



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

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

FOR THE PERIOD JANUARY - DECEMBER 2016

February 2017

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

The Company's Annual consolidated report on the performance has been prepared in accordance with the Trade Company Law ("Official Gazette of the Republic of Macedonia" no. 28/04, 84/05, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10, 8/11, 21/11, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16 and 61/16) and the Rulebook for accounting ("Official Gazette of RM" no.159/09, 164/10 and 107/11). The consolidated report is prepared in accordance with the concept of purchase price, excluding the land property, construction buildings and available-for-sale financial assets, which are presented by their market value.

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

2. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The financial risk management is preformed by the Group's financial department, based on Decisions from Managing board.

Market risk

a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

To manage the foreign exchange risk the Group provides enough cash in foreign currencies held in banks in order to maintain its future commercial transactions.

b) Price risk

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

Credit risk

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

Liquidity risk

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

Interest risk

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

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

Fair value estimation

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

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

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

3. Additions to non-current assets

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

Additions to non-current assets - segment reporting

Segments	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Pharmacy	598,174	84	950,775	96	63
Chemistry Cosmetics Botanicals	114,109	16	36,031	4	317
Total:	712,283	100	986,806	100	72

4. Dividends

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

The dividends for 2015 approved by shareholders on 4 April 2016 were Denar 329,211 thousands. Approved dividends are paid and retained earnings are appropriately decreased.

5. Borrowings

Borrowings	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Non-current	67,620	13	25,055	7	270
Current	439,989	87	328,683	93	134
Total:	507,609	100	353,738	100	143

The maturity of the borrowings is as follows:

Maturity	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Up to 1 year	439,989	87	328,683	93	134
Between 1 to 3 years	67,620	13	25,055	7	270
Total:	507,609	100	353,738	100	143

6. Major Transactions

According to the Trade Company Law, Alkaloid AD Skopje has no major transactions in 2016.

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	2016	2015
	% of ownership	% of ownership
Alkaloid DOO Zagreb, Croatia	100%	100%
Alkaloid DOO Beograd, Serbia	100%	100%
Alkaloid INT DOO Ljubljana, Slovenia	100%	100%
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	100%	100%
Alkaloidfarm SA Fribourg, Switzerland	100%	100%
Alkaloid EOOD Sofia, Bulgaria	100%	100%
ALK&KOS Shpk Prishtina, Kosovo	100%	100%
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	100%	100%
Alkaloid Kons DOOEL Skopje, Macedonia	100%	100%
Alkaloid USA LLC Columbus, Ohio US	49%	49%
Fund "Trajce Mukaetov" Skopje, Macedonia	100%	100%
Alkaloid DOO Podgorica, Montenegro	100%	100%
OOO Alkaloid RUS, Moscow, Russia	100%	100%
Alkaloid FARM DOO Ljubljana, Slovenia	100%	100%
Alkaloid Veledrogerija DOO Beograd, Serbia	100%	100%
Alkaloid ILAC TLS Istanbul, Turkey	100%	100%
ALKA-LAB DOO Ljubljana, Slovenia	100%	100%
Alkaloid Kiev CO. LTD., Ukraine	100%	-
Alkaloid Shpk Tirana, Albania	100%	-

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

During 2016, Alkaloid AD Skopje established a new subsidiary in Tirana, Albania and a new subsidiary in Kiev, Ukraine.

In 2015 the company has increased its investment in four of its subsidiaries, in Alkaloid Kons DOOEL Skopje, Macedonia by Denar 80,000 thousand, ALKA-LAB DOO Ljubljana, Slovenia by EUR 150 thousand, OOO Alkaloid RUS, Moscow, Russia by RUR 120 million and in Alkaloid DOO Zagreb, Croatia by EUR 10 thousand.

The Company has representative offices in Russia, Bosnia and Herzegovina and Albania. The operational results of the representation offices are included in the financial statements of the Company.

8. Share capital

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
At 1 January 2015	1,416,612	2,220,127	-23,032	2,197,095	-
Purchase of treasury shares	-	-	-	-	-
At 31 December 2015	1,416,612	2,220,127	-23,032	2,197,095	-
Purchase of treasury shares	-	-	-	-	-
At 31 December 2016	1,416,612	2,220,127	-23,032	2,197,095	-

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

The total number of treasury shares is 14,741. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares acquired from the right to dividend payments.

Earning per share

	(In MKD)		
	2016	2015	IND
	Amount	Amount	16/15
Profit attributable to shareholders (in denars)	731,818,674	666,466,522	110
Number of shares	1,416,612	1,416,612	100
Basic earning per share (in denars):	516.60	470.47	110

9. Key management compensations

No compensations were paid to the Management Board members in 2016 and 2015.

In 2016, the amount of Denar 4,207 thousands were paid to the Supervision Board members (2015: Denar 5,006 thousands).

Consolidated production in tons

Segment	(In tons)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Pharmacy	892	7	848	7	105
Chemistry Cosmetics Botanicals	11,919	93	10,651	93	112
Total:	12,811	100	11,499	100	111

The total amount produced for 2016 is 12,811 tons, which compared to last years' production amount of 11,499 tons has increased for 11%.

Total consolidated sales

(In 000 MKD)

Market	2016		2015		IND
	Amount	%	Amount	%	16/15
Domestic market	3,321,026	40	3,235,800	41	103
Foreign market	4,971,744	60	4,624,614	59	108
Total:	8,292,770	100	7,860,414	100	106

The total sales revenues for 2016 are 8,292,770 which compared to last years' 7,860,414 have increased for 6%. The growth in total sales revenues is a result of the increase of sales revenues on domestic market for 3% and foreign market for 8%.

The largest portion of total sales revenues of 60%, is generated on foreign markets.

Total consolidated sales - segment reporting

(In 000 MKD)

Segment	2016		2015		IND
	Amount	%	Amount	%	16/15
Pharmacy	6,910,385	83	6,591,387	84	105
Chemistry Cosmetics Botanicals	1,382,385	17	1,269,027	16	109
Total:	8,292,770	100	7,860,414	100	106

The largest portion in total sales revenues is generated on the Pharmacy segment with 6,910,385 thousand denars or 83%, which compared to last years' 6,591,387 thousand denars indicates an increase of 5%.

Consolidated domestic market sales - segment reporting

(In 000 MKD)

Segment	2016		2015		IND
	Amount	%	Amount	%	16/15
Pharmacy	2,664,293	80	2,622,723	81	102
Chemistry Cosmetics Botanicals	656,733	20	613,077	19	107
Total:	3,321,026	100	3,235,800	100	103

Total sales revenues on domestic market are 3,321,026 thousand denars, which compared to last years' 3,235,800 thousand denars have increased for 3%.

The largest portion in total sales revenues on domestic market is generated on the Pharmacy segment with 2,664,293 thousand denars or 80%.

Consolidated foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Pharmacy	4,246,092	85	3,968,664	86	107
Chemistry Cosmetics Botanicals	725,652	15	655,950	14	111
Total:	4,971,744	100	4,624,614	100	108

Total sales on foreign market are 4,971,744 thousand denars, which compared to last years' 4,624,614 thousand denars have increased for 8%.

The largest portion of the foreign market sales of 4,246,092 or 85% is generated on the Pharmacy segment.

Consolidated foreign market sales by regions / countries

Region / country	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
South Eastern Europe	2,862,703	58	2,757,292	60	104
Albania	85,251	2	58,015	1	147
Bosnia and Herzegovina	752,467	15	789,721	18	95
Kosovo	329,489	7	326,696	7	101
Serbia	1,490,964	30	1,391,428	30	107
Monte Negro	204,532	4	191,432	4	107
Russia and CIS	511,440	10	452,731	10	113
Russia	436,708	9	381,305	8	115
Georgia	7,168	-	6,424	-	112
Armenia	17,115	-	15,344	-	112
Ukraine	49,579	1	47,048	1	105
Azerbaijan	870	-	-	-	-
Turkmenistan	-	-	2,610	-	-
Western Europe (EU and EFTA)	1,437,985	29	1,292,796	28	111
Bulgaria	239,273	5	222,794	5	107
Croatia	717,053	14	682,906	15	105
Germany	70,819	1	73,041	2	97
Romania	95,039	2	58,391	-	163
Hungary	9,054	-	3,851	-	235
Czech	16,967	-	7,646	-	222
Slovakia	3,541	-	7,487	-	47
Poland	10,782	-	4,480	-	241
Slovenia	249,409	5	221,328	5	113
Great Britain	15,390	-	6,846	-	225
Spain	1,234	-	2,615	-	47
Lithuania	1,947	-	980	-	199
Finland	2,435	-	-	-	-
Netherlands	538	-	-	-	-
Switzerland	4,504	-	431	-	1,045
Other countries	159,616	3	121,795	3	131
USA	142,137	3	109,263	2	130
Turkey	13,872	-	8,065	-	172
Other countries	3,607	-	4,467	-	81
Total:	4,971,744	100	4,624,614	100	108

The largest portion of foreign market sales of 58% is generated on the South Eastern Europe region, which compared to last year indicates an increase of 4%.

Consolidated Income statement

	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Sales	8,292,770	96	7,860,414	95	106
Cost of sales	-4,548,509	-53	-4,289,684	-52	106
Gross profit	3,744,261	44	3,570,730	43	105
Research and development expenses	-71,498	-1	-58,942	-1	121
Selling and marketing expenses	-2,433,623	-28	-2,296,241	-28	106
Administrative expenses	-385,509	-4	-308,408	-4	125
Provision for other liabilities and charges	-1,091	-	-1,200	-	91
Other income	300,623	3	384,213	5	78
Other expenses	-298,708	-3	-509,180	-6	59
Operating profit	854,455	10	780,972	9	109
Finance expenses (net)	-12,407	-	-15,462	-	80
Profit before income tax	842,048	10	765,510	9	110
Income tax expense	-110,230	-1	-99,043	-1	111
Profit from continuing operations	731,818	9	666,467	8	110
Attributable to the:					
Shareholders of the Parent Company	731,850	9	666,785	8	110
Minority interests	-32	-	-318	-	10
Profit for the year	731,818	9	666,467	8	110

Sales by category

	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Sales					
Sales of goods	6,195,299	72	6,044,516	73	102
Sales of commodities	2,023,179	24	1,760,638	21	115
Other sales revenues	74,292	1	55,260	1	134
Total:	8,292,770	96	7,860,414	95	106

Other income

(In 000 MKD)					
Other income	2016		2015		IND
	Amount	%	Amount	%	16/15
Foreign exchange transaction gains	174,025	2	258,103	3	67
Collected written off receivables	23,304	-	612	-	-
Surpluses	3,662	-	3,358	-	109
Interest income	4,357	-	13,673	-	32
Other income	95,275	1	108,467	1	88
Total:	300,623	3	384,213	5	78

Finance income

(In 000 MKD)					
Finance income	2016		2015		IND
	Amount	%	Amount	%	16/15
Foreign exchange transaction gains on borrowing	705	-	239	-	-
Interest income on borrowings	-	-	-	-	-
Total:	705	-	239	-	-
Total revenues:	8,594,098	100	8,244,866	100	104

Total revenues for 2016 are 8,594,098 thousand denars, which compared to last year have increased for 4%.

The largest portion of total revenues 96%, belongs to sales of goods, sales of commodities and other sales revenues, which compared to last year have increased for 6%.

Other income have a portion in total revenues of 3% and compared to last year have decreased for 22%

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	2016		2015		IND
	Amount	%	Amount	%	16/15
Raw materials	2,207,867	28	1,932,501	26	114
Employee benefit expense	1,691,568	22	1,525,490	20	111
Depreciation and amortization	441,937	6	375,804	5	118
Energy	137,579	2	154,176	2	89
Impairments	16,724	-	60,779	-	28
Transportation	190,230	2	167,335	2	114
Changes in the inventories	-165,764	-	5,462	-	-
Cost of commodities	1,486,422	19	1,375,183	18	108
Other expenses	1,433,667	18	1,357,745	18	106
	7,440,230	96	6,954,475	93	107

Employee benefit expense

Expenses	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Gross salaries	1,462,425	19	1,327,333	18	110
Other employees benefits	229,143	3	198,157	3	116
	1,691,568	22	1,525,490	20	111

Other expenses

Expenses	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Foreign exchange transaction loss	105,602	2	303,407	4	35
Shortages	23,780	-	24,166	-	98
Expenses from previous year	26,531	1	28,862	-	92
Other expenses	142,795	2	152,745	2	93
	298,708	4	509,180	7	59

Finance cost

Expenses	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Foreign exchange transaction losses on borrowings	1,913	-	349	-	548
Interest expense on borrowings	11,199	-	15,352	-	73
Total:	13,112	-	15,701	-	84
Total expenses:	7,752,050	100	7,479,356	100	104

Total expenses in 2016 are 7,752,050 thousand denars, which compared to last years' 7,479,356 thousand denars have increased for 4%.

The largest portion in total expense of 28% belongs to Raw materials. Employee benefit expense has a portion of 22%, Other expenses 4%. Finance costs consist of expenses on borrowings, the portion in total expenses is insignificant.

Consolidated profit before taxes for 2016 is 842,048 thousand denars, which compared to last years' 765,510 thousand denars has increased for 10%. The portion of consolidated profit before taxes in total revenues is 10%.

Consolidated income tax for 2016 is 110,230 thousand denars, which compared to last years' 99,043 thousand denars has increased for 11%.

Consolidated Net profit for 2016 is 731,818 thousand denars, which compared to last years' 666,467 thousand denars has increased for 10%. The portion of consolidated Net profit in total revenues is 9%.

Consolidated Balance Sheet

	(In 000 MKD)				
	2016		2015		IND
	Amount	%	Amount	%	16/15
Assets					
Non-current assets					
Property, plant and equipment	4,068,330	38	3,934,917	40	103
Intangible assets	1,339,186	13	1,202,558	12	111
Available-for-sale financial assets	4,649	-	3,514	-	132
Other non current receivables	8,728	-	3,091	-	282
Deferred tax assets	17,817	-	19,507	-	91
Total non-current assets:	5,438,710	51	5,163,587	53	105
Current assets					
Inventories	2,393,188	23	2,028,759	21	118
Trade receivables	2,224,712	21	1,889,988	19	118
Other receivables	256,998	2	268,550	3	96
Cash and cash equivalents	277,638	3	389,921	3	71
Total current assets:	5,152,536	49	4,577,218	47	113
Total assets:	10,591,246	100	9,740,805	100	109
Equity and liabilities					
Equity					
Share capital	2,197,095	21	2,197,095	23	100
Legal reserves	612,785	6	611,914	6	100
Other reserves	1,347,099	13	1,319,863	14	102
Retained earnings	4,285,645	40	3,890,742	40	110
Minority interests	781	-	813	-	96
Total equity:	8,443,405	80	8,020,427	82	105
Liabilities					
Current liabilities					
Trade and other payables	1,592,425	15	1,320,789	14	121
Income taxes	20,914	-	19,948	-	105
Current borrowings	439,989	4	328,683	4	134
Total current liabilities:	2,053,328	19	1,669,420	17	123
Non-current liabilities					
Non-current borrowings	67,620	1	25,055	-	270
Deferred income tax liabilities	26,885	-	25,898	-	104
Non-current provisions	8	-	5	-	160
Total non-currents liabilities:	94,513	1	50,958	1	185
Total liabilities:	2,147,841	20	1,720,378	18	125
Total equity and liabilities:	10,591,246	100	9,740,805	100	109

Performance indicators

Indicators	(In %)		
	2016	2015	IND 16/15
Net profit margin (net profit / total revues)	8.52	8.08	105
Net profit margin (net profit / sales)	8.82	8.48	104
EBITDA	15.63	14.72	106
Current ratio	2.51	2.74	92
Net debt to equity ratio	2.72	-0.45	-
Return of equity	8.67	8.31	104
Return of assets	6.91	6.84	101

Number of employees on 31 December

Segment	2016		2015		IND 16/15
	%	%	%	%	
Pharmacy	1,060	61	975	61	109
Chemistry Cosmetics Botanicals	197	11	193	12	102
Corporate unit	468	27	442	27	106
Total:	1,725	100	1,610	100	107

Total number of employees on 31 December 2016 is 1,725, which compared to last year has increased for 7%.

Alkaloid AD Skopje