indicates an increase of 5%.

Consolidated domestic market sales - segment reporting

Segment	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Pharmacy	2,562,607	82	2,321,566	81	110
Chemistry Cosmetics Botanicals	560,260	18	556,173	19	101
Total:	3,122,867	100	2,877,739	100	109

Total sales revenues on domestic market are 3,122,867 thousand denars, which compared to last years' 2,877,739 thousand denars have increased for 9%.

The largest portion in total sales revenues on domestic market is generated on the Pharmacy segment with 2,562,607 thousand denars or 82%.

Consolidated foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Pharmacy	3,403,803	86	3,386,550	87	101
Chemistry Cosmetics Botanicals	570,929	14	524,344	13	109
Total:	3,974,732	100	3,910,894	100	102

Total sales on foreign market are 3,974,732 thousand denars, which compared to last years' 3,910,894 thousand denars have decreased for 2%.

The largest portion of the foreign market sales of 3,430,803 or 86% is generated on the Pharmacy segment.

Consolidated foreign market sales by regions / countries

Region / country	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
South Eastern Europe	2,996,219	75	2,920,455	75	103
Albania	64,516	2	102,275	3	63
Bosnia and Herzegovina	646,005	16	580,304	18	111
Kosovo	308,122	8	298,730	8	103
Serbia	1,083,600	27	1,057,984	27	102
Croatia	711,398	18	709,123	18	100
Monte Negro	182,578	5	172,039	4	106
Russia and CIS	360,100	9	448,722	11	80
Russia	313,709	8	354,972	9	88
Armenia	5,167	-	13,675	-	38
Georgia	1,003	-	-	-	-
Ukraine	40,221	1	80,075	2	50
Western Europe (EU and EFTA)	547,389	14	479,583	12	114
Bulgaria	186,958	5	177,173	5	106
Greece	-	-	539	-	-
Germany	97,852	2	97,192	2	101
Romania	27,810	1	2,793	-	996
Czech	5,960	-	6,646	-	90
Slovakia	28	-	2,389	-	-
Slovenia	228,352	5	192,427	5	119
Switzerland	429	-	424	-	101
Other countries	71,024	2	62,134	2	114
USA	53,584	1	46,903	1	114
Turkey	12,565	-	14,105	-	89
Other countries	4,875	-	1,126	-	433
Total:	3,974,732	100	3,910,894	100	102

The largest portion of foreign market sales of 75% is generated on the South Eastern Europe region, which compared to last year indicates an increase of 3%.

Consolidated Income statement

	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Sales	7,097,599	98	6,788,633	95	105
Cost of sales	-3,673,013	-50	-3,497,210	-49	105
Gross profit	3,424,586	47	3,291,423	46	104
Research and development expenses	-46,765	-1	-38,687	-1	121
Selling and marketing expenses	-2,262,544	-31	-2,272,187	-32	100
Administrative expenses	-267,821	-4	-269,326	-4	99
Provision for other liabilities and charges	-	-	-3,530	-	-
Other income	174,980	2	313,091	4	56
Other expenses	-306,926	-4	-332,308	-5	92
Operating profit	715,510	10	688,476	10	104
Finance expenses (net)	-44,227	-1	-48,435	-1	91
Profit before income tax	671,283	9	640,041	9	105
Income tax expense	-70,857	-1	-56,311	-1	126
Profit from continuing operations	600,426	8	583,730	8	103
Profit/(Loss) from discontinued operations	-	-	-	-	-
Profit for the year	600,426	8	583,730	8	103
Attributable to the:					
Shareholders of the Parent Company	600,452	8	583,763	8	103
Minority interests	-26	-	-33	-	79
Profit for the year	600,426	8	583,730	8	103

Sales by category

	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Sales					
Sales of goods	5,600,249	77	5,587,643	79	100
Sales of commodities	1,438,668	20	1,147,798	16	125
Other sales revenues	58,682	1	53,192	1	110
Total:	7,097,599	98	6,788,633	95	105

Other income

(In 000 MKD)					
Other income	2013		2012		IND
	Amount	%	Amount	%	13/12
Foreign exchange transaction gains	92,406	1	189,835	3	49
Collected written off receivables	10,468	-	2,408	-	435
Surpluses	3,276	-	6,394	-	51
Interest income	9,673	-	499	-	-
Other income	59,157	1	113,955	2	52
Total:	174,980	2	313,091	5	56

Finance income

(In 000 MKD)					
Finance income	2013		2012		IND
	Amount	%	Amount	%	13/12
Foreign exchange transaction gains on borrowing	2,087	-	7,505	-	-
Interest income on borrowings	831	-	-	-	-
Total:	2,918	-	7,505	-	-
Total revenues:	7,275,497	100	7,109,229	100	102

Total revenues for 2013 are 7,275,497 thousand denars, which compared to last year have increased for 2%.

The largest portion of total revenues 98%, belongs to sales of goods, sales of commodities and other sales revenues, which compared to last year have increased for 5%.

Other income have a portion in total revenues of 2% and compared to last year have decreased for 44%

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

Expenses by nature

(In 000 MKD)					
Expenses	2013		2012		IND
	Amount	%	Amount	%	13/12
Raw materials	1,860,217	28	1,748,431	27	106
Employee benefit expense	1,362,660	21	1,318,416	20	103
Depreciation and amortization	342,260	5	335,482	5	102
Energy	185,980	3	199,146	3	93
Impairments	63,997	1	50,576	1	127
Transportation	142,037	2	134,303	2	106
Changes in the inventories	-168,138	-3	-65,572	-1	-
Cost of commodities	1,107,909	17	1,001,989	15	111
Other expenses	1,353,221	20	1,354,639	21	100
	6,250,143	95	6,077,410	94	103

Employee benefit expense

Expenses	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Gross salaries	1,195,942	18	1,156,892	18	103
Other employees benefits	166,718	3	161,524	2	103
	1,362,660	21	1,318,416	20	103

Other expenses

Expenses	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Foreign exchange transaction loss	163,865	2	173,929	3	94
Shortages	11,916	-	12,742	-	94
Expenses from last year	18,756	-	25,161	-	-
Other expenses	112,389	2	120,476	2	93
	306,926	5	332,308	5	92

Finance cost

Expenses	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Foreign exchange transaction losses on borrowings	4,055	-	6,057	-	67
Interest expense on borrowings	43,090	1	49,883	1	86
Total:	47,145	1	55,940	1	84
Total expenses:	6,604,214	100	6,465,658	100	102

Total expenses in 2012 are 6,604,214 thousand denars, which compared to last years' 6,465,658 thousand denars have increased for 2%.

The largest portion in total expense of 28% belongs to Raw materials. Employee benefit expense has a portion of 21%, Other expenses 5% and Finance costs which consist of expenses on borrowings have a portion in total expenses of 1%.

Consolidated profit before taxes for 2013 is 671,283 thousand denars, which compared to last years' 640,041 thousand denars has increased for 5%. The portion of consolidated profit before taxes in total revenues is 9%.

Consolidated income tax for 2013 is 70,857 thousand denars, which compared to last years' 56,311 thousand denars has increased for 26%.

Consolidated Net profit for 2013 is 600,426 thousand denars, which compared to last years' 583,730 thousand denars has increased for 3%. The portion of consolidated Net profit in total revenues is 8%.

Consolidated Balance Sheet

	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Assets					
Non-current assets					
Property, plant and equipment	3,840,953	41	3,851,987	42	100
Intangible assets	760,008	8	647,260	7	117
Available-for-sale financial assets	3,191	-	4,784	-	67
Other non current receivables	20,998	-	30,618	-	69
Deferred tax assets	17,547	-	15,728	-	112
Total non-current assets:	4,642,697	49	4,550,377	49	102
Current assets					
Inventories	2,035,041	21	1,791,379	19	114
Trade receivables	2,196,438	23	2,508,304	27	88
Other receivables	198,764	2	243,506	3	82
Cash and cash equivalents	408,928	4	185,589	3	220
Total current assets:	4,839,171	51	4,728,778	51	102
Total assets:	9,481,868	100	9,279,155	100	102
Equity and liabilities					
Equity					
Share capital	2,205,348	23	2,205,348	24	100
Share premiums	-	-	-1,127	-	-
Legal reserves	609,405	6	604,746	7	101
Other reserves	1,515,595	15	1,524,599	17	99
Retained earnings	3,216,316	34	2,907,337	31	111
Minority interests	1,179	-	1,205	-	98
Total equity:	7,547,843	80	7,242,108	78	104
Liabilities					
Current liabilities					
Trade and other payables	1,264,349	13	1,222,977	13	103
Income taxes	23,642	-	18,682	-	127
Current borrowings	564,238	6	558,545	7	101
Total current liabilities:	1,852,229	20	1,800,204	19	103
Non-current liabilities					
Non-current borrowings	55,204	1	208,342	2	26
Deferred income tax liabilities	19,379	-	20,670	-	94
Non-current provisions	7,213	-	7,831	-	92
Total non-currents liabilities:	81,796	1	236,843	3	35
Total liabilities:	1,934,025	20	2,037,047	22	95
Total equity and liabilities:	9,481,868	100	9,279,155	100	102

Performance indicators

Indicators	(In %)		
	2013	2012	IND 13/12
Net profit margin (net profit / total revues)	8.25	8.21	101
Net profit margin (net profit / sales)	8.46	8.60	98
EBITDA	14.90	15.08	99
Current ratio	2.61	2.63	99
Net debt to equity ratio	2.79	8.03	35
Return of equity	7.95	8.06	99
Return of assets	6.33	6.29	101

Number of employees on 31 December

Segment	2013		2012		IND 13/12
	Amount	%	Amount	%	
Pharmacy	969	65	916	65	106
Chemistry Cosmetics Botanicals	210	14	195	14	108
Corporate unit	309	21	302	21	102
Total:	1,488	100	1,413	100	105

Total number of employees on 31 December 2013 is 1,488, which compared to last year has increased for 5%.

Alkaloid AD Skopje