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

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

(In thousands of Denar)

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD OF ALKALOID AD SKOPJE

We have audited the accompanying consolidated financial statements (page 3 to 43) of ALKALOID AD Skopje (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of 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 Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting regulations prevailing in the Republic of North Macedonia, and for such internal control as management determines is necessary to enable the preparation of 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 Law on Auditing and the applicable auditing standards in the Republic of North Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alkaloid AD Skopje as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of North Macedonia.

(Continued)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD OF ALKALOID AD SKOPJE (continued)

Report on other legal and regulatory requirements

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

Lidija Nanus Certified Auditor Director	Jane Ivanov Certified Auditor

March 5, 2019

Deloitte DOO Skopje

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

(In thousands of Denar)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at December 31, 2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	4,672,492	4,311,471
Intangible assets	7	1,601,687	1,455,417
Deferred tax assets	18	20,557	17,817
Available-for-sale financial assets	9	6,819	5,110
Other non-current assets	12	14,988	14,988
		6,316,543	**5,804,803**
Current assets			
Inventories	10	2,736,752	2,479,984
Trade receivables	11	2,218,485	2,411,428
Other receivables	12	266,685	406,931
Cash and cash equivalents	13	433,811	214,389
		5,655,733	**5,512,732**
TOTAL ASSETS		**11,972,276**	**11,317,535**
EQUITY			
Share capital	14	2,197,095	2,197,095
Legal reserves		614,437	612,672
Other reserves	15	1,093,530	1,139,520
Retained earnings		5,439,513	4,926,034
Minority interests		716	749
Total equity		**9,345,291**	**8,876,070**
LIABILITIES			
Non-current liabilities			
Non-current borrowings	16	284,212	270,534
Retirement benefit obligations	17	30,060	29,427
Deferred tax liabilities	18	166	205
		314,438	**300,166**
Current liabilities			
Trade and other payables	19	1,992,113	1,739,318
Income tax		16,444	20,362
Current borrowings	16	303,990	381,619
		2,312,547	**2,141,299**
Total liabilities		**2,626,985**	**2,441,465**
TOTAL EQUITY AND LIABILITIES		**11,972,276**	**11,317,535**

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 8 February 2019.

Approved by:

Zhivko Mukaetov
General Manager

Viktor Stojcevski
Finance Manager

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(In thousands of Denar)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	Year ended December 31, 2018	2017
Sales	5	9,783,286	9,094,716
Cost of sales	23	(5,354,335)	(5,036,402)
Gross profit		**4,428,951**	**4,058,314**
Research and development expenses	23	(86,125)	(76,421)
Selling and marketing expenses	23	(2,882,776)	(2,732,544)
Administrative expenses	23	(371,896)	(356,110)
Provision for other liabilities and charges	20	(633)	(2,542)
Other income	21	302,631	315,984
Other expenses	22	(407,403)	(294,436)
Operating profit		**982,749**	**912,245**
Finance expenses	26	(13,983)	(4,491)
Profit before income tax		**968,766**	**907,754**
Income tax	27	(106,355)	(98,477)
Profit for the year		**862,411**	**809,277**
Attributable to the:			
Shareholders of the Parent Company		862,445	809,309
Minority interests		(34)	(32)
Profit for the year		**862,411**	**809,277**
Earnings per share (In Denar)			
- Basic	28	608.78	571.28

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

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

(In thousands of Denar)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended December 31, 2018	2017
Consolidated profit for the year		**862,411**	**809,277**
Other comprehensive income:			
Fair value of investments	15	1,709	461
Revaluation of assets	15	-	-
Translation differences	15	(14,805)	(10,350)
Other consolidated comprehensive income, net of tax		**(13,096)**	**(9,889)**
Total consolidated comprehensive income for the year		**849,315**	**799,388**

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

(In thousands of Denar)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the Parent					
	Share capital	Legal reserves	Other reserves	Retained earnings	Minority interests	Total Equity
As at January 1, 2017	**2,197,095**	**612,785**	**1,347,099**	**4,285,645**	**781**	**8,443,405**
Fair value gain on investments (Note 9)	-	-	461	-	-	**461**
Transfer to reserves	-	1,009	(197,690)	196,681	-	-
Dividend payment and tax on dividend paid out (Note 29)	-	-	-	(354,448)	-	**(354,448)**
Profit for the year	-	-	-	809,309	(32)	**809,277**
Foreign exchange differences on translation of foreign operations	-	(1,122)	(10,350)	(11,153)	-	**(22,625)**
As at December 31, 2017	**2,197,095**	**612,672**	**1,139,520**	**4,926,034**	**749**	**8,876,070**
Fair value of gain on investments (Note 9)	-	-	1,709	-	-	**1,709**
Transfer to reserves	-	1,230	(32,894)	31,664	-	-
Dividend payments and tax on dividend paid out (Note 29)	-	-	-	(382,485)	-	**(382,485)**
Correction from previous years	-	-	-	3,685	-	**3,685**
Profit for the year	-	-	-	862,445	(34)	**862,411**
Foreign exchange differences on translation of foreign operations	-	535	(14,805)	(1,830)	1	**(16,099)**
As at December 31, 2018	**2,197,095**	**614,437**	**1,093,530**	**5,439,513**	**716**	**9,345,291**

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

(In thousands of Denar)

CONSOLIDATED CASH FLOW STATEMENT

	Year ended December 31,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	9,669,859	8,848,268
Cash paid to suppliers and employees	(8,084,985)	(7,932,364)
Cash generated from operations	**1,584,874**	**915,904**
Interest received	2,881	910
Net cash generated from operating activities	**1,587,755**	**916,814**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(865,987)	(710,567)
Sale of property, plant and equipment	925	1,973
Subsidies received	35,293	-
Other payments to employees	(64,141)	(61,884)
Net cash used in investing activities	**(893,910)**	**(770,478)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	2,038,521	2,374,351
Repayments of borrowings	(2,107,016)	(2,229,308)
Interest paid	(17,999)	(20,426)
Dividends paid to shareholders, tax on dividends paid out and other profit distribution	(378,895)	(324,234)
Net cash used in financing activities	**(465,389)**	**(199,617)**
Net increase/(decrease) in cash and cash equivalents	**228,456**	**(53,281)**
Cash and cash equivalents at beginning of year	214,389	277,638
Translation differences	(9,034)	(9,968)
Cash and cash equivalents at the end of year	**433,811**	**214,389**

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 2.4.
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 of consolidated Financial Statements

Pursuant to the provisions of the Company Law (Official Gazette of the Republic of North Macedonia no. 28/04, 84/05, 71/06, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10, 8/11, 21/11, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16, 61/16, 64/18 and 120/18) legal entities in Macedonia are required to maintain their books of account and to prepare their financial statements in conformity with the International Financial Reporting Standards officially adopted in the Republic of North Macedonia and published in the Official Gazette of the Republic of North Macedonia.

A newly-issued Rulebook for chart of accounts (Official Gazette of the Republic of North Macedonia no. 159/09, 164/10 and 107/11) was adopted as of December 29, 2009. It contains: the International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and related interpretations issued by the Standing Interpretation Committee ("SIC") and the International Financial Reporting Interpretations Committee ("IFRIC") determined and issued by the International Accounting Standards Board ("IASB") as of January 1, 2009. This Rulebook has been effective as from January 1, 2010.

However, until the preparation date of the accompanying financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated. In addition, the accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Annual Financial Statements" (Official Gazette of the Republic of North Macedonia no. 60/14). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, "Presentation of Financial Statements," and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Standards and interpretations in issue but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.2 and 2.3.

In accordance with the afore described, and given the potentially material effects which the departures of accounting regulations of the Republic of North Macedonia from IAS and IFRS may have on the fairness presentations made in the financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IAS and IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation of consolidated Financial Statements (Continued)

The 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.

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.

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted

As of the financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of North Macedonia.

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009;

- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after January 1, 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);

- Amendments to IAS 38 "Intangible Assets" (effective for annual periods beginning on or after July 1, 2009);

- Amendments to IFRS 2 "Share-Based Payment": Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);

- Amendments IFRIC 9 "Reassessment of Embedded Derivatives" effective for annual periods beginning on or after July 1, 2009 and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);

- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after July 1, 2009);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted (Continued)

- “Conceptual Framework for Financial Reporting 2010” being an amendments to “Framework for the Preparation and Presentation of Financial Statements” (effective for transfer of assets from customers received on or after September 2010);

- „Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);

- Amendments to IAS 24 “Related Party Disclosures” – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);

- Amendments to various standards and interpretations “Improvements to IFRSs (2010)” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);

- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction” – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010);

- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);

- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);

- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);

- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted (Continued)

- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);

- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);

- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);

- Amendments to various standards “Improvements to IFRSs (cycle 2009-2011)” resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013);

- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013);

- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements” – Investment Entities (effective for annual periods beginning on or after January 1, 2014);

- Amendments to IAS 32 “Financial instruments: Presentation” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);

- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014);

- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014);

- IFRIC 21 “Levies” (effective for annual periods beginning on or after January 1, 2014);

- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted (Continued)

- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);

- Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014);

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);

- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2016);

- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2017);

- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after January 1, 2017);

- Amendments to IFRS 12 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017);

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted (Continued)

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 “Financial Instruments” is applied first time);
- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018);
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after January 1, 2018);

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

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

- IFRS 16 “Leases” (effective for annual periods beginning on or after January 1, 2019);
- IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after January 1, 2021);
- Amendments to IFRS 3 “Business Combinations” – definition of Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period).
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” Definition of Material (effective for annual periods beginning on or after January 1, 2020);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Amendments to IAS 19 “Employees Benefits” – Plan Amendment, Curtailments or Settlement (effective for annual periods beginning on or after January 1, 2019);

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

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

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

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

The management is assessing the impact of the changes to the IAS, the newly-issued IFRS and to the interpretations to the financial statements. Although the majority of these changes are not applicable to the Company’s operations, the Company’s management does not express an explicit and unreserved statement in the accompanying consolidated financial statements of compliance with IAS and IFRS, which have been applied in the periods presented in the accompanying consolidated financial statements.

The presentation of the consolidated financial statements in accordance with the Trade Companies Law and the Rulebook for Accounting requires management to make best estimates and reasonable assumptions that affect the amounts presented in the financial statements. These estimations and assumptions are based on information available, as of the date of preparation of the consolidated financial statements. However, actual results may vary from these estimates. The management assessments are stated in Note 4.

2.4 Subsidiaries

Subsidiaries are all legal entities over which the 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)

2.4 Subsidiaries (Continued)

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

	2018 % of ownership	2017 % 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 Kiev CO. LTD., Ukraine	100%	100%
Alkaloid Shpk Tirana, Albania	100%	100%

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

Alkaloid’s representative offices in Russia, Bosnia and Herzegovina 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)

2.5 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, 2018, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting (Continued)

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.

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.

2.6 Leasing

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

2.7 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

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:

Assets and liabilities are translated at the closing rate at the date of the statement of financial position;

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Property, plant and equipment

Property plant and equipment are initially recorded at cost. Land, buildings and a portion of equipment are subsequently stated at fair value, based on the appraisal performed by external independent appraisers, less accumulated depreciation. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition.

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible assets

Trademarks, licenses and software
Trademarks and licenses have a finite useful life and are carried at cost less accumulated amortization. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Amortization is calculated using the straight-line method to write-off the cost of trademarks, licenses and software over their estimated useful lives, i.e. up to 10 years.

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.

2.10 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 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 2.13).

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 2.13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the actual cost method. The cost of finished goods and work in progress comprises direct production costs and related production overheads. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 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".

2.14 Cash and cash equivalents

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

2.15 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.

2.16 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.

2.17 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)

2.18 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.

2.19 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)

2.19 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.

2.20 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.

2.21 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)

2.21 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.

2.22 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.

2.23 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent company Alkaloid AD Skopje and its subsidiaries (Note 2.4). 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.

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

3.2 Fair value assessment

The fair value of 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.

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.

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.

Fair value of property, plant and equipment

The Group tests annually whether fair value of land and buildings has suffered material changes compared with their fair value as assessed in the last appraisal. The Group estimation is that the difference between their fair value recorded into the books and the current market value is not material, and do not affect the result.

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.

Trade receivables

The Group assessed annually the fair value of trade receivables.

Estimates for accounting for employee benefits

IAS19, Employee Benefits, requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations. These 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	
	2018	**2017**	**2018**	**2017**
Pharmaceutical products	8,358,622	7,695,963	960,330	884,343
Chemical products	234,042	287,194	15,340	20,542
Cosmetic products	898,878	841,275	4,821	19,498
Botanical products	291,744	270,284	2,258	(12,138)
Total	**9,783,286**	**9,094,716**	**982,749**	**912,245**
Finance expenses			(13,983)	(4,491)
Profit before tax			**968,766**	**907,754**
Income tax			(106,355)	(98,477)
Profit for the year			**862,411**	**809,277**

Revenue reported above represents revenue generated from external customers.

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

Segment assets

	2018	**2017**
Pharmaceutical products	9,754,935	9,190,381
Chemical products	20,972	188,213
Cosmetic products	1,581,561	1,342,252
Botanical products	614,808	596,689
Total assets	**11,972,276**	**11,317,535**

Segment liabilities

	2018	**2017**
Pharmaceutical products	2,282,527	2,035,345
Chemical products	106,923	104,043
Cosmetic products	198,788	214,362
Botanical products	38,747	87,715
Total liabilities	**2,626,985**	**2,441,465**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

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

	Depreciation and amortization		Addition to non-current assets	
	2018	**2017**	**2018**	**2017**
Pharmaceutical products	514,689	447,230	1,042,653	804,842
Chemical products	11,104	9,815	13,608	17,708
Cosmetic products	24,127	21,330	11,287	27,671
Botanical products	22,814	22,685	14,189	11,199
Total liabilities	**572,734**	**501,060**	**1,081,737**	**861,420**

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	
	2018	**2017**	**2018**	**2017**
North Macedonia	3,624,093	3,486,685	6,167,715	5,668,858
Serbia	1,916,251	1,587,385	24,643	27,941
Croatia	817,998	813,248	8,231	10,166
Bosnia and Herzegovina	794,301	778,615	2,214	2,256
Other countries	2,630,643	2,428,783	71,376	57,667
Total	**9,783,286**	**9,094,716**	**6,274,179**	**5,766,888**

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 20.5% (2017: 26%) in direct sales.

In the sales of Cosmetics products, there is one major customer with a share of 16% (2017: 15.9%) in direct sales.

In the sales of Botanicals products, there is a single major customer with a share of 42.7% (2017: 37.5%) in direct sales.

Sales by category	**2018**	**2017**
Sales of goods	7,263,842	6,774,755
Sales of commodities	2,432,049	2,217,458
Other revenue	87,395	102,503
	9,783,286	**9,094,716**

(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, 2017	**833,525**	**2,065,625**	**3,345,362**	**45,024**	**6,289,536**
Additions	-	-	37,733	503,599	541,332
Transfer from construction in progress	-	112,918	318,392	(431,310)	-
Disposals	-	(34)	(35,180)	(203)	(35,417)
Translation differences	-	1,367	118	-	1,485
As at December 31, 2017	**833,525**	**2,179,876**	**3,666,425**	**117,110**	**6,796,936**
Accumulated depreciation					
At January 1, 2017	**-**	**159,038**	**2,062,168**	**-**	**2,221,206**
Depreciation charge in 2017	-	60,039	237,190	-	297,229
Disposals	-	(4)	(33,592)	-	(33,596)
Translation differences	-	704	(78)	-	626
As at December 31, 2017	**-**	**219,777**	**2,265,688**	**-**	**2,485,465**
Net book value					
As at December 31, 2017	**833,525**	**1,960,099**	**1,400,737**	**117,110**	**4,311,471**
Cost or valuation					
At January 1, 2018	**833,525**	**2,179,876**	**3,666,425**	**117,110**	**6,796,936**
Additions	-	11,326	26,877	667,180	705,383
Transfer from construction in progress	1,978	42,588	564,244	(608,810)	-
Disposals	-	-	(25,223)	-	(25,223)
Translation differences	-	311	(1,529)	(1)	(1,219)
As at December 31, 2018	**835,503**	**2,234,101**	**4,230,794**	**175,479**	**7,475,877**
Accumulated depreciation					
At January 1, 2018	**-**	**219,777**	**2,265,688**	**-**	**2,485,465**
Depreciation charge in 2018	-	63,078	279,760	-	342,838
Disposals	-	-	(23,564)	-	(23,564)
Translation differences	-	218	(1,572)	-	(1,354)
As at December 31, 2018	**-**	**283,073**	**2,520,312**	**-**	**2,803,385**
Net book value					
As at December 31, 2018	**835,503**	**1,951,028**	**1,710,482**	**175,479**	**4,672,492**

Land and buildings were revalued as at December 31, 2014 by an independent appraiser. 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, 2017	**369,487**	**1,602,392**	**74,451**	**90,653**	**2,136,983**
Additions	-	5,828	797	313,463	320,088
Transfer from construction in progress	5,669	272,813	7,853	(286,335)	-
Disposals	(29,481)	-	-	-	(29,481)
Translation differences	(497)	(381)	531	(20)	(367)
As at December 31, 2017	**345,178**	**1,880,652**	**83,632**	**117,761**	**2,427,223**
Accumulated amortization					
At January 1, 2017	**320,437**	**436,602**	**40,758**	**-**	**797,797**
Charge for the year	20,372	175,202	8,257	-	203,831
Disposals	(29,481)	-	-	-	(29,481)
Translation differences	2	(339)	(4)	-	(341)
As at December 31, 2017	**311,330**	**611,465**	**49,011**	**-**	**971,806**
Net book value as at December 31, 2017	**33,848**	**1,269,187**	**34,621**	**117,761**	**1,455,417**
Cost or valuation					
At January 1, 2018	**345,178**	**1,880,652**	**83,632**	**117,761**	**2,427,223**
Additions	-	10,211	1,680	364,463	376,354
Transfer from construction in progress	19,009	385,406	8,747	(413,162)	-
Translation differences	(493)	(716)	159	-	(1,050)
As at December 31, 2018	**363,694**	**2,275,553**	**94,218**	**69,062**	**2,802,527**
Accumulated amortization					
At January 1, 2018	**311,330**	**611,465**	**49,011**	**-**	**971,806**
Charge for the year	15,221	205,928	8,747	-	229,896
Translation differences	7	(612)	(257)	-	(862)
As at December 31, 2018	**326,558**	**816,781**	**57,501**	**-**	**1,200,840**
Net book value as at December 31, 2018	**37,136**	**1,458,772**	**36,717**	**69,062**	**1,601,687**

The net book value of software is Denar 84,539 thousand (2017: Denar 46,829 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.

	2018	2017
Debt	588,202	652,153
Cash and cash equivalents	(433,811)	(214,389)
Net debt	154,391	437,764
Equity	9,345,291	8,876,070
Net debt to equity ratio	1.65%	4.93%

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	
	2018	2017	2018	2017
EUR	1,213,635	1,085,227	1,221,562	1,223,249
RUR	13,460	4,897	260,530	434,080
USD	131,141	91,295	64,601	10,443
CHF	7,599	14,029	15,906	5,796
Other currencies	104,365	112,311	581,342	589,808

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%	
	2018	**2017**	**2018**	**2017**
EUR	(793)	(13,802)	793	13,802
RUR	(24,707)	(42,918)	24,707	42,918
USD	6,654	8,085	(6,654)	(8,085)
CHF	(831)	823	831	(823)
Other currencies	(47,698)	(47,750)	47,698	47,750
Impact on the income statement and equity	**(67,375)**	**(95,562)**	**67,375**	**95,562**

The Group's sensitivity to foreign currency rates has decreased during the current period mainly due to the combined effect of decrease in foreign trade receivables and foreign trade payables and decrease in borrowings.

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%	
	2018	**2017**	**2018**	**2017**
Borrowings	1,395	1,510	(1,395)	(1,510)
Income statement and equity	**(1,395)**	**(1,510)**	**1,395**	**1,510**

Had the interest rates been 10% higher the Group's profit for the year ended December 31, 2018 and retained earnings would have decreased by Denar 1,395 thousand and vice versa, had the interest rates been 10% lower, the Group's profit for the year ended December 31, 2018 and retained earnings would have increased by Denar 1,395 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:

2018	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	803,126	657,190	219,464	-	**1,620,780**
Borrowings	-	5,000	298,990	284,212	**588,202**
	803,126	**662,190**	**518,454**	**284,212**	**2,267,982**

2017	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	789,432	464,353	210,548	-	**1,464,333**
Borrowings	-	31,368	350,251	270,534	**652,153**
	789,432	**495,721**	**560,799**	**270,534**	**2,116,486**

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

2018	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,016,479	1,006,314	195,692	-	**2,218,485**
Available-for-sale financial assets	-	-	-	6,819	**6,819**
Cash and cash equivalents	433,811	-	-	-	**433,811**
	1,450,290	**1,006,314**	**195,692**	**6,819**	**2,659,115**

2017	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,223,235	961,278	226,915	-	**2,411,428**
Available-for-sale financial assets	-	-	-	5,110	**5,110**
Cash and cash equivalents	214,389	-	-	-	**214,389**
	1,437,624	**961,278**	**226,915**	**5,110**	**2,631,327**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Taxation risks

Macedonian tax legislation is subject to varying interpretations and changes that occur frequently. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The period that remains opened for review by the tax and customs authorities with respect to tax liabilities is five years. Accounting transactions of the Parent Company were subject to an inspection by the tax authorities regarding VAT for the period 1 October to 31 October 2018, for which a tax inspection protocol was issued without any findings identified.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

Available-for-sale financial assets consist of:

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

Investments in securities available-for-sale consist of shares in companies and banks. Participation in their shares is below 10% of the registered equity.

Available-for-sale financial assets, of quoted shares 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.

10. INVENTORIES

	2018	2017
Raw materials	965,492	929,727
Spare parts	400	573
Tools and consumable supplies	2,869	1,701
Work in progress	325,423	377,362
Finished goods	963,155	752,409
Trading goods	479,413	418,212
	2,736,752	**2,479,984**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. TRADE RECEIVABLES

	2018	2017
Trade receivables	2,459,097	2,675,896
Less: Provision for impairment of receivables	(240,612)	(264,468)
Trade receivables - net	**2,218,485**	**2,411,428**

Changes in the provision are as follows:

	2018	2017
At January 1	**264,468**	**266,625**
Provision for the year	6,445	8,284
Write off	(1,596)	(18)
Collected bad and doubtful debts	(24,932)	(10,860)
Translation differences	(3,773)	437
As at December 31	**240,612**	**264,468**

Ageing of impaired trade receivables are as follows

	2018	2017
Up to 1 year	-	-
Over 1 year	240,612	264,468
As at December 31	**240,612**	**264,468**

12. OTHER RECEIVABLES

	2018	2017
Prepayments	61,246	165,939
Receivables from employees	314	-
Prepaid VAT	125,996	123,890
Other receivables	79,129	117,102
	266,685	**406,931**

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:

	2018	2017
Other assets	14,988	14,988

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

2018	2017
3.00%	3.25%

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

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. OTHER 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.

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

13. CASH AND CASH EQUIVALENTS

	2018	2017
Cash balances held with banks	432,491	211,735
Cash in hand	992	971
Other	328	1,683
	433,811	**214,389**

14. SHARE CAPITAL

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

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

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.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. OTHER RESERVES

	Transfer of reserves	Property, plant and equipment	Investments in equity instruments	Fund for shares	Total
At January 1, 2017	**(9,604)**	**1,127,589**	**198**	**228,916**	**1,347,009**
Increase	-	-	461	-	461
Transfer	-	(197,690)	-	-	(197,690)
Translation differences	-	(10,350)	-	-	(10,350)
As at December 31, 2017	**(9,604)**	**919,549**	**659**	**228,916**	**1,139,520**
Increase	-	-	1,709	-	1,709
Transfer	-	(32,894)	-	-	(32,894)
Translation differences	-	(14,805)	-	-	(14,805)
As at December 31, 2018	**(9,604)**	**871,850**	**2,368**	**228,916**	**1,093,530**

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

- Revaluation reserves for property, plant and equipment are created based on valuation of PP&E. These reserves are not distributable to shareholders.
- The 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.

16. BORROWINGS

	2018	2017
Non-current borrowings	284,212	270,534
Current borrowings	303,990	381,619
	588,202	**652,153**

The maturity of the borrowings is as follows:

	2018	2017
Up to 1 year	303,990	381,619
Between 1 and 3 years	284,212	270,534
	588,202	**652,153**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. BORROWINGS (Continued)

The borrowings are denominated in following currencies:

	2018	2017
EUR	398,703	296,614
MKD	189,499	355,500
Other	-	39
	588,202	**652,153**

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

	December 31, 2018			December 31, 2017		
	EUR	USD	MKD	EUR	USD	MKD
Interest rates	6 month EURIBOR +2.4 – 2.5%	-	2.2– 2.8%	3 - 6 month EURIBOR +0.85 – 4.5%	-	2.8– 3.1%

17. RETIREMENT BENEFIT OBLIGATIONS

	2018	2017
Retirement benefits	**30,060**	**29,427**

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:

	2018	2017
Beginning of the year	**29,427**	**26,885**
Increase in calculation	633	2,542
Decrease in calculation	-	-
As at December 31	**30,060**	**29,427**

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	3.98%	3.66%

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

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. DEFERRED TAX

	2018	2017
Deferred tax assets	20,557	17,817
Deferred tax liabilities	(166)	(205)
	20,391	**17,612**

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

	2018	2017
At January 1,	**17,612**	**17,809**
Deferred tax included in the income statement	2,937	(205)
Realized deferred tax liabilities	(158)	8
As at December 31,	**20,391**	**17,612**

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

	Accruals	Fair value	Total
At January 1, 2017	**17,809**	**-**	**17,809**
Charged to the income statement	(205)	-	(205)
Realized deferred tax liabilities	8	-	8
As at December 31, 2017	**17,612**	**-**	**17,612**
Charged to the income statement	2,937	-	2,937
Realized deferred tax liabilities	(158)	-	(158)
As at December 31, 2018	**20,391**	**-**	**20,391**

19. TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	1,679,780	1,464,333
Customer’s prepayments	24,072	25,741
Payables to employees	103,614	102,716
Dividends	9,304	12,102
Other payables and accrued expenses	175,343	134,426
	1,992,113	**1,739,318**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. PROVISION FOR OTHER LIABILITIES AND CHARGES

	2018	2017
Provision for retirement benefits	633	2,542
	633	**2,542**

21. OTHER INCOME

	2018	2017
Collected written-off receivables	7,547	10,860
Interest income	4,989	10,066
Foreign exchange transaction gains	152,987	168,254
Other income	137,108	126,804
	302,631	**315,984**

22. OTHER EXPENSES

	2018	2017
Interest expenses	1,882	2,562
Foreign exchange transaction losses	217,581	143,129
Other expenses	187,940	148,745
	407,403	**294,436**

23. EXPENSES BY NATURE

	2018	2017
Raw materials	2,650,378	2,238,233
Employee benefit expense	2,067,704	1,912,897
Depreciation and amortization	572,734	501,060
Energy	184,262	160,632
Impairment of trade receivables	6,445	8,284
Transportation	178,069	217,744
Changes in the inventories	(152,399)	(98,758)
Cost of trading goods	1,699,132	1,593,272
Other expenses	1,488,807	1,668,113
	8,695,132	**8,201,477**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. EMPLOYEE BENEFIT EXPENSES

	2018	2017
Gross salaries	1,795,638	1,661,508
Other employees benefits	272,066	251,389
	2,067,704	**1,912,897**
Number of employees as at December 31,	**2,022**	**1,856**

25. 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	**2018**	**2017**
	67,885	60,505
	67,885	**60,505**

Future non-cancellable obligations	**2018**	**2017**
Up to 1 year	54,522	38,525
Between 2 to 5 years	125,606	66,833
	180,128	**105,358**

26. FINANCE EXPENSES

	2018	2017
Net foreign exchange transaction (losses)/gains on borrowings	(38)	10,607
Interest expense on borrowings	(13,945)	(15,098)
	(13,983)	**(4,491)**

27. INCOME TAX

	2018	2017
Current income tax	109,292	98,477
Net deferred income tax	(2,937)	-
	106,355	**98,477**

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

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. INCOME TAX (Continued)

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

	2018	2017
Profit before tax	**982,749**	**912,754**
Tax calculated at tax rate of 10%	98,275	91,275
Income not subject to tax	(2,048)	(3,293)
Expenses not deductible for tax purposes	61,114	63,838
Tax allowances	(50,986)	(53,343)
Income tax	**106,355**	**98,477**

28. EARNINGS PER SHARE

	2018	2017
Basic earnings per share		
Profit attributable to the shareholders (In Denar)	862,410,928	809,277,171
Weighted average number of shares outstanding	1,416,612	1,416,612
Basic earnings per share (in Denar)	**608.78**	**571.28**

29. 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 2, 2018 amounted to Denar 386,465 thousands for the year ended December 31, 2017. The approved dividends were paid and retained earnings appropriately decreased. The dividend and the tax related to the dividend are disclosed as decrease of retained earnings.

30. COMMITMENTS

Capital expenditures contracted for acquisition of property, plant and equipment at the reporting date but not yet incurred amount to Denar 61,300 thousand (2017: Denar 12,143 thousand).

31. CONTINGENT LIABILITIES

The Group has contingent liabilities with respect to the guaranties issued to third parties in the amount of Denar 316,724 thousand (2017: Denar 233,232 thousand).

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS

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

Key management compensations

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

33. EXCHANGE RATES OF PRINCIPAL CURRENCIES

Closing rates:

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

34. EVENTS AFTER THE REPORTING PERIOD

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

APPENDIX 1 - CONSOLIDATED ANNUAL REPORT

APPENDIX 2 - CONSOLIDATED ANNUAL ACCOUNTS