



PHARMACEUTICAL CHEMICAL COSMETICAL INDUSTRY

**ANNUAL REPORT
ON THE PERFORMANCE OF ALKALOID AD SKOPJE
FOR THE PERIOD JANUARY - DECEMBER 2013**

February 2014

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1. General information

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

Aleksandar Makedonski 12 1000 Skopje, Republic of Macedonia.

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.

The annual report on the performance of Alkaloid AD Skopje 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 the Republic of Macedonia" no. 159/09, 164/10 and 107/11). The 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 financial statements in accordance with the Trade Companies Law and the Rulebook for Accounting requires management to make best estimates and reasonable assumptions that affect the amounts presented in the financial statements. These estimations and assumptions are based on 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 Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The financial risk management is preformed by the Company's financial department, based on Decisions from Managing board.

Market risk

a) Foreign exchange risk

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

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

b) Price risk

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

Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Trade receivables consist of large number of balances. The Company 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 Company has no significant interest-bearing assets, the Company's income and operating cash flow are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from borrowings. The Company has no specific policy, but in direct negotiation with lenders attempts to reduce interest rate risk. Interest rates of long-term borrowings are 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 Company 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

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	354,950	80	383,880	90	92
Chemistry Cosmetics Botanicals	87,169	20	43,130	10	202
Total:	442,119	100	427,010	100	104

4. Dividends

The Company 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	51,498	12	168,888	31	30
Current	390,745	88	377,166	69	104
Total:	442,243	100	546,054	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	390,745	88	377,166	69	104
Between 1 to 3 years	51,498	12	168,888	31	30
Total:	442,243	100	546,054	100	81

6. Major transactions

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

7. Related party transactions

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

Alkaloid AD Skopje has investments in fourteen subsidiaries and one foundation in Macedonia and abroad. Sales and purchases of goods and services between related parties are based on regular market terms and prices.

Investments in subsidiaries and associates

Subsidiary	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Alkaloid DOO Zagreb, Croatia	14,822	14	14,822	15	100
Alkaloid DOO Beograd, Serbia	62,566	61	62,566	63	100
Alkaloid INT DOO Ljubljana, Slovenia	557	1	557	1	100
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	39	-	39	-	100
Alkaloidfarm SA Fribourg, Switzerland	4,285	4	4,285	4	100
Alkaloid EOOD Sofia, Bulgaria	2,748	3	2,748	3	100
ALK&KOS Shpk Prishtina, Kosovo	307	-	307	-	100
Alkaloid Kons DOOEL Skopje, Macedonia	154	-	154	-	100
Alkaloid USA LLC Columbus, Ohio US	2,365	2	2,365	2	100
Fund "Trajce Mukaetov" Skopje, Macedonia	3,000	3	3,000	3	100
Alkaloid DOO Podgorica, Montenegro	-	-	-	-	-
OOO Alkaloid RUS, Moscow, Russia	619	1	619	1	100
Alkaloid FARM DOO Ljubljana, Slovenia	461	-	461	-	100
Alkaloid Veledrogerija DOO Beograd, Serbia	7,720	8	7,720	8	-
Alkaloid ILAC TLS Istanbul, Turkey	2,616	3	-	-	-
Total:	102,259	100	99,643	100	103

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

Prepayments and short-term loans

Subsidiary	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Alkaloid Kons DOOEL Skopje, Macedonia	-	-	45,525	48	-
Alkaloid DOO Beograd, Serbia	1,930	100	14,229	15	-
OOO Alkaloid RUS, Moscow, Russia	-	-	34,350	37	-
Total:	1,930	100	94,104	100	-

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	2,205,348	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 of 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)	619,833,352	607,652,539	102
Number of shares	1,421,933	1,421,933	100
Basic earning per share (in denars):	435.91	427.34	102

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 Supervisory Board members (2012: Denar 4,203 thousands).

10. Production and sales

Production in tons

Segment	2013		2012		IND
	Amount	%	Amount	%	13/12
Pharmacy	832	10	875	10	95
Chemistry Cosmetics Botanicals	7,922	90	7,598	90	104
Total:	8,754	100	8,473	100	103

The total amount produced for 2013 is 8,754 tons, which indicates a 3% growth compared to last years' production amount of 8,473 tons.

Total sales of goods and services

Market	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Domestic market	2,259,247	40	2,194,108	39	103
Foreign market	3,444,944	60	3,457,969	61	100
Total:	5,704,191	100	5,652,077	100	101

The total sales revenues for 2013 are 5,704,191 thousand denars which indicates 1% growth compared to the sales revenues from 2012 (5,652,077 thousand denars). The growth in total sales revenues is a result from the increase of sales revenues on domestic market for 3%, while foreign market sales are on the same level.

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

Total sales - segment reporting

Segment	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Pharmacy	4,574,740	80	4,574,778	81	100
Chemistry Cosmetics Botanicals	1,129,451	20	1,077,299	19	105
Total:	5,704,191	100	5,652,077	100	101

The largest portion in total sales revenues, amounting 4,574,740 thousand is generated on the Pharmacy segment with 80%, which compared to last years' 4,574,778 thousand denars is on the same level.

Domestic market sales - segment reporting

Segment	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Pharmacy	1,698,218	75	1,636,923	75	104
Chemistry Cosmetics Botanicals	561,029	25	557,185	25	101
Total:	2,259,247	100	2,194,108	100	103

Total sales revenues on domestic market are 2,259,247 thousand denars, which compared to last years' 2,194,108 have increased for 3%.

The largest portion in total sales revenues is generated on the Pharmacy segment, amounting 1,698,218 thousand denars or 75%.

Foreign market sales - segment reporting

Segment	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Pharmacy	2,876,522	83	2,937,855	85	98
Chemistry Cosmetics Botanicals	568,422	17	520,114	15	109
Total:	3,444,944	100	3,457,969	100	100

Total sales revenues on foreign market are 3,444,944 thousand denars, which compared to last years' 3,457,969 are on the same level.

The largest portion in total sales revenues is generated on the Pharmacy segment, amounting 2,876,522 thousand denars or 83%.

Foreign market sales by regions/countries

Region/Country	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
South Eastern Europe	2,595,106	75	2,561,295	74	101
Albania	64,516	2	102,276	3	63
Bosnia and Herzegovina	646,005	19	576,043	17	112
Kosovo	304,763	9	312,284	9	98
Serbia	887,802	26	941,358	27	94
Croatia	509,442	15	457,294	13	111
Monte Negro	182,578	5	172,040	6	106
Russia and CIS	380,777	11	450,817	13	84
Russia and CIS	336,531	10	357,067	10	94
Georgia	1,003	-	-	-	-
Armenia	4,989	-	13,675	1	36
Ukraine	38,254	1	80,075	2	48
Western Europe (EU and EFTA)	399,578	12	383,723	11	104
Bulgaria	161,924	5	162,604	5	100
Germany	97,852	3	97,192	3	101
Greece	-	-	539	-	-
Romania	3,779	-	1,805	-	209
Slovenia	132,110	4	116,447	3	113
Czech	3,462	-	2,711	-	-
Slovakia	23	-	2,004	-	-
Switzerland	428	-	421	-	102
Other countries	69,483	2	62,134	2	112
Australia	1,867	-	349	-	535
Jordan	2,963	-	758	-	-
USA	53,584	2	46,903	1	114
Other countries	11,069	-	14,124	1	78
Total:	3,444,944	100	3,457,969	100	100

The largest portion of 75% of the total sales in foreign markets is generated in the South Eastern Europe region.

Total revenues

Revenues	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
1. Revenues from sales of goods and services	5,704,191	98	5,652,077	98	101
-Domestic market	2,259,247	39	2,194,108	38	103
Sales of goods	1,804,648	31	1,857,210	32	97
Sales of commodities	403,274	7	281,493	5	143
Other sales revenues	51,325	1	55,405	1	93
-Foreign market	3,444,944	59	3,457,969	60	100
Sales of goods	3,128,217	54	3,237,352	56	97
Sales of commodities	281,964	5	209,840	4	134
Other sales revenues	34,763	-	10,777	-	323
2. Other operating income	119,561	2	132,521	2	90
Collected written off receivables	6,028	-	2,127	-	283
Income from previous years	2,183	-	7,566	-	29
Dividends income	44,913	1	46,348	1	97
Interest income	167	-	81	-	206
Foreign exchange transaction gains	32,776	-	32,776	1	100
Other income	33,494	1	43,623	-	77
3. Finance income	2,182	-	5,418	-	40
Foreign exchange transaction gains on borrowings	255	-	694	-	37
Interest income on borrowings	1,927	-	4,724	-	41
Total:	5,825,934	100	5,790,016	100	101

Total revenues for 2013 amounting 5,825,934 thousand denars have increased for 1%, compared to last years' 5,790,016 thousand denars.

The largest portion of 98% in the total revenues belongs to the sales revenues, which compared to last year have increased for 1%.

Other operating income has a portion of 2% in total revenues. Compared to last year other operating income has decreased for 10%.

Finance income only includes income on borrowings. The portion of finance income in total revenue is insignificant.

Sales by category

Sales revenue	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Sales of goods	4,932,865	86	5,094,562	90	97
Sales of commodities	685,238	12	491,333	7	139
Other sales revenues	86,088	2	66,182	1	130
Total:	5,704,191	100	5,652,077	100	101

Total expenses by nature

Expenses	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
1. Changes in the inventories	-127,673	-2	-69,516	-1	184
2. Raw and other materials	1,800,365	35	1,768,834	34	102
Raw materials	1,627,289	32	1,566,245	30	104
Energy	157,052	3	172,907	3	91
Spare parts	14,580	-	27,722	1	53
Written off small items	1,444	-	1,960	-	74
3. Cost of commodities	513,591	10	381,962	7	134
4. Services	335,696	6	332,521	6	101
Transport	123,160	2	113,115	2	109
Maintenance	36,626	1	36,422	1	101
Rent	18,313	-	16,558	-	111
Utilities	157,597	3	166,426	3	95
5. Depreciation and amortization	319,089	6	312,091	6	102
6. Provision for impaired trade receivables	30,206	1	42,551	1	71
7. Employee benefits	933,281	18	892,345	17	105
Gross salaries	788,861	15	748,490	15	105
Food allowances	23,659	1	21,769	-	109
Holiday allowances	47,761	1	46,353	1	103
Termination benefits	9,284	-	4,334	-	214
Short-term benefits	62,220	1	69,950	1	89
Retirement benefits	197	-	129	-	153
Other expenses	1,299	-	1,320	-	98
8. Other operating expenses	1,334,617	26	1,450,990	28	92
Cost of business trips	37,033	1	36,899	1	100
Advertising and marketing	714,731	14	811,981	16	88
Insurance	20,486	-	23,242	-	88
Taxes and contributions	13,373	-	13,561	-	99
Bank charges and memberships	16,666	-	17,682	-	94
Interest	447	-	658	-	68
Exchange differences from receivables and payables	28,930	1	36,250	1	80
Expenses from previous years	7,153	-	13,231	-	54
Other expenses	495,798	10	497,486	10	100
9. Finance costs (borrowings)	32,214	1	36,530	1	88
Foreign exchange transaction losses on borrowings	134	-	523	-	26
Interest expense on borrowings	32,080	1	36,007	1	89
Total:	5,171,386	100	5,148,308	100	100

The Total expenses for 2013 amounting 5,171,386 thousand denars are on the same level compared to last years' 5,148,308 thousand denars.

The largest portion in the total expenses belongs to Raw and other materials, 35%. Employee benefits have a portion of 18%, Other operating expenses have a portion of 26%. Finance costs, which include only expenses on borrowings have a portion in the total expenses of 1%.

Income statement - expenses by nature

Income statement	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Total revenues	5,825,934	100	5,790,016	100	101
Domestic market	2,259,247	39	2,194,108	38	103
Foreign market	3,444,944	59	3,457,969	60	100
Other operating income	119,561	2	132,521	2	90
Finance income	2,182	-	5,418	-	40
Total expenses	-5,171,386	89	-5,148,308	89	100
Inventories	127,673	-2	69,516	-1	184
Raw materials	-1,800,365	31	-1,768,834	31	102
Cost of commodities	-513,591	9	-381,962	7	134
Services expenses	-335,696	6	-332,521	6	101
Gross salaries	-788,861	13	-748,490	13	105
Depreciation and amortization	-319,089	5	-312,091	5	102
Provision for impaired trade receivables	-30,206	-	-42,551	-	71
Other operating expenses	-1,479,037	25	-1,594,845	28	93
Finance cost	-32,214	1	-36,530	1	88
Profit before income tax	654,548	11	641,708	11	102
Income tax	-34,715	1	-34,055	1	102
Profit for the year	619,833	11	607,653	10	102

Profit before income tax for 2013 is 654,548 thousand denars, which compared to last years' 641,708 thousand denars has increased for 2%. The portion of profit before income tax in the total revenue in 2013 is 11%.

The calculated Income tax for 2013 is 34,715 thousand denars, which compared to last years' 34,055 thousand denars has increased for 2%.

Profit for the year 2013 is 619,833 thousand denars, which compared to last years' 607,653 thousand denars has increased for 2%. The portion of net income in the total revenue in 2013 is 11%.

Income statement - expenses by function

Income statement	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Sales	5,704,191	98	5,652,077	98	101
Cost of sales	-2,988,076	-51	-2,840,572	-49	105
Gross profit	2,716,115	47	2,811,505	49	97
Research and development expenses	-46,765	-1	-38,687	-1	121
Selling and marketing expenses	-1,752,177	-30	-1,883,265	-33	93
Administrative expenses	-267,821	-5	-269,327	-5	99
Provisions for liabilities and charges	-	-	-3,530	-	-
Other income	119,561	2	132,521	2	90
Other expenses	-84,333	-1	-76,397	-1	110
Operating profit	684,580	12	672,820	12	102
Net foreign exchange transaction (losses) / gains	121	-	171	-	71
Net interest	-30,153	-1	-31,283	-1	96
Profit before income tax	654,548	11	641,708	11	102
Income tax	-34,715	-1	-34,055	-1	102
Profit for the year	619,833	11	607,653	10	102

The income statement by function model presents the expenses as: Production costs, Research and development expenses, Selling and marketing expenses and Administrative expenses. The finance costs are presented in net values.

The largest portion in total revenues 51% belongs to Cost of sales, which have increased for 5%.

Selling and marketing expenses have a portion of 30% in total revenues. Compared to last year Selling and marketing expenses have decreased for 7%.

Administrative expenses have a portion in total expenses of 5% and have decreased for 1% compared to last year.

Balance sheet

	(In 000 MKD)				
	2013		2012		IND
	Amount	%	Amount	%	13/12
Assets					
Non-current assets					
Intangibles	742,325	8	624,108	7	119
Property, plant and equipment	3,759,478	42	3,770,236	43	100
Investments in subsidiaries and associates	102,259	1	99,643	1	103
Available-for-sale financial assets	3,191	-	4,784	-	67
Other non-current receivables	20,499	-	29,729	-	69
Deferred tax assets	17,548	-	15,727	-	112
Total non-currents assets:	4,645,300	52	4,544,227	52	102
Current assets					
Inventories	1,421,548	16	1,309,708	15	109
Trade receivables	2,558,556	29	2,528,826	29	101
Other receivables	131,322	1	235,814	3	56
Cash and cash equivalents	91,869	1	62,656	1	147
Total current assets:	4,203,295	48	4,137,004	48	102
Total assets:	8,848,595	100	8,681,231	100	102
Equity and liabilities					
Equity					
Share capital	2,205,348	25	2,205,348	25	100
Share premiums	-	-	-1,127	-	-
Legal reserves	596,146	7	596,146	7	100
Other reserves	1,303,910	15	1,305,585	15	100
Retained earnings	3,327,349	38	2,996,621	35	111
Total equity:	7,432,753	84	7,102,573	82	105
Liabilities					
Current liabilities					
Trade and other payables	944,670	11	992,770	11	95
Current borrowings	390,745	4	377,166	4	104
Income taxes	2,801	-	11,972	-	23
Total current liabilities:	1,338,216	15	1,381,908	16	97
Non-current liabilities					
Non-current borrowings	51,498	1	168,888	2	30
Deferred tax liabilities	6,913	-	7,772	-	89
Non-current provisions	19,215	-	20,090	-	96
Total non-current liabilities:	77,626	1	196,750	2	39
Total liabilities:	1,415,842	16	1,578,658	18	90
Total equity and liabilities:	8,848,595	100	8,681,231	100	102

Performance indicators

Indicators	(In %)		
	2013	2012	IND 13/12
Revenue / expense ratio	112.66	112.46	100
Net profit margin	10.64	10.49	101
EBITDA (%)	17.60	17.43	101
Current ratio	3.14	2.99	105
Net debt to equity ratio	0.06	0.08	77
Return of equity	8.34	8.56	97
Return of assets	7.00	7.00	100

Number of employees on 31 December

Segment	2013		2012		IND 13/12
	Бpoj	%	Бpoj	%	
Pharmacy	627	57	608	55	103
Chemistry Cosmetics Botanicals	210	18	195	18	108
Corporate unit	309	27	302	27	102
Total:	1,146	100	1,105	100	104

The total number of employees on 31 December 2013 is 1,146, which compared to 2012 is an increase of 4%.

Alkaloid AD Skopje