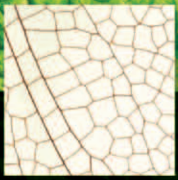


05 annual report

People build **heights** - so as to see **further**
People build **together** - and that makes them **closer**
People build **solid** - so as to feel **safe**
We build so that people would have BETTER HEALTH because ...
HEALTH is above all ...

ALKALOID
SKOPJE

CONTENTS

KEY FINANCIAL INDICATORS

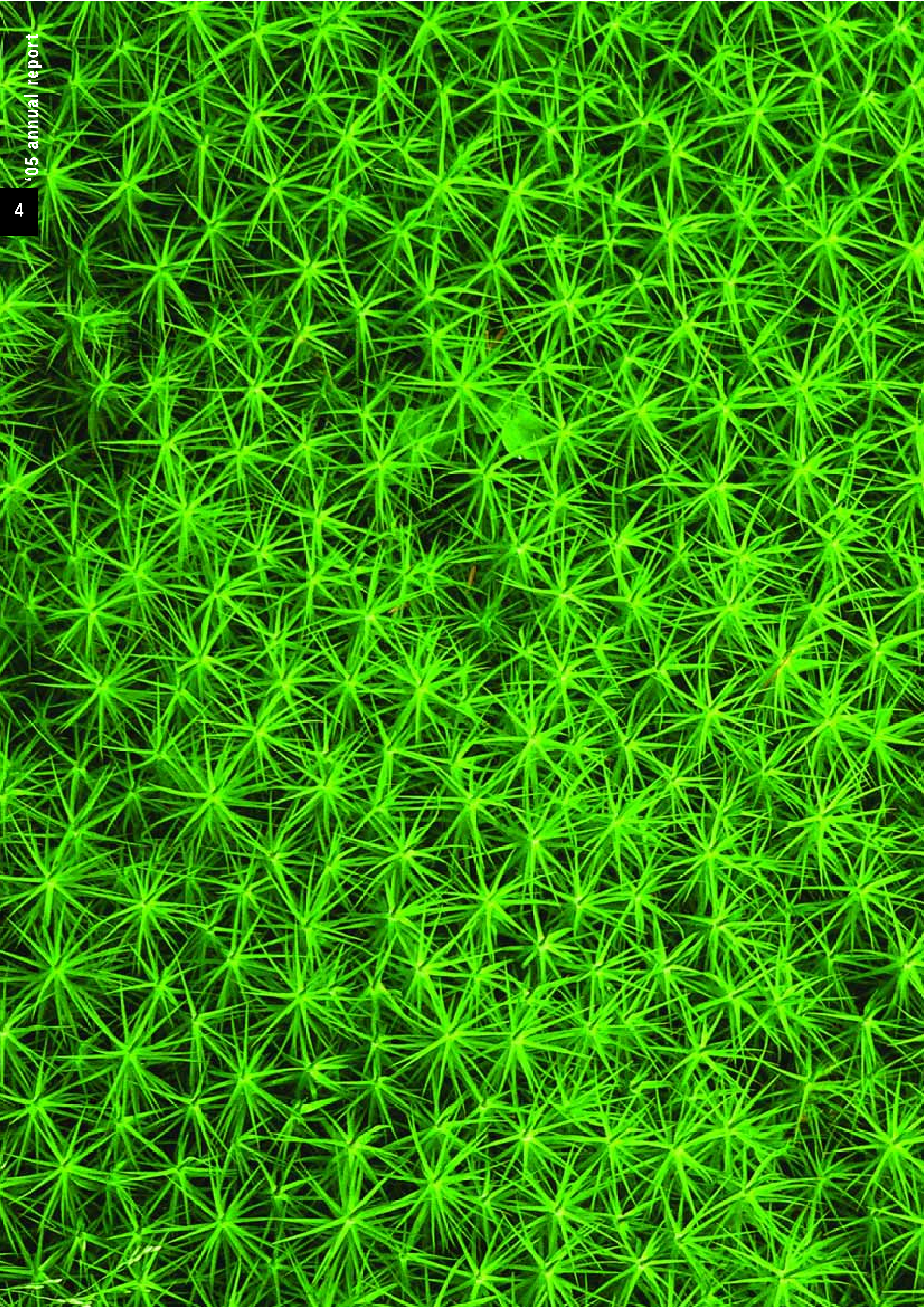
All amounts in 000 MK denars

	2005	2004	Index 05/04
Total revenues	3,483,442	3,269,252	106.55
Sales	3,249,699	3,167,112	102.61
Gross Profit	1,289,478	1,246,913	103.41
Operative Profit	371,128	328,283	113.05
Profit Before Tax	335,412	295,953	113.33
Net Profit	322,542	260,210	123.95
Total Assets	6,184,897	5,679,110	108.91
Capital	4,958,273	4,809,144	103.10
Net Cash Flow	-108,076	27,186	
Investments in fixed assets	380,647	175,954	216.33
Average number of Employees	1,200	1,224	98.04
Sales per Employee	2,708	2,588	104.66
Current ratio	2.38	2.66	89.25
Long-term Debts	0.03	0.00	
ROE - Return of Earnings	6.51	5.41	120.23
EPS - Earnings per Share (in MK Denars)	237.72	201.56	117.94
DPS - Dividend per Share (in MK Denars)	70.50	70.50	100.00
Number of Shares	1,431,353	1,301,230	110.00
1 EURO / 1 MKD (31 December)	61.1779	61.3100	99.78

FINANCIAL HIGHLIGHTS

All amounts in 000 EURO

	2005	2004	Index 05/04
Total Revenues	56,940	53,323	106.78
Sales	53,119	51,657	102.83
EBIT	6,066	5,354	113.30
Net Profit	5,272	4,244	124.22
EPS (in EURO)	3.89	3.29	118.19



HIGHLIGHTS IN 2005

New Facilities
New line for packaging solid dosage forms
New line for packaging liquid dosage forms
Commissioning of a New Drugs Packaging Department
New line for Caffetin
Reconstructed Quality Control Laboratory

New Subsidiaries
- Alkaloid USA, Ohio, United States of America
- ALK&KOS Pharmaceuticals, Kosovo

New Certificates
GMP Certificates for Solid Dosage Forms and Semi-synthetic Cephalosporines issued by the Jordan Food and Drug Administration
Submission of the first eCTD file in the United Kingdom

New releases
ALYCEF®, cefadroxil
BIPRESSO®, bisoprolol
CAFFETIN COLD® paracetamol, ascorbic acid, dextromethorphan, pseudoephedrine
LUNATA®, zolpidem
METFORMIN ALKALOID, metformin
SYNETRA®, clopidogrel
TOCFERA®, tocopherol (Vit.E)
ZANFEXA®, venlafaxine
ZYTRON®, ondansetron

Intensification of Alkaloid know-how transfer and in-bulk cooperation with companies from Bulgaria, Russia, Bosnia and Herzegovina and Croatia

Establishment of a new Human Resources Management Department

Establishment of a new corporate development department

Initiated implementation of the test phase for the new software system

Participation on various international events including CPhI 2005, Madrid, Spain

SHAREHOLDER'S ASSEMBLY

SUPERVISORY BOARD

MANAGEMENT BOARD

CEO

O.U. FINANCES

PAYMENT OPERATIONS

INSURANCE ISSUES

ACCOUNTING

LEGAL AND PERSONNEL AFFAIRS

P.C. CHEMISTRY COSMETICS BOTANICALS

COMMERCIAL DIVISION

R&D, QA/QC
REGULATORY AFFAIRS

PRODUCTION OF CHEMICALS,
COSMETIC PRODUCTS,
HERBAL PRODUCTS
& SEASONINGS

INTERNAL AUDIT DEPARTMENT

COSTS CONTROL

HUMAN RESOURCE MANAGEMENT

CORPORATE DEVELOPMENT

IT DEPARTEMENT

LOGISTICS

PRODUCTION

PHARMACEUTICAL QUALITY ASSURANCE & ENVIRONMENTAL PROTECTION

PHARMACEUTICAL QUALITY CONTROL

R&D, VALIDATION, GMP, EDUCATION

P.C. COATINGS

P.C. PHARMACEUTICALS

P.C. COATINGS

COMMERCIAL DIVISION

R&D, QA/QC REGULATORY AFFAIRS

PRODUCTION OF COATING AGENTS

P.C. PHARMACEUTICALS

GENERAL SERVICES

REGULATORY & MEDICAL AFFAIRS

MARKETING & SALES

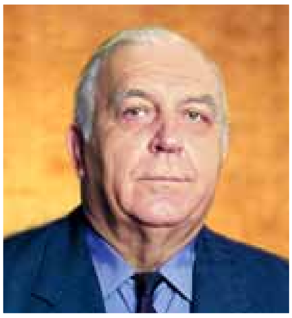
DOMESTIC SALES

EXPORT SALES

SUBSIDARIES

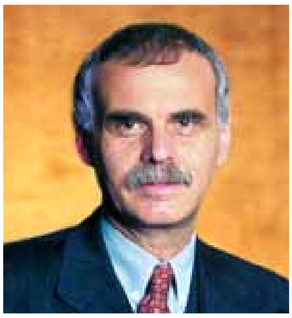
REPORT ON THE WORK OF THE SUPERVISORY BOARD

In accordance to the existing laws in the Republic of Macedonia and the Statute of the Company, the Supervisory Board conducts supervision of the Company's management activities, since its establishment in 1998.
The Supervisory Board of Alkaloid AD-Skopje is consisted of three members with relevant expertise in different fields of importance:



Prof. D-r Miodrag Micajkov
President of the Supervisory Board, Ph. D in law.
Born on August 27, 1944, in Kavadarci, Republic of Macedonia.
Former Dean and Professor at the Faculty of Law Justinijan I in Skopje.

Prof. D-r Ilija Dzonov
Member of the Supervisory Board, MD, Dr. Sci. med.
Born on November 24, 1943, in Stip, Republic of Macedonia.
Employed at the Clinic for Neurology at the Clinical Center in Skopje, former Dean and Professor at the Medical Faculty in Skopje.



Mr. Bojanco Kralevski
Member of the Supervisory Board, B. Sc. in Chemical Engineering.
Born on March 8, 1951, in Skopje, Republic of Macedonia.
Employed in Alkaloid AD-Skopje, P.C. Coatings, Commercial Division.

In the course of 2005 the Supervisory Board held its meetings on regular basis and was continuously informed about all issues regarding the conduct of the Company performed by the Management Board.

In this regard, the Supervisory Board, in the framework of its competences, performed follow-up, consultancy, supervision and gave directions for the business operations of Alkaloid AD-Skopje and Alkaloid Group.

In August 2005, the Supervisory Board decided on ceasing the function of Mr. Dimitar Pejcinovski as Member of the Management Board, and appointed Mrs. Milkica Gligorova, Director of Pharmaceutical Production, instead.

In April 2006 the Supervisory Board decided on appointing Mr. Zivko Mukaetov, Deputy President of the Managing Board, as Chief Executive Officer. Chronologically, this Decision does not belong to the year 2005, to which this Annual Report refers, but it is an important fact at the moment when the Annual Report is being published.

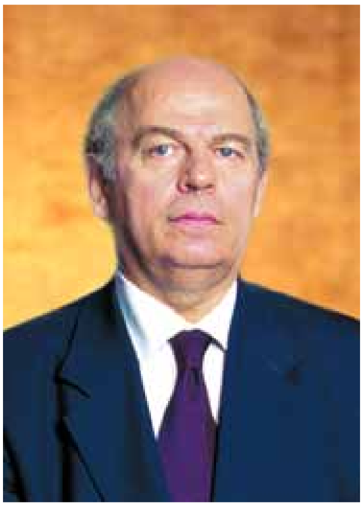
During fiscal 2005, the Supervisory Board reviewed and discussed the quarterly, half-year and annual financial reports, the proposed business plan of the Company which includes annual budgets and developments and financial projections, and gave certain suggestions.

The Supervisory Board reviewed the audited Financial Reports for Alkaloid AD-Skopje and the consolidated Report for Alkaloid Group, together with the Independent Auditor's Report prepared by PricewaterhouseCoopers DOO-Skopje, as well as the proposal submitted by the Management Board for the use of the distributable net profit gained in 2005, and proposed them for adoption to the Shareholders Assembly.

Based on the performed analysis on the Company's management, the Supervisory Board concluded its success according to the international standards and submitted a proposal to the Shareholders Assembly for approval of the Report on the work of each member of the Management Board.

Skopje, April 2006
Supervisory Board
Prof. D-r Miodrag Micajkov
President

MESSAGE FROM THE PRESIDENT OF THE MANAGEMENT BOARD OF ALKALOID AD - SKOPJE



The year 2005 was a year of continuous growth and progress for the Company, especially regarding the export activities, which leaves us well positioned to face the challenges of 2006 and beyond.

In this context, it is a pleasure to mention the increase of total revenues of approximately 7%, especially the increase of export derived revenues of about 12% compared with the previous fiscal year, as well as the increase of net profit of 24%. For the Company, and in the context of our commitment to pertinent development, a particularly important parameter is the higher level of investments in research and development, an investment we believe is essential for a good and prosperous future.

The most important part of the growth was carried out through the pharma operations although, I would like to stress that we are quite satisfied with the development of the Becutan brand as well as the co-operation with Aveda and our Botanicals unit.

In this address, I would like to inform about a recent event that is not chronologically tied to fiscal 2005 but is an important real fact at the moment of creating the Annual Report, and it has a very significant meaning for the future of the Company.

Namely, on April 21, 2006, Mr. Zivko Mukaetov, Deputy President of the Management Board in charge of Profit Center Pharmaceuticals, was assigned to Chief Executive Officer of the Company.

With this, I transfer my executive role, and I shall remain on the position President of the Management Board, while Mr. Zivko Mukaetov will be Chief Executive Officer and Deputy President of the Management Board.

Regarding the top management changes, as an important change I would like to mention the withdrawal of Mr. Dimitar Pejcinovski, and I would like to use this opportunity to thank him for the long and successful co-operation. After he left, Mrs. Milkica Gligorova, Director of Pharmaceutical production, joined the Management Board.

The year behind us was in the spirit of investment in new, highly sophisticated equipment, in all the segments of our work, which will help us in our efforts towards continuous improvement of the quality of our products, as our primary care, as well as to influence the cost reduction, as an inevitable process that will enable our higher competitiveness on the markets. The total value of these investments is approximately 6.0 mil. EUR; the main part of it was dedicated to the pharma business although an important part was also for the P.C. Chemicals, Cosmetics and Botanicals.

Also, during this year we have continued with enlargement of the Alkaloid' team with new, highly qualified personnel which permanently increases the value of the Company.

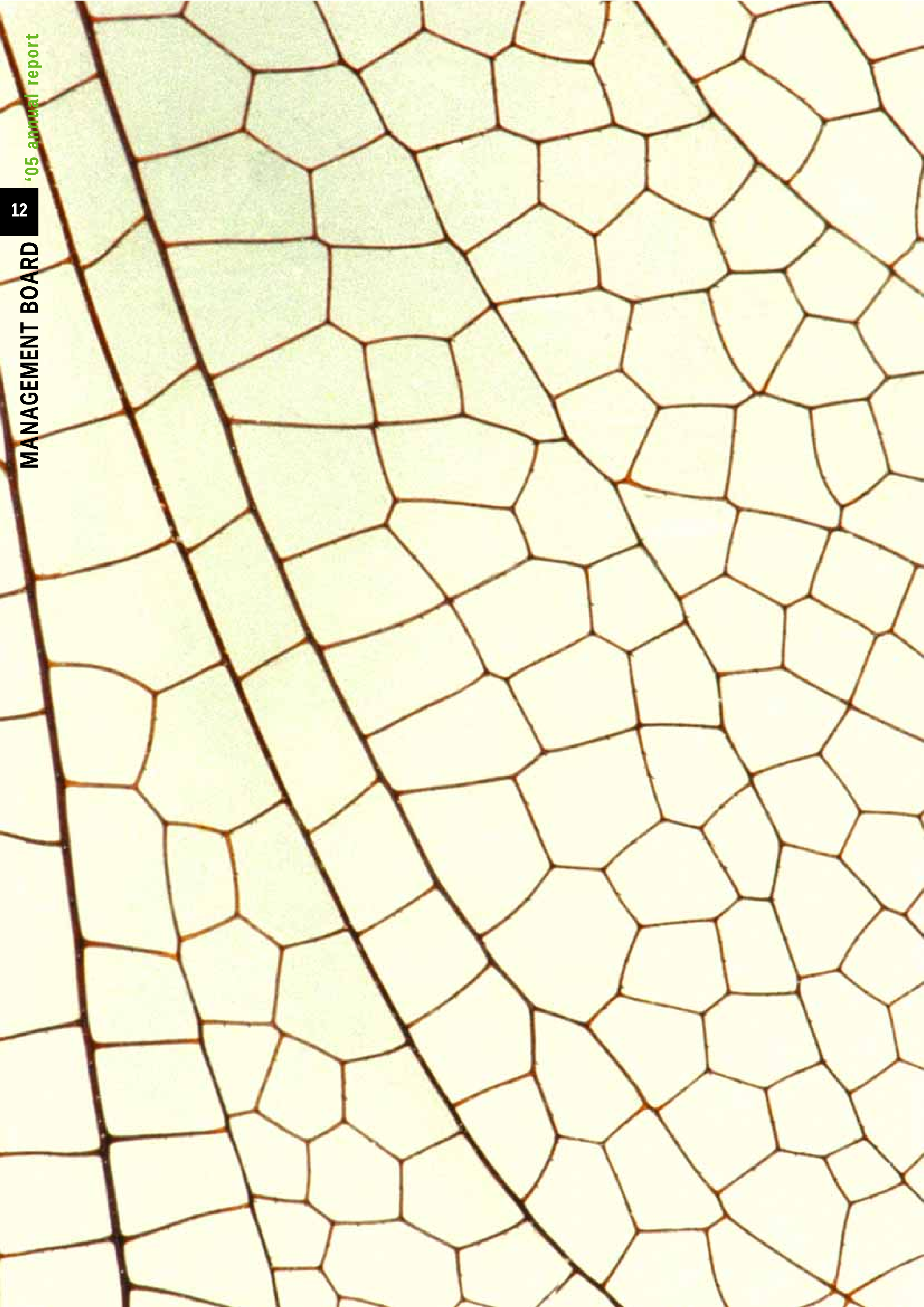
As an event of significant importance for the business development, I would like to mention the establishing of a new daughter company in the United States of America: Alkaloid USA; we strongly believe that it represents a step forward towards the entrance of Alkaloid's products on one of the most important highly regulated markets.

It is with great pleasure that I would like to mention the joining of Alkaloid AD-Skopje the world's largest volunteer initiative for responsible corporate citizenship: the Global Compact, established by the United Nations as an initiative of its Secretary General Mr. Kofi Anan. Recognizing our own values in the ten principles of the Global Compact, the decision for joining the Global Compact local network was simple to make and unanimous. Thus, I would like to reiterate once again my personal commitment, as well as the commitment of the whole management team of Alkaloid AD-Skopje, to further continuous implementation of the Global Compact Principles, inside and outside our Company.

During 2005, Alkaloid's shares were among the most traded and most liquid shares on the Macedonian Stock Exchange. Also, the shares reached their highest value ever. This we consider to be one of the parameters that confirm the real value and positive future prospects of the Company.

At the end, let me confirm the openness of Alkaloid AD-Skopje for new partnerships, in all its fields of action, with one single aim: to improve the overall results of the Company and to promote and protect the interests of the employees, customers, shareholders and all other stakeholders.

Trajce Mukaetov
President of the Management Board



Trajce Mukaetov
President of the Management Board

B. Sc. in Electro-technical Engineering. Born on 20 September 1945 in Kavadarci, Republic of Macedonia. He has 35 years of professional experience. In charge of the overall management of the Company.

Zivko Mukaetov
Deputy Management Board President / Chief Executive Officer

B. Sc. in Mechanical Engineering; acquired master degree in marketing and management at the Kensington College of Business, the Chartered Institute of Marketing Management. Born on 3 May 1974 in Skopje, Republic of Macedonia. He has 14 years of professional experience. In charge of the overall operations of the Company.

Cvetanka Simonovska
Member of the Management Board

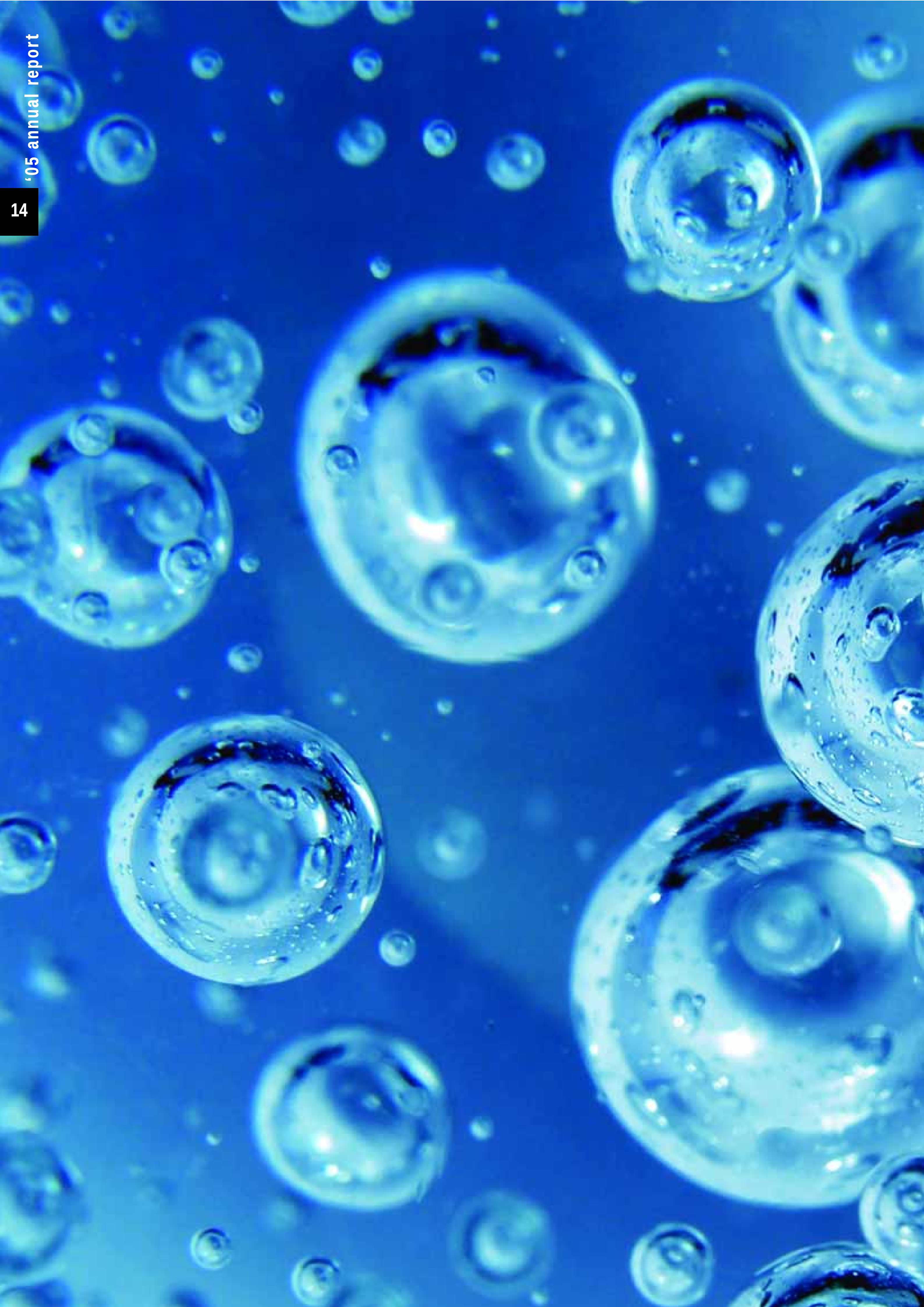
CFO of the Company, B. Sc. in Economy. Born on 27 November 1953 in Gevgelija, Republic of Macedonia. She has 28 years of professional experience, and is in charge of the financial operations of the Company.

Milkica Gligorova
Member of the Management Board

B.Sc Pharmaceuticals, Specialist in Pharmaceutical Technology. Born on 10 April 1959 in Skopje, Republic of Macedonia. She has 24 years professional experience, and is in charge of the production segment in P.C. Pharmaceuticals.

Zorka Zlatanovic
Member of the Management Board

B. Sc. in Chemical Engineering. Born on 13 January 1947 in Gevgelija, Republic of Macedonia. She has 35 years of professional experience and is in charge of the overall operations of P.C. Chemicals, Cosmetics and Botanicals as well as P.C. Coatings in front of the Management Board.




We provide tools for healthier life because
HEALTH IS ABOVE ALL

P.C. PHARMACEUTICALS

Inspired from the vision to make the Company a success story and driven by the rule that the investments are not choice but necessity, Alkaloid-Pharmaceuticals continued investing in the modernization of the production processes all for the purpose of providing drugs of highest quality that comply with the most strict standards.

Striving to provide efficient and quality production process, Alkaloid-Pharmaceuticals built and equipped a new drugs packaging department in compliance with the Good Manufacturing Practice norms. The department was equipped with two new lines: A line for packaging solid dosage forms (tablets, film-coated tablets and capsules), which is presently used for packing nearly 50 products of the Pharmaceuticals production program with maximum projected capacity of 200 individual boxes per minute. The line for packaging liquid dosage forms is intended for packing all ampoule forms and has maximum capacity of 30,000 ampoules per minute. The total value of this investment is EUR 3.5 million.

In order to increase the degree of manufacturing automation, we installed a new line for dosing, sealing, labeling and packing oral dosage forms worth EUR 600,000.

The strict GMP norms imply compliance with the regulations that are of exceptional value for unobstructed and highly sophisticated production process. Within the frames of the investment project for new drugs packaging department, we have provided for adaptation and reconstruction of a new area for storage of semi-finished products (intermediaries) in compliance with the highest standards for operation in the pharmaceutical industries. This additional investment, worth EUR 600,000 improved the speed and efficiency of the production process so that the existing stock of semi-finished products is prepared for different markets in accordance with the various demands and requirements. We have also installed and commissioned a new strip machine for Caffetin, worth more than EUR 1 million.

The primary care and accent of the overall operations of the Pharmaceuticals segment is directed providing high quality finished product that will satisfy the needs of the patients. For that purpose, the Company allocated significant investment funds in the segments of drugs control and quality assurance.

I would hereby like to mention once again the investment in the Microbiological laboratory, which we described in the previous Annual Report, from which we are starting to perceive the benefits. The Company has recently invested additional EUR 400,000 in a new chemical laboratory for control of semi-finished products and finished pharmaceutical products in compliance with the existing GMP norms. Within the frames of this project, we have also executed monthly warehouse for chemicals in compliance with the fire protection projects with special safety cabinets for flammable materials, central weighing room, physical-chemical laboratory, instrumental laboratory for chromatography techniques, special for spectrophotometry, solubility testing, as well as rooms for processing of documentation completely equipped with highly sophisticated instruments and equipment from renown world producers.

The audits performed by external pharmaceutical regulatory bodies and inspection services are our confirmation that

Alkaloid's overall operations are in compliance with the strict norms for production of pharmaceuticals. The inspections performed by the inspection services of the Romanian National Medicines Agency confirmed that the production processes in both factories, for solid dosage forms and semi-synthetic cephalosporines are in compliance with the existing norms in the countries of the European Union.

In reference with the application of preparations in the Bulgarian market, Alkaloid was visited and audited by the Agency for Drugs of the Bulgarian Ministry of Health thus obtaining positive results.

I would also like to mention the successful audit performed by the American multinational company Pfizer, for which Alkaloid is a partner of choice.

In April 2005, we have submitted to the UK MHRA eCTD dossiers of our first products to be placed on the UK market, in co-operation with a local partner. As a result, we soon expect to be inspected by the MHRA GMP-Inspectorate and have our manufacturing facilities certified, when we plan to launch our first products in the UK. We also have the rights to independently register these products on other EU and non-EU markets.

Of enormous importance for Alkaloid-Pharmaceuticals is the GMP inspection rendered by the Food and Drug Administration of the Hashemite Kingdom of Jordan (JFDA), performed in accordance with the ARAB Guidelines on Current Good Manufacturing Practices (cGMP) for Pharmaceutical Products.

An achievement we are very proud of is the establishment of our new subsidiary in Ohio, USA - our company called Alkaloid USA. This company, which is a joint venture of proprietary 50%, shall have the right to sell the drugs of Alkaloid in the American market.

In 2005, the products of Alkaloid-Pharmaceuticals via its eleven offices abroad were placed in the markets of 27 countries worldwide. We were granted 150 drug marketing authorizations, out of which 130 are intended for the export markets.

The overall sales of P.C. Pharmaceuticals in 2005 are nearly 10% higher compared to the sales level of the previous year. This increase is mostly due to the export sales increase coming from the intensification of our know-how transfer and in-bulk sales, amounting to 22%. I would hereby like to emphasize that the increase in the export sales in Bosnia and Herzegovina, Serbia and Montenegro and we have a serious growth on the Russian market.

As far as the sales per product are concerned, P.C. Pharmaceuticals noted the highest growth in Pancef® (cefixime) with 125% increase, then Skopryl® (lisinopril) with 36%, Pholcodin with 29% and Analgin with 22%.

Determined to intensify our presence on the entire EU market, we intend to develop long-term partnerships with both leading local and key EU wholesalers. As we already have the required manufacturing and registration dossier build up know-how, we are looking for partners who shall take over the role of our regulatory applicant, QP, distribution, marketing and sales agents.

The increased scope of our business operations that was especially intensified during the past three years imposed several requirements among which I would like to mention: upgrading and installation of new modern information system, that is a rather voluminous project and for which the company allocated EUR 400,000 in the first phase and which enters in all stages of the business operations; upgrading of the computer infrastructure with eight new servers thus providing for consolidation and integration of the complete software network.

The document management project system (DMS) is a software package intended for management of documents and its size and complexity depends on the Company requirements. This project was executed by Infotehna, Slovenia and the same is used by leading European pharmaceutical companies. It uses the Oracle data base, Documentum platform, My Pharma is the applicative basis and it uses several modules. With this project, Alkaloid has significantly reduced the efforts and the costs made in the documentation management thus reducing the level of possible errors that occur during documentation management all for the purpose of successfully integrating all business segments of the Company. The next phase would be implementation of Enterprise Resource Planning System (ERP).

With the fierce competition Alkaloid faces, the proper investments - especially investments in the production technology and software that would integrate the production processes and the marketing activities - are becoming obligation and necessity for each successful company. With the investments completed in 2005, amounting to over EUR 6 mil., Alkaloid actually invested in increasing its level of competitiveness, becoming equal in the rang of world renown pharmaceutical manufacturers as it has actually been proven on the pharmaceuticals fair CPhI 2005 held in Madrid, Spain. Acquiring international market competition is a challenge and opportunity to which Alkaloid is prepared to respond.

Zivko Mukaetov
Deputy MB President/CEO

LATEST RELEASES IN 2005

ALYCEF® cefadroxil
Granules for suspension
Capsules

ZANFEXA®
venlafaxine
Tablets

TOCFERA®
tocopherol (Vit.E)
Tablets

ALYCEF®

METFORMIN ALKALOID®

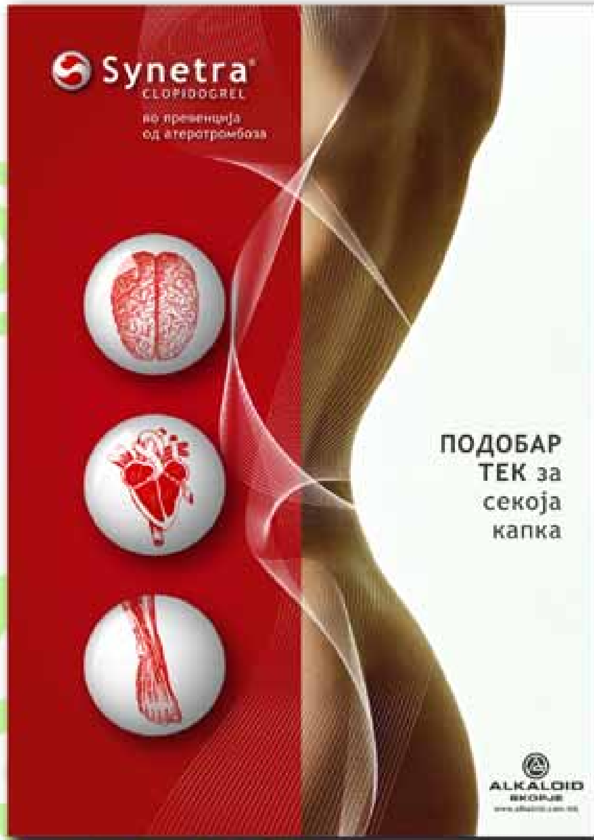
ZANFEXA®

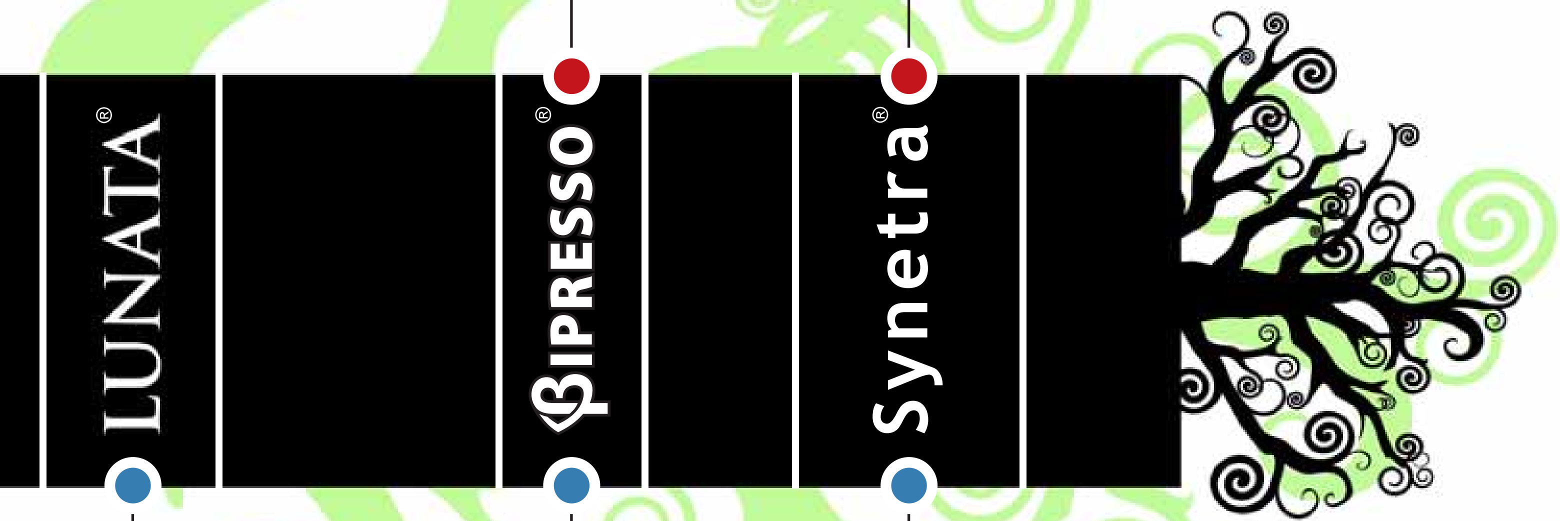
ZYTRON®

Tocfera®

METFORMIN ALKALOID®
metformin
Film coated tablets

ZYTRON®ondansetron
Film coated tablets
Solution for injections

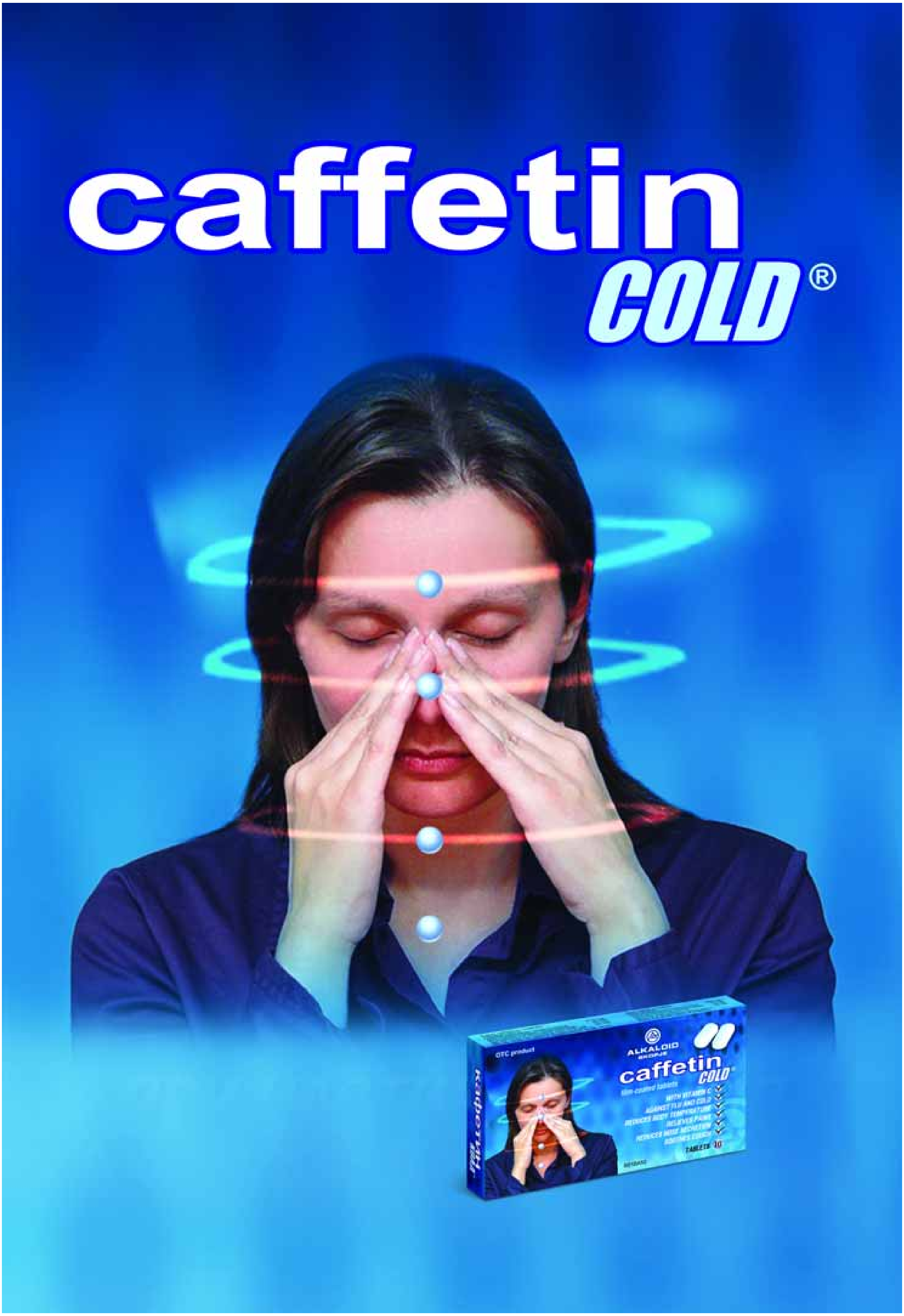




LUNATA®
zolpidem
Film coated tablets

BIPRESSO®
bisoprolol
Film coated tablets

SYNETRA®
clopidogrel
Film coated tablets


caffetin
COLD®
OTC product
ALKALOID
caffetin
COLD

CAFFETIN COLD®

As a Company that has years of experience in the production of drugs of high quality using the most modern technology and business standards and having a proper know-how in the segment of OTC products, Alkaloid launched a brand extension of its leading product Caffetin®, called Caffetin COLD®. This brand extension is a result of an extensive market research where we focused on satisfying the customers' needs and designing products according to the patients' requirements.

The gala promotion held on 14th December 2005, marked the launch of this product in the Republic of Macedonia. The numerous attendees were introduced with the basic information about this product, which is a drug of choice in patient suffering from cold and flu symptoms.

Caffetin COLD® is a combination of 4 ingredients those being:

- **Paracetamol**, which reduces the elevated body temperature, reduces that pains in the muscles and joints and is efficient against the headache;
- **Pseudoephedrine**, which reduces the nasal secretion and facilitates the breathing;
- **Dextromethrophan**e, an anti-tussic, which reduces the dry, irritating cough, and
- **Vitamin C**, one of the essential vitamins, which stimulates the immune system and aids rapid recovery.

We are expecting to have Caffetin COLD® registered by the end of 2006 in most of the markets where Caffetin® is the leading product in the analgesic group of products like Serbia, Montenegro, Croatia, Bosnia & Herzegovina as well as all other markets where Alkaloid is present.

Highlights from the gala promotion

THE HUMAN RESOURCES DEPARTMENT

Following the strategy and vision we find that our values and assets are concentrated in the 1075 skilled and creative employees working for Alkaloid. Alkaloid's multinational presence reinforces our ability to compete on the CEE and CIS markets and to get ahead of the marketplace and to satisfy customer's needs.

In today's challenging business world, we believe that enthusiasm and commitment to work are essential prerequisites that we must provide. The right environment in which our employees feel positive and enthusiastic about what they are doing, with a clear sense of purpose, confidence in their ability to meet the challenges and pride in their individual contribution, aid our company's success.

Alkaloid's Human Resources plays a proactive role in assisting people in their professional careers. HR policy includes permanent access to job vacancies, annual performance and development assessments for all Alkaloid's associates.

Each Profit centre has an established HR system, whose role is to identify future employments, career and personal developments and provide support for practical and upward mobility.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Due to help employees to deliver their best, we encourage and support our people in developing their capabilities and skills with a range of high quality learning and development opportunities, truly supported by the management and tailored for different operational teams and needs. Because our business is based on production, sales and marketing, we also encourage people to be continuously creative, to challenge each other and build on fresh insights to find new and better ways of doing business.

REWARD SYSTEM

Remuneration is a critical component of our employment package. Our flexibility is an important feature of our approach to reward which we believe is about more than just salary. It plays a key role in retaining, motivating and attracting the people we need for the present and the future, and in fostering superior value creation and reinforcing a culture of performance at Alkaloid. Each country offers a remuneration package that is designed to be attractive as well as competitive to the healthcare sector.

COMMUNICATION

We are convinced that effective management and open communication channels are essential to maintain people's confidence in Alkaloid and their commitment to its goals. We use communications facilities, face to face meetings due to ensure that our people are kept up to date with business developments and are clear about their individual and team roles and targets. We also encourage the sharing of knowledge and ideas across functional and territorial boundaries to stimulate creativity and best practice within Alkaloid.

Feedback is very important to us and opportunities for giving feedback are built into all levels of communication. According to ISO 9001-2000 principles we use an annual employee's satisfaction survey to identify areas of both satisfaction and concern.

MANAGEMENT AND LEADERSHIP

Flexible management or even more, inspiring leadership is a key to Alkaloid's success, so we have designed range of programmes to strengthen leadership capabilities, develop core management skills and help leaders increase good working relationships across the organisation. These programmes are complemented by local initiatives, which include functional or country specific aspects of development. For the future, succession planning ensures that a pool of quality leaders is available to support our long term success.

HEALTH AND SAFETY

Ensuring the health and safety policy in our workforce is a high priority. We have designed policy to promote the health, safety and welfare of all our people.

OUR CORE VALUES

- Honesty and high ethical standards
- Respect for the individual and diversity
- Openness, trust and support between each other
- Management and leadership by example at all levels

We want people to be positive and enthusiastic about what they are doing, with a clear sense of reason, and pride in their individual contribution to the company's success.

We value diversity, promote personal empowerment and continuous professional development, and we encourage a balance between work and private life.

Alkaloid aims to ensure a high degree of protection for employees everywhere we operate with regard to local legislation and practice.

DIVERSITY

We employ about 1,100 people in Macedonia, SEE and CIS region with a wide variety of backgrounds and skills. Valuing diversity means valuing the differences between individuals and recognising their contribution. We encourage people to share knowledge and ideas, across boundaries, and build high performance teams with a common purpose. Equal opportunity for all is a cornerstone of our company culture, where personal advancement depends solely on individual ability and performance.

CREATING COHERENCY

Alkaloid i.e. its Management aims to treat the employees not as tools for realization of posed results but as social beings who function in a highly dynamic environment of technological changes and motivate them to head towards improved results and performances.

Once a year, starting from 2003, the Company allocated certain funds for the expert gathering Alkaloid's Days. At a gathering of this type, the employees from the HQ and the branch offices are able to exchange valuable information, knowledge, skills, insights, improve relationship links and develop their sense for coping as a group dedicated to achievement of one single goal.

PERSONAL EMPOWERMENT

Alkaloid's critical success factor is ability to respond quickly and efficiently to changing business needs. This requires fast and effective decision-making.

We facilitate people to understand how their individual roles align with our strategic objectives and encourage them to stretch their assumptions about the limits of their capabilities. We promote leadership by example at all levels, with delegation of authority and support so that people are confident in making decisions and implementing them.

OUR HR SYSTEM

Alkaloid's growth and success depends on the skills of its people, and we are committed to develop the wide range of capabilities.

Our aim is to build and maintain a culture which values, recognises and rewards outstanding performance, where people share a commitment to Alkaloid's objectives and to deliver their personal best. We encourage and support our people in developing their potential. All our managers are responsible for working with each member of their team to agree to a personal development plan for that person, aligned to business needs and tailored to the individual's skills and aspirations.

We recognise the importance of continuous dialogue and feedback. Regular meetings between managers and individuals - as well as interim and annual performance review - provide not only the opportunity to discuss work objectives and progress towards these, but also to plan any further personal development that may be required to achieve the objectives, and to consider longer-term career goals.

We like to think laterally about career paths. Cross-functional moves and international mobility are actively encouraged and supported, and we are looking at ways of using the intranet to communicate business opportunities more effectively within the company.

Our culture is based on high performance, where every person recognises the need to add value for customers and shareholders, and understands the link between their contribution and the business priorities.

As part of this, we appreciate the importance of recognising individual needs and supporting work/life balance - key elements of providing an energising work environment. Reward and benefits schemes are designed to meet varied and changing employee needs and introducing individual choice and flexibility.

As these schemes are developed and implemented on a country-by-country basis, we communicate widely with employees to ensure understanding of the total compensation package and to get feedback that helps us build on best practice for the future.

CORPORATE DEVELOPMENT DEPARTMENT

In line with Alkaloid's strive for excellence in all the areas of business a Corporate Development position was created starting from the beginning of 2006. The task of the Corporate Development department is to enhance the strategy of the company and to promote the future direction and targets of Alkaloid's vision and mission statements.

Alkaloid has had an impeccable financial, market and investment track record in the past decade. The Corporate Development department was created in order to enhance the competitive advantages of Alkaloid in order to further enhance the performance of the company, by providing a clear direction and creating goals for the future.

The Corporate Development Staff tasks are to closely cooperate with the top management of the company and take part in the strategic business decision making process through gathering information from the whole corporate structure of Alkaloid and suggesting the possible future steps and implications.

The Department has both a tactical and strategic role in the development of all the businesses of Alkaloid and will insure carrying out of the strategic development of the company in further boosting its market position in Macedonia and abroad. The specific development paths and structural changes will be suggested and eventually performed in line with amplifying the competitive advantage position of Alkaloid and provision of value added products with superb quality.

MARKETING AND SALES

In 2005, P.C. Pharmaceuticals had 692 employees working in the headquarters, and 99 employed abroad.

The overall net sales in P.C. Pharmaceuticals reached MK Den. 2.277 bil., which is 70.07% of overall sales of Alkaloid Group.

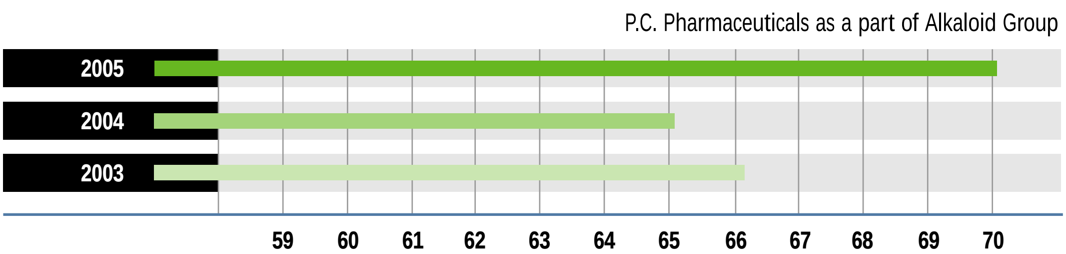
In 2005, the products of Alkaloid were placed in the markets of 27 countries worldwide via our subsidiaries. We have obtained more than 150 drug marketing authorizations, out of which 130 were for the foreign markets.

List of leading products:

% Share in the overall sales in P.C. Pharmaceuticals

Product	2005	2004	2003
CAFFETIN	18.96	19.73	20.15
ANALGIN	11.47	9.69	11.55
PHOLCODIN	4.47	3.43	4.51
SKOPRYL	3.95	2.96	3.42
PANCEF	3.25	1.42	0.47
Animal Health	0.88	0.99	0.99
Others	57.02	62.63	58.45

P.C. Pharmaceuticals as a part of Alkaloid Group



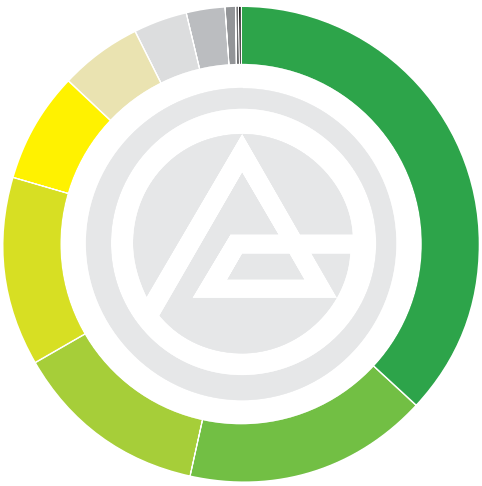
Starting from 2003 the level of sales in P.C. Pharmaceuticals notes a growing trend. In 2005 we have managed to increase the overall level of sales for 10% compared to last year. That was mostly due to the growth in the export sales which have surpassed the domestic sales and have risen for nearly 22% compared to 2004, mostly effectuated in the markets of Bosnia and Herzegovina, Serbia and Montenegro and we also note a serious growth on the Russian market.

As far as the sales per products are concerned, P.C. Pharmaceuticals noted the highest growth in Pancef® (cefixime) with 125% increase, then Skopryl® (lisinopril) with 36%, Pholcodin with 29% and Analgin with 22%.

Sales structure per countries in 2005

Domestic Sales	36.87
Export Sales	63.13

Sales structure by countries



- Macedonia 36.87%
- Serbia and Montenegro 16.59%
- Bosnia and Herzegovina 13.22%
- Croatia 12.84%
- Russia and CIS 7.52%
- Kosovo(S&MN) 5.59%
- Slovenia 3.64%
- Albania 2.78%
- Bulgaria 0.81%
- Romania 0.08%
- Others 0.06%

COMPLETE LIST OF PHARMACEUTICAL PRODUCTS

(in alphabetical order)

Registered name INN (generic)	Presentation (strength, pharmaceutical form, pack size)	ATC-code, pharmaco-therapeutic group
ACIKLOVIR, aciclovir	cream 5%, 5 g	D06BB03, topical antiviral
ACIKLOVIR, aciclovir	200 mg tablets, 25	J05AB01, antiviral for systemic use
ACIKLOVIR, aciclovir	3% eye ointment, 5 g	S01AD03, ophtalmological antiviral
ALBENDAZOL, albendazole	200 mg film coated tablets, 6s and 60s	P02CA03, antihelminthic
ALBOL®, acetylsalicylic acid	300 mg buffered tablets, 20s and 500s	N02BA01, analgesic, antipyretic
ALDIZEM®, diltiazem	60 mg and 90 mg tablets, 30s	C08DB01, calcium channel blocker
ALKADIL®, captopril	12.5 mg; 25 mg and 50 mg tablets, 40s	C09AA01, ACE inhibitor
ALKORNIN®, dihidroergotoxine	4.5 mg tablets, 20s	C04AE01, vasoregulator
	1mg/1ml oral solution, 50 ml	
ALMACIN®, amoxicillin	500 mg capsules, 16s and 100s	J01CA04,
	250mg/5ml powder for oral suspension, 100 ml	broad spectrum penicillin
ALMETEX®, carbazochrome	25 mg tablets, 20s	B02BX02, haemostatic
	10mg/2ml solution for injection, 30s	
ALVEN®, heparin, dexpanthenol, allantoine	30.000 IE, cream and gel, 40 g	C05BA53,
	50.000 IE, cream and gel, 40 g	conmbined heparin for topical use
AMINOFILIN, aminophylline	100 mg tablets, 50s	R03DA05, bronchodilator
	350 mg prolonged release tablets, 20s	
	250mg/10ml solution for IV injection, 50s	
AMLODIPIN, amlodipine	5 mg and 10 mg tablets, 30s	C08CA01, calcium channel blocker
AMPICILIN, ampicillin	500 mg capsules, 16s and 100s	J01CA01,
	250mg/5ml powder for oral suspension, 100 ml	broad spectrum penicillin
ANALGIN®, metamizole sodium	500 mg tablets, 10s and 500s	N02BB02, analgesic, antipyretic
	1g/2ml solution for injection, 50s	
	2.5g/5ml solution for injection, 50s	
AQUA AD INIECTABILIA,	2 ml; 5 ml or 10 ml	water for injections
water for injections	solvent for parenteral use, 50s	
ATENOLOL, atenolol	50 mg and 100 mg film coated tablets,	C07AB03, selective β-blocker
	15s and 30s	
BETADINE®, povidone - iodinated	10 % ointment, 20 g	D08AG02 and D11AC06,
	7.5 % surgical scrub,	antiseptic & disinfectant
	100 ml and 1000 ml	
Manufactured under the license of Mundipharma AG Basel, Switzerland		
BETADINE®, povidone - iodinated	10 % solution, 100 ml and 1000 ml	G01AX11, gynecological antiseptic
	200 mg vaginal pessaries, 14s	
Manufactured under the license of Mundipharma AG Basel, Switzerland		
BETADINE®, povidone - iodinated	1% gargle, 100 ml	R02AA15, throat antiseptic
Manufactured under the license of Mundipharma AG Basel, Switzerland		
BRONLES®, carbocisteine	375 mg capsules, 30s	R05CB03, bronchosecretolytic
	250mg/5ml syrup, 150 ml	
	125mg/5ml syrup for children, 150 ml	
BYMARAL®, bromopride	10 mg capsules, 60s	A03FA04, antiemetic
	10mg/2 ml solution for injection, 30s	
	48mg/20ml oral drops, solution, 20 ml	
Manufactured under the license of Sanofy Synthelabo, France		
CAFFETIN® SC,	tablets, 10s	N02BE51, combined analgesic
paracetamol, propyphenazone, caffeine	tablets, 500s	

Registered name INN (generic)	Presentation (strength, pharmaceutical form, pack size)	ATC-code, pharmaco-therapeutic group
CAFFETIN® TRIO,	tablets, 10s	N02BE51, combined analgesic
paracetamol, caffeine, codeine	tablets, 500s	
CAFFETIN®,	tablets, 10s	N02BE51, combined analgesic
paracetamol, propyphenazone,	tablets, 500s	
caffeine, codeine		
CEFACLOR, cefaclor	250 mg and 500 mg capsules, 16s	J01DA08, cephalosporin
	125mg/5ml powder for oral suspension, 60 ml	
	250mg/5ml powder for oral suspension, 60 ml	
CEFALEXIN, cefalexin	500 mg capsules, 16s and 100s	J01DA01, cephalosporin
	250mg/5ml powder for oral suspension, 100 ml	
CHLORAMPHENICOL, chloramphenicol	5 % ointment, 5 g	D06AX02, antibiotic for topical use
CHLORAMPHENICOL, chloramphenicol	1% eye ointment, 5 g	S01AA01, ophtalmological antibiotic
CINEDIL®, cinnarizine	75 mg tablets, 50s	N07CA02, vasoregulator, antivertigo preparation
CITERAL®, ciprofloxacin	250 mg and 500 mg film coated tablets, 10s	J01MA02, system quinolone
	100mg/10ml concentrate for solution for infusion, 5s	
CITERAL®, ciprofloxacin	0.3%, eye drops, 5 ml solution	
CODEINI PHOSPHATIS, codeine	30 mg tablets, 10s	S01AX13, ophtalmological antiinfective
DECOTAL®, diflucortolone	1mg/g cream, 20 g;	R05DA04, antitussic
	1mg/g ointment, 20 g	D07AC06, potent corticosteroid
DIABINESE*, chlorpropamide	250 mg, 30 tablets	dermotherapeutic
Manufactured under the license of Pfizer, H.C.P.		A10BB02, oral antidiabetic
DIAZEPAM, diazepam	2 mg and 5 mg coated tablets, 30s	
	10mg/2ml solution for injection, 10s	N05BA01, anxiolytic
DOXYCYCLIN, doxycycline	100 mg capsules, 5s and 100s	
EGLONYL® forte, sulpiride	200 mg tablets, 12s	J01AA02, tetracycline antibiotic
Manufactured under the license of Sanofy Synthelabo, France		N05AL01, antipsychotic
EGLONYL®, sulpiride	50 mg capsules, 30s	
	25 mg/5 ml oral solution, 120 ml	N05AL01, antipsychotic
	100 mg/2 ml solution for injection, 30s	
Manufactured under the license of Sanofy Synthelabo, France		
EPIAL®, carbamazepine	200 mg tablets, 50s	
ETAMBUTOL, ethambutol	400 mg tablets, 100s	N03AF01, antiepileptic
ETOLAC®, etodolac	200 mg film coated tablets, 20s	J04AK02, antituberculotic
FAMOSAN® famotidine	20 mg film coated tablets, 20s	M01AB08, NSAID
	40 mg film coated tablets, 10s	A02BA03, antiulcer drug
FLAGYL®, metronidazole	500 mg vaginal pessaries, 10s	
Manufactured under the license of Aventis Pharma S.A. France		G01AF01, ginecological antiparasitic
FLAGYL®, metronidazole	250 mg and 400 mg tablets, 20s	
Manufactured under the license of Aventis Pharma S.A. France		J01XD01, antiparasitic
FLUFENAZIN ALKALOID®, flufenazine	1 mg coated tablets, 25s	
	2.5 mg and 5 mg coated tablets,100s	N05AB02, antipsychotic
	2.5mg/1ml solution for injection, 5s	
	25mg/1ml solution for depo injection, 5s	
FLUOXETIN, fluoxetine	20 mg capsules, 30s	
FUROSEMID, furosemide	40 mg tablets, 10s	N06AB03, antidepressant
	20mg/2ml solution for injection, 50s	C03CA01, diuretic

Registered name INN (generic)	Presentation (strength, pharmaceutical form, pack size)	ATC-code, pharmaco-therapeutic group
GENTAMICIN, gentamicin	20mg/2ml solution for injection, 10s	J01GB03,
	40mg/2ml solution for injection, 10s	aminoglycoside antibiotic
	80mg/2ml solution for injection, 10s	
	120mg/2ml solution for injection, 10s	
GLIBEDAL®, glibenclamide	5 mg tablets, 30s	A10BB01, oral antidiabetic
GLU-ROS®, rosiglitazone	4 mg film coated tablets, 30 tablets	A10BG02, oral hypoglycemic
GYNIPRAL®, hexoprenaline	0.5 mg tablets, 20s	G02CA, tocolytic
	0.01mg/2ml solution for injection, 5s	
Manufactured under the license of Nycomed Austria GmbH		
HEFEROL®, ferrous fumarate	350 mg capsules, 30s	B03AA02, antianaemic
HEPARIN, heparine	5.000 iu/1 ml solution for injection, 10s	B01AB01, antithrombotic agent
	25.000 iu/5 ml solution for injection, 50s	
HIDROHLOROTIAZID, hydrochlorothiazide	25 mg tablets, 20s	C03AA03, diuretic
HOLLESTA®, simvastatin	10 mg, 20 mg and 40 mg film coated tablets, 30s	C10AA01, hypolipaemic
INSTENON®,	coated tablets, 30s	C04A, combined vasoregulator
etofylline, etamivan, hexobendine		
Manufactured under the license of Nycomed Austria GmbH		
KALCIUM KARBONAT, calcium carbonate	1 g tablets, 50s	A12AA04, antiphosphataemic,
		mineral supplement
KLINDAMICIN, clindamycin	150 mg and 300 mg capsules, 16s	J01FF01, lincosamide antibiotic
KOMPENSAN*	300 mg, 20s	A02AB04, antacid
dihydro-aluminium-sodium-carbonate		
Manufactured under the license of Pfizer, H.C.P.		
LAMAL®, lamotrigine	25 mg; 100 mg and 200 mg tablets, 30s	N03AX09, antiepileptic
LEGOFER®	800 mg/15 ml oral solution, 150 ml	B03AB09, antianaemic
iron proteinsuccinylate	(equivalent to 40 mg Fe3+)	
Manufactured under the license of Italfarmaco S.p.A. Milan, Italy		
LEXILIUM®, bromazepam	1.5 mg; 3 mg and 6 mg tablets, 30s	N05BA08, anxiolytic
Manufactured under the license of F. Hoffman - La Roche Ltd. Basel, Switzerland		
LIDAPRIM®, sulfametrole + trimethoprim	20 tablets	J01EE03,
	20 tablets for children	combined sulphonamide & trimetoprim
	100 ml oral suspension for children	
Manufactured under the license of Nycomed Austria GmbH		
LIDOCAIN HYDROCHLORID, lidocaine	40mg/2ml solution for injection, 100s	N01BB02, local anaesthetic, antiarrhythmic
LIDOCAIN-ADRENALIN, lidocaine-adrenaline	2 ml solution for injection, 100s	N01BB52, local anaesthetic
LITIUM CARBONAT, lithium carbonate	300 mg film coated tablets, 100s	N05AN01, antipsychotic
LORATADIN, loratadine	10 mg tablets, 10s	R06AX13, antihistaminic
	5 mg/5 ml oral solution, 120 ml	
LOSARTAN, losartan	50 mg and 100 mg film coated tablets, 30s	C09CA01, angiotensin II antagonist
MENDILEX®, biperiden	2 mg tablets, 50s	N04AA02, antiparkinsonic
METADON, methadone	5 mg tablets, 20s	N02AC02, opioid analgesic;
	10 mg/ml oral drops, 10 ml solution	drug used in opiate dependance
	10mg/ml oral solution, 100 ml	treatment
	10mg/ml solution for injection, 5s and 50s	
MORPHINI HYDROCLORIDUM, morphine	20 mg/ml solution for injection, 10s	N02AA01, opioid analgesic
	4 mg/ml solution for injection, 10s	

Registered name INN (generic)	Presentation (strength, pharmaceutical form, pack size)	ATC-code, pharmaco-therapeutic group
NIFADIL® retard, nifedipine	20 mg prolonged-release film-coated tablets, 30s	C08CA05, calcium channel blocker
NIFADIL®, nifedipine	10 mg film coated tablets, 50s	C08CA05, calcium channel blocker
NIFLAM® retard, ketoprofen	200 mg tablets, 20s	M01AE03, NSAID
Manufactured under the license of Aventis Pharma S.A. France		
NIFLAM®, ketoprofen	50 mg capsules, 25s	M01AE03, NSAID
	100mg/2ml solution for injection,10s	
	100 mg suppositories, 12s	
Manufactured under the license of Aventis Pharma S.A. France		
NOSCAPIN, noscapine	7.6mg/5ml oral solution,100 ml	R05DA07, antitussic
NOVAMORF®, morphine	10 mg, 20 mg and 30 mg sublingual tablets,	N02AA01, opioid analgesic
	20s and 60s	
NOZINAN®, levomepromazine	25 mg and 100 mg tablets, 20s and 100s	N05AA02, antipsychotic
Manufactured under the license of Aventis Pharma S.A. France		
OMEZOL®, omeprazole	20 mg capsules, 14s	A02BC01, antiulcer drug
PANCEF®, cefixime	400 mg film coated tablets, 10s	J01DA23, cephalosporin
	100mg/5ml powder for oral suspension, 100 ml	
PARACETAMOL, paracetamol	500 mg tablets, 10s and 500s	N02BE01, analgesic, antipyretic
	120mg/5ml oral solution, 100 ml	
PARSEDIL®, dipyridamole	75 mg coated tablets, 15s	B01AC07, platelet agregation inhibitor
PENTOKSIFILIN, pentoxifylline	100 mg/5 ml solution for injections, 5s	C04AD03, vasoregulator, rheolytic
	400 mg tablets, 20s	
PHOLCODIN, pholcodine	10 mg capsules, 20s	R05DA08, antitussic
	15mg/15ml oral solution, 150 ml	
	4mg/5ml oral solution for children, 60 ml	
PROCULIN, naphazoline + boric acid	eye drops, 10 ml solution	S01GA51, ophtalmic decongestant
PROPAFENON, propafenone	150 mg film coated tablets, 40s	C01BC03, antiarrhythmic
	35mg/10 ml solution for injection, 10s	
PROPILTIOURACIL, propylthiouracil	50 mg tablets, 20s	H03BA02, thyrostatic
	100 mg tablets, 45s	
REGLAN®, metoclopramide	10 mg tablets, 40s	A03FA01, antiemetic
	10 mg/2 ml solution for injection, 30s	
	5mg/5ml oral solution, 120 ml	
Manufactured under the license of Sanofy Synthelabo, France		
REMOXICAM®, piroxicam	10 mg and 20 mg capsules, 20s	M01AC01, NSAID
	20 mg suppositories, 10s	
	10% cream, 35 g	
RIFAMPICIN, rifampicin	300 mg capsules, 100s	J04AB02, antituberculotic
RISPERIDON, risperidone	1 mg; 2 mg and 3 mg film coated tablets, 20s	N05AX08, antipsychotic
SALBUTAMOL, salbutamol	2 mg tablets, 60s and 100s	R03CC02, bronchodilator
	2mg/5ml oral solution, 150 ml	
	5mg/ml nebuliser solution, 20 ml	
SINEQUAN*, doxepine	10 mg and 25 mg capsules, 30s	N06AA12, antidepressant
Manufactured under the license of Pfizer, H.C.P.		
SKOPRYL® PLUS,	(20 mg + 12.5mg) tablets, 20s	C09BA03, combined antihypertensive
lisinopril + hydrochlorothiazide	(20 mg + 25 mg) tablets, 20s	
SKOPRYL®, lisinopril	5 mg, 10 mg and 20 mg tablets, 20s	C09AA03, ACE inhibitor

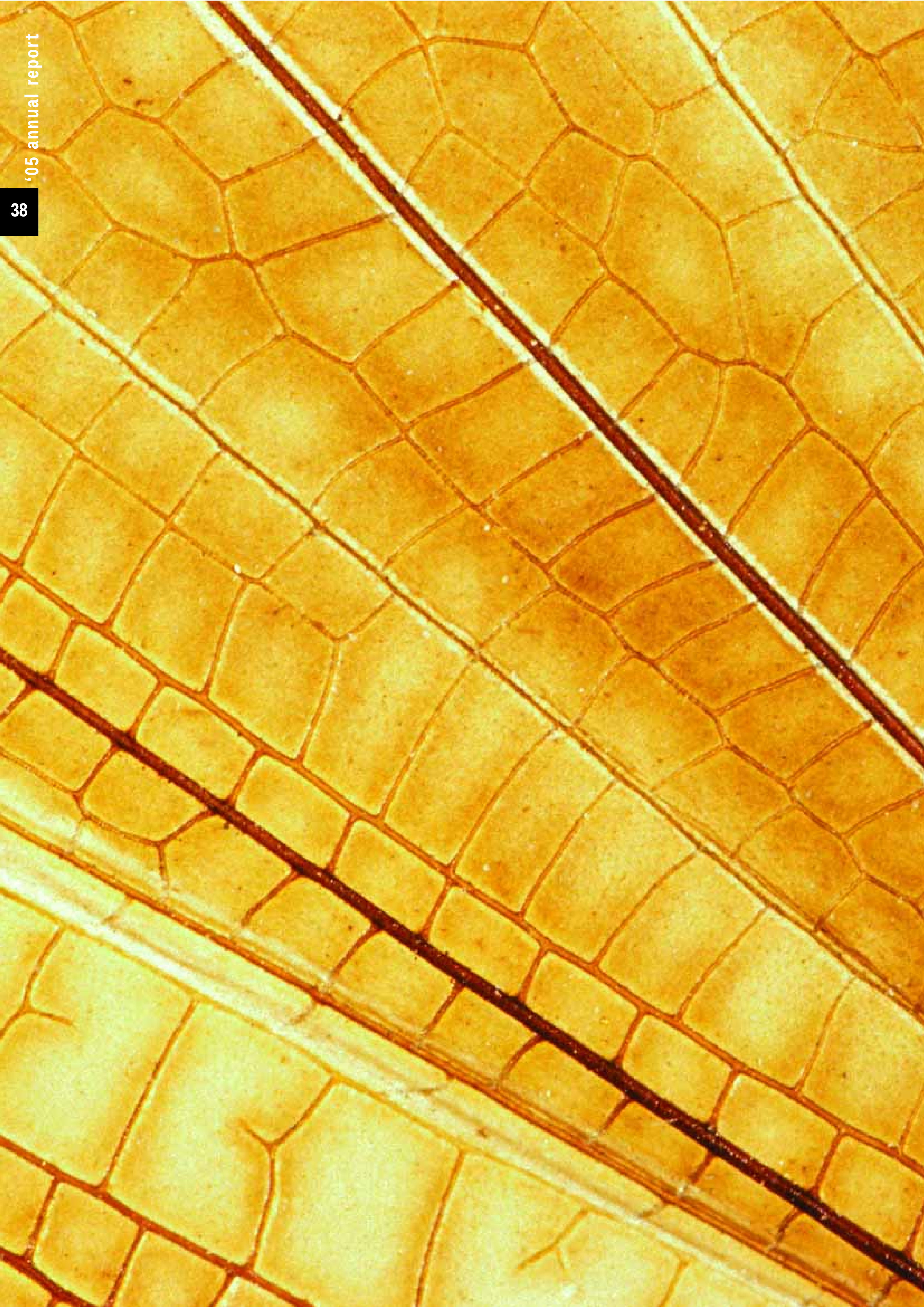
Registered name INN (generic)	Presentation (strength, pharmaceutical form, pack size)	ATC-code, pharmaco-therapeutic group
SOLCOSERYL®,	8.3mg/g eye-gel (as dry matter), 5 g	S01XA,
standardised, protein-free		ophtalmic wound and ulcer treatment
haemodialysate of blood of veal calves		
Manufactured under the license of ICN Pharmaceuticals Switzerland, Ltd. Birsfelden, Switzerland		
SOLCOSERYL®,	2.07mg/g ointment (as dry matter), 20g	D03BA,
standardised, protein-free	4.15 mg/g gel (as dry matter), 20 g	treatment of wounds and ulcers
haemodialysate of blood of veal calves	42.5 mg/ml solution for injection (as dry matter),	
	30 ampoules of 2 ml and 30 ampoules of 5 ml	
Manufactured under the license of ICN Pharmaceuticals Switzerland, Ltd. Birsfelden, Switzerland		
SOLCOSERYL®,	dental adhesive paste 5 g	A01AD, local oral treatment
standardised, protein-free		
haemodialysate of blood of veal calves		
Manufactured under the license of ICN Pharmaceuticals Switzerland, Ltd. Birsfelden, Switzerland		
SUMETRIN®, sumatriptane	50 mg tablets, 6s and 3s	N02CC01, antimigraine preparation
TIMOLOL, timolol	0.25% and 0.5% eye drops, 5 ml solution	S01ED01, antiglaucoma preparation
TRAMADOL, tramadol	50 mg capsules, 20s	N02AX02, opioid analgesic
	50mg/1ml solution for injection, 5s and 50s	
	100mg/2ml solution for injection, 5s and 50s	
ULCODIN® ranitidine	150 mg film-coated tablets, 20s	A02BA02, antiulcer drug
	50mg/2ml solution for injection, 5s	
VASOFLEX*, prazosine	1 mg tablets, 30s	C02CA01,
	2 mg and 5 mg tablets, 60s	selective α_1-adrenergic blocker
Manufactured under the license of Pfizer, H.C.P.		
VERAPAMIL retard, verapamil	240 mg prolonged-release film coated tablets,	C08DA01, calcium channel blocker
	20s	
VERAPAMIL, verapamil	40 mg coated tablets, 30s	C08DA01, calcium channel blocker
	80 mg coated tablets, 50s	
	5 mg/2 ml solution for injections, 10s	
VITAMIN A+D, retinol+colecalciferol	soft capsules, 200s	A11CB, combined vitamins
VITAMIN B_1 thiamine	50 mg tablets, 20s	A11DA01, vitamin
	100 mg/1 ml solution for injection, 50s	
VITAMIN B_{12} cyanocobalamin	500 g/1 ml solution for injection, 50s	B03BA01, antianaemic
VITAMIN B_6 pyridoxine	20 mg tablets, 20s	A11MA02, vitamin
	50 mg/2 ml solution for injection, 50s	
VITAMIN C, ascorbic acid	500 mg tablets, 250s	A11GA01, vitamin

Latest releases:

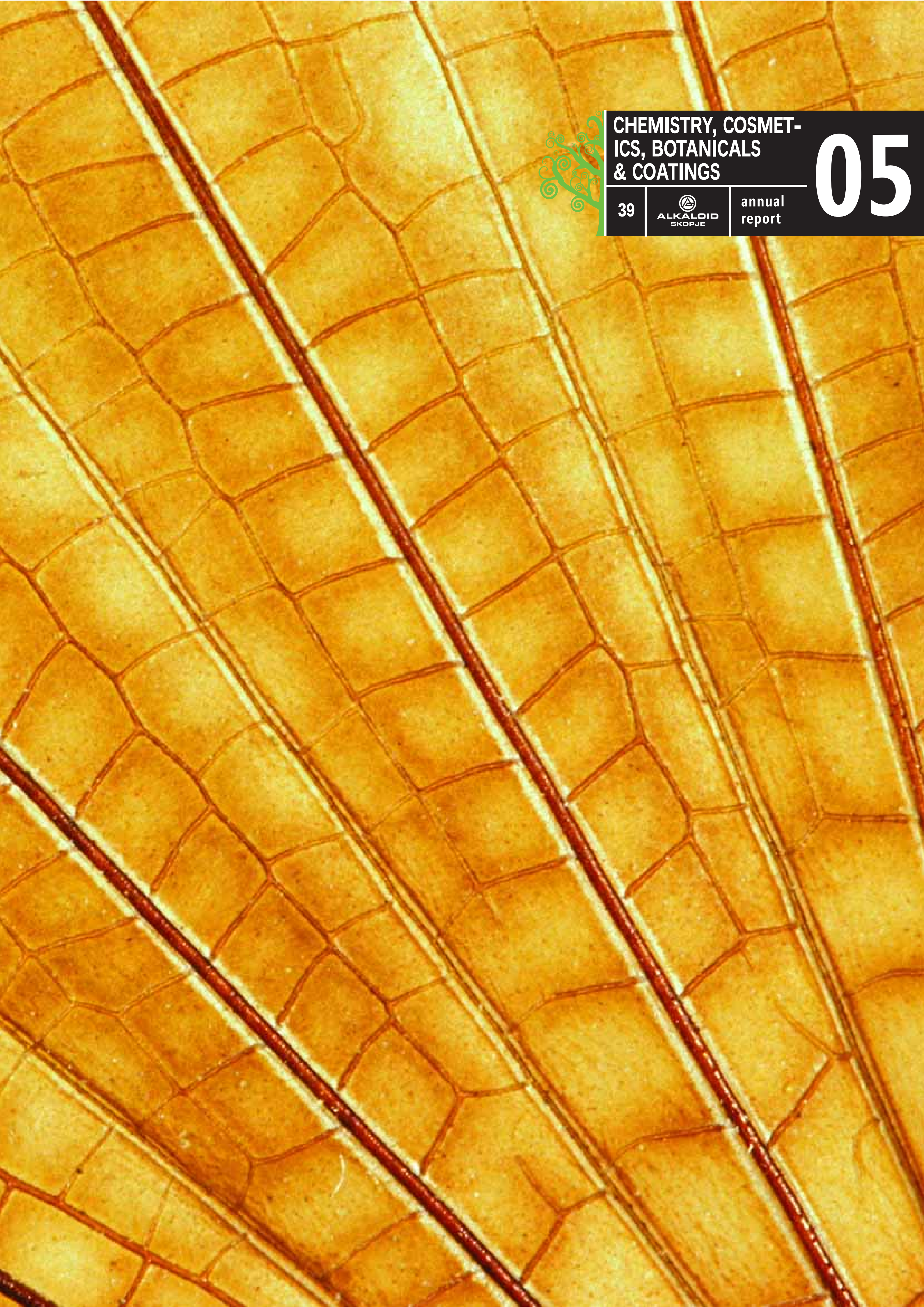
Registered name INN (generic)	Presentation (strength, pharmaceutical form, pack size)	ATC-code, pharmaco-therapeutic group
ALYCEF®, cefadroxil	granules for suspension 250mg/5 mL, 100 mL	J01DB05, cephalosporin
	capsules 500 mg, 16s	
BIPRESSO®, bisoprolol	film coated tablets 2.5mg, 5 mg and 10 mg, 30s	C07AB07, selective β-blocker
CAFFETIN COLD®	film coated tablets, 10s	R01BA52, caugh & cold medication
paracetamol, ascorbic acid,		
dextromethorphan, pseudoephedrine		
LUNATA®, zolpidem	film coated tablets 5mg and 10mg, 10s and 20s	N05CF02, hypnotic
METFORMIN ALKALOID, metformin	film coated tablets 1000mg, 30s	A10BA02, oral antidiabetic
	850mg, 30s and 500mg, 30s	
SYNETRA®, clopidogrel	film coated tablets 75 mg, 30s	B01AC04, antithrombotic agent
TOCFERA®, tocopherol (Vit.E)	tbl 100 mg, 30s	A11HA03, vitamin
ZANFEXA®, venlafaxine	tablets 37.5mg, 50 mg and 75mg, 30s	N06AX16, antidepressant
ZYTRON®, ondansetron	film coated tablets 4 mg and 8 mg,10s	A04AA01, antiemetic and antinauseant
	solution for injections 4mg/2mL, 5s and	
	8mg/4mL, 5s	

The following registration dossiers are already available in CTD format:

Registered name INN (generic)	Presentation (strength, pharmaceutical form, pack size)	ATC-code, pharmaco-therapeutic group
HOLLESTA®, simvastatin	10 mg, 20 mg and 40 mg film coated tablets, 30s	C10AA01, hypolipaemic
AMLODIPIN, amlodipine	5 mg and 10 mg tablets, 30s	C08CA01, calcium channel blocker
SKOPRYL®, lisinopril	5 mg, 10 mg and 20 mg tablets, 20s	C09AA03, ACE inhibitor
LOSARTAN, losartan	50 mg and 100 mg film coated tablets, 30s	C09CA01, angiotensin II antagonist
LAMAL®, lamotrigine	25 mg; 100 mg and 200 mg tablets, 30s	N03AX09, antiepileptic
RISPERIDON, risperidone	1 mg; 2 mg and 3 mg film coated tablets, 20s	N05AX08, antipsychotic
CAFFETIN COLD®	film coated tablets, 10s	R01BA52, caugh & cold medication
paracetamol, ascorbic acid,		
dextromethorphan, pseudoephedrine		
HIDROHLOROTIAZID, hydrochlorothiazide	25 mg tablets, 20s	C03AA03, diuretic



05 CHEMISTRY, COSMETICS, BOTANICALS & COATINGS



P.C. CHEMISTRY, COSMETICS, BOTANICALS AND P.C. COATINGS

Profit Centre Chemistry Cosmetics and Botanicals and Profit Centre Coatings comprise wide range of products for mass consumption (cosmetic products, assortments of teas, spices, adjuvant medicinal products - remedies), chemical products, x-ray materials, coating agents etc.

In 2005, the focus of P.C. Chemistry, Cosmetics and Botanicals was placed on manufacturing high quality products, building up good customer and supplier relations, promotions of sales on the existing markets and entering new ones.

P.C. Coatings continued its constant trend of business operations.

CHEMICALS

In 2005 we also evidenced an upward trend in the sales participation of haemodialysis solutions in the chemicals programme compared to the previous year. The range of haemodialysis solutions has been extended with a new registered product - Al Cart powder ($NaHCO_3$) - single-use cartridge.

COSMETICS

Within the total sales, the leading brand BEKUTAN accounts for 53.04%. The Bekutan brand products mark an increase in sales of 9% compared to the previous year.
That is mostly due to the special attention dedicated in the selection and blending of this product and the choice of highest quality raw materials used. Before its distribution on the market, each product undergoes a rigorous microbiological control in cutting-edge laboratories. The conditions in the production and quality control departments are most rigorous. All this is guarantee for trust and safety when using our products.

BOTANICALS

Filter teas account for 57.53% of the total sales of the Botanicals range, showing a continuous upward trend. The filter tea sales on all markets mark an increase of 21% compared to the previous year.
2005 also marks continual trend in the sales of the Comforting tea placed in the US market, as realization of the exclusive contract for manufacturing botanical products for AVEDA.

In 2005 the Botanicals product range was extended with PRIMULIN, facilitating expectoration syrup, containing aqueous extracts of primulae and thyme.

All efforts of the Botanicals division have been dedicated to development of products which are a combination of traditional utilization of natural medicinal herbs and the latest scientific research resulting in safe high quality products that do not contain any chemical adjuvant, additives and GMOs (Genetically modified organisms).

Our Botanicals division is the first and only holder of a certificate for organic production methods on the territory of the Republic of Macedonia, and it is registered in the official international organic production companies' register under the number SKAL 4246.

Since 1998 we are holders of this Certificate, under EEC No 2092/91 Regulation, for the group of products - teas, and since May 2005 we are holders of USDA/NOP Certificate for organic production and organic products for the USA, as well as of JAS Certificate for organic production and organic products for Japan.

These certificates have been issued by SKAL-the Dutch branch of IFOAM, an international inspection organization for methods of organic production which is officially registered for issuing the organic quality symbol.

In the course of 2005 the Botanicals unit has implemented the food safety system based on HACCP standard (Hazard Analysis Critical Control Points). The main aim of this effort was to fulfil the expectations for safe food of the consumers of our products, thus they may have full confidence in the quality of the products produced by Alkaloid AD-Skopje.

During 2005, Alkaloid-Botanicals invested in two new production lines: an automated packaging line for our product Zacinal 250g and 500g; as well as an automated packaging line for Becutan instant tea for infants and young children 150g.

The Botanicals unit had a successful entry on the markets of the USA, Canada, Japan and the European Union with two herbal teas that have been produced for the well-known company AVEDA under their brand, and we are in a process of expanding the established co-operation with another tea. This latest development we believe to be a confirmation for the quality of our products.

COATINGS

The coating agents market in this region underwent major changes in the past decade. Main factors that influenced these changes were the disintegration of the Macedonian civil construction industry, inducing reduction of wholesales and redirecting sales towards smaller buyers. In order to cope with these changes, in 2004 P.C. Coatings introduced several customer loyalty programmes, that functioned well in 2005, all for the purpose to stimulate sales and maintain the market share of coating agents at nearly 60% domestic market coverage.

The quality of our products and positive customer feedback are basic postulates for Alkaloid-Coatings. The business plan of this centre directs future operations towards preserving the level of quality and professionalism in our operations, creating product with highest level of quality and protecting the environment.

Zorka Zlatanovic
MB member for P.C. Chemistry,
Cosmetics & Botanicals and
P.C. Coatings

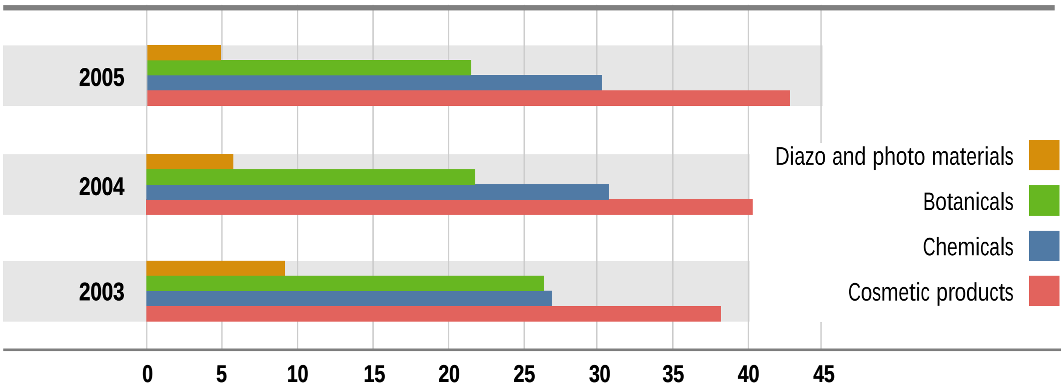
SALES
P.C. CHEMISTRY, COSMETICS AND BOTANICALS

The sales of this Profit centre reached MK Den. 672 mil., which is 20.67% participation in the overall sales of Alkaloid Group.

% Share of the production programmes in the sales of P.C. Chemistry, Cosmetics and Botanicals

	2005	2004	2003
COSMETICS	42.77	40.09	37.87
CHEMICALS	30.44	31.37	26.77
BOTANICALS	21.96	21.99	26.68
DIAZO AND PHOTO	4.83	6.55	8.68

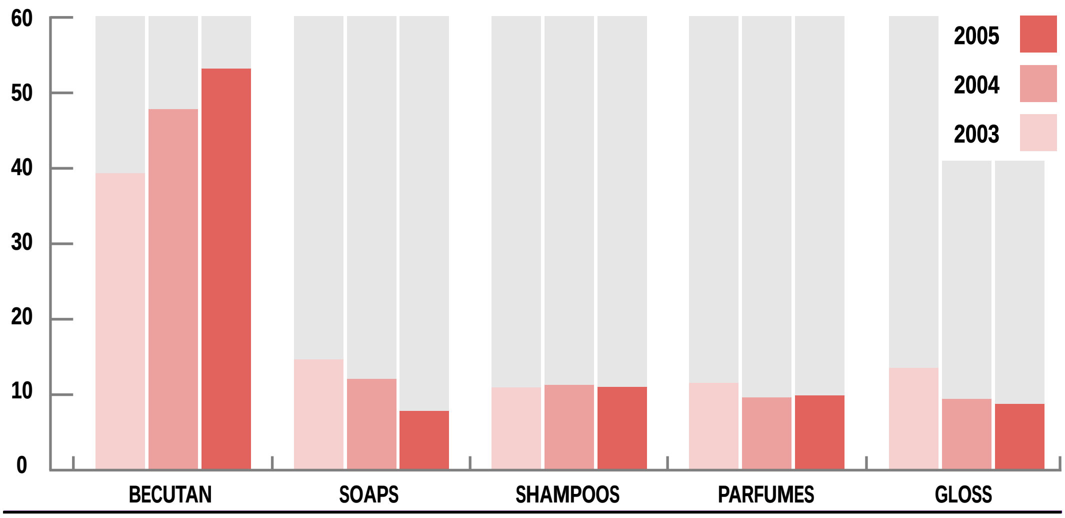
% Share of the production programmes in the sales of P.C. Chemistry, Cosmetics and Botanicals



Top 5 cosmetic products and their sales participation in the Cosmetics programme

Product	2005	2004	2003
BECUTAN	53.04	47.72	39.25
SOAPS	7.84	12.07	14.61
SHAMPOOS	10.98	11.25	10.95
PARFUMES	9.85	9.58	11.52
GLOSS	8.75	9.41	13.54
Others	9.54	9.97	10.13

Top 5 cosmetic products and their level of sales



Top 3 chemical products and their sales participation in the Chemicals Programme

Product	2005	2004	2003
HAEMODIALYSIS SOL.	36.30	33.72	29.51
ARGENTUM SALTS	13.36	18.37	13.33
ACIDUM ACETICUM	5.39	5.03	6.47
Others	44.95	42.88	50.69

Top 3 diazo and photo materials and their sales participation in the Diazo and Photo Programme

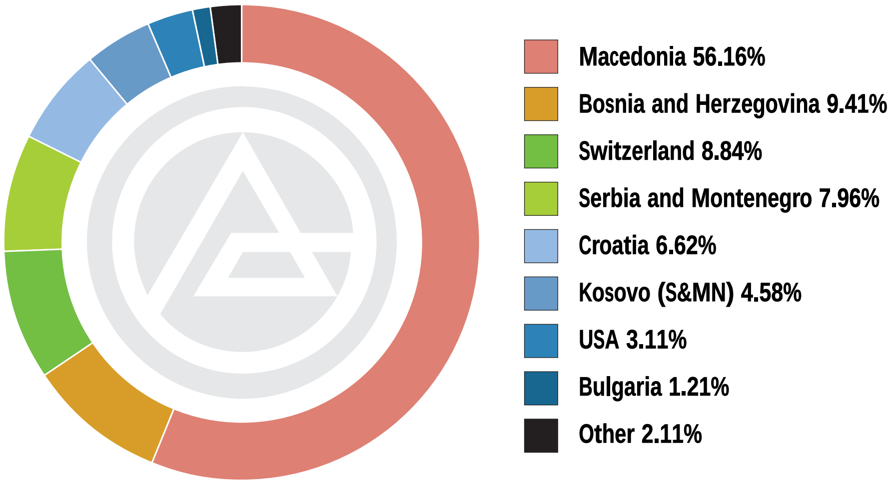
Product	2005	2004	2003
X-RAY FILM	49.72	48.64	32.46
AMOKOP	11.80	21.00	14.90
XEROX PAPER	22.99	14.04	15.81
Others	15.49	16.32	36.83

Top 3 botanical products and their sales participation in the Botanicals programme

Product	2005	2004	2003
GOOD NATURE	57.53	47.48	37.80
ZACINAL	15.61	19.27	17.87
IN-BULK HERBS	6.22	16.16	23.77
Others	20.64	17.09	20.56

56.16% of the overall sales of P.C. Chemistry, Cosmetics and Botanicals were effectuated on the domestic market, whereas 43.84% were at the export markets.

Sales structure by countries in 2005



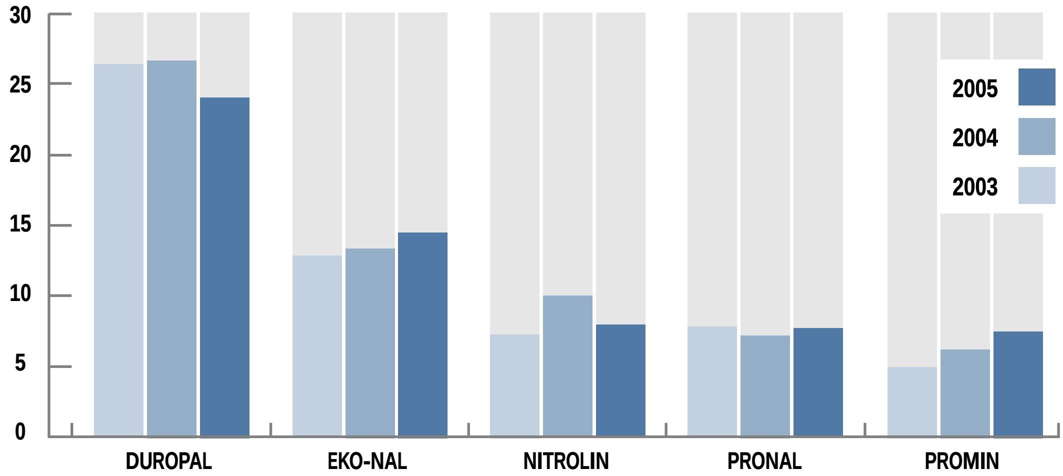
SALES
P.C. COATINGS

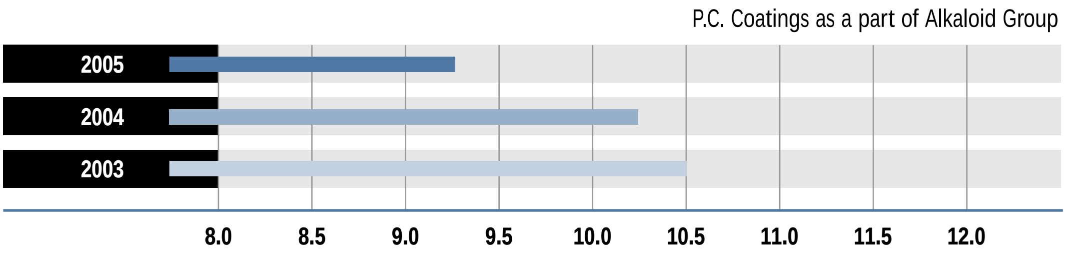
The sales of this Profit Centre in 2005 reached MK Den. 301 mil., which is 9.27% participation in the overall sales of Alkaloid Group.

Leading coating products and their sales participation in the sale of P.C. Coatings

Product	2005	2004	2003
DUROPAL	24.01	26.62	26.37
EKO-NAL	14.49	13.37	12.86
NITROLIN	8.00	10.03	7.31
PRONAL	7.74	7.24	7.85
PROMIN	7.52	6.25	5.02
Others	38.24	36.49	40.59

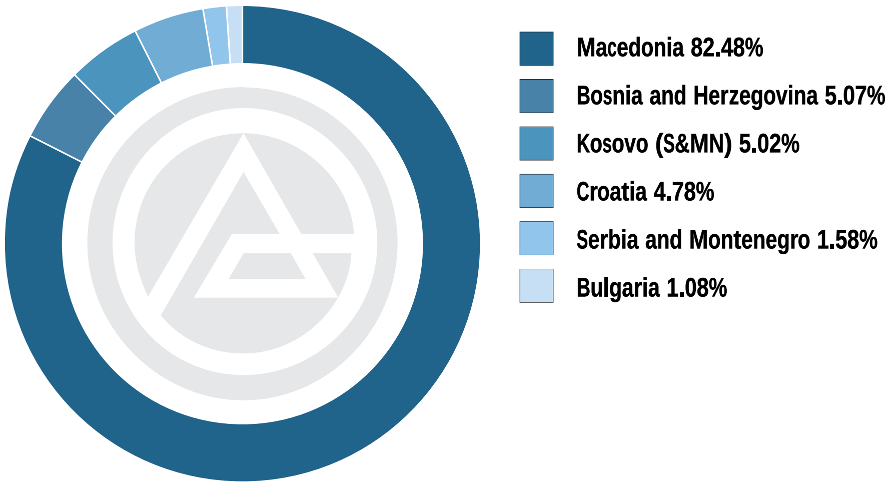
Top 5 products of P.C. Coatings and their level of sales





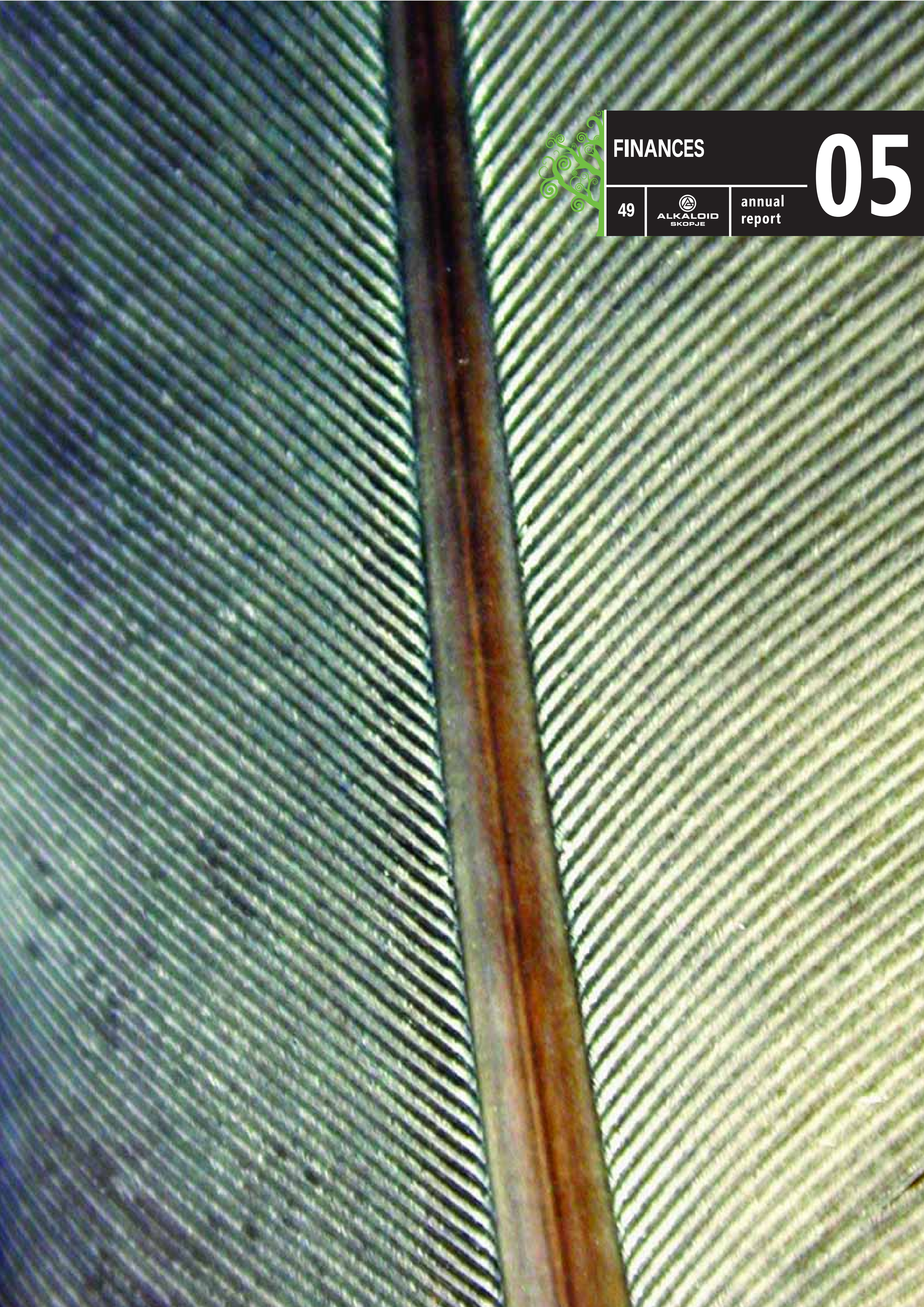
82.48% of the overall sales in 2005 were effectuated on the domestic market, whereas 17.52% were for the export markets.

Sales structure by countries in 2005



STANDARDS

The overall assortment of P.C. Coatings is manufactured under DIN, ISO and MKS quality standards for the starting raw materials as well as for the finished product. Certificate of quality is issued for each product.



FINANCES 05

O.U. FINANCES

The rapid changes in the economy, the complexity of our operations, fierce competition, turbulent and dynamic business environment and the vision of Alkaloid to grow into an export oriented company with stabile positions opened to new markets and new partnerships determine the goals and operations of this strategically significant unit of Alkaloid AD.

In 2005 the Macedonian Government enforced a new Law on Securities, which defined the periodical reporting of the companies listed on the Macedonian Stock Exchange for Long-term Securities. The new law obliges the listed companies to report quarterly on the performance at a consolidated level.

The Department of Reporting of Alkaloid AD Skopje prepares quarterly and semi-annual consolidated reports in compliance with the requirements imposed by international standards of financial reporting, submits the same to the Commission of Securities of the Republic of Macedonia and publicizes them on the website of the Macedonian Stock Exchange for Long-term Securities.

PLANS FOR 2006

2006 marks the beginning of the implementation of the integrated management information system, which will enhance the effectiveness of the finances and accountancy, which will further result in providing up-to-date information for the company management. The integrated management information system will also encompass Alkaloid's subsidiaries in the country and abroad and it will enable more efficient preparation of the consolidated financial reports.

Cvetanka Simonovska
MB Member for O.U. Finances

PERSONNEL STRUCTURE

PROFIT CENTRE / ORGANIZATIONAL UNIT	2005	2004	2003
	Nº OF EMPLOYEES		
Pharmaceuticals	692	721	762
Chemistry, Cosmetics and Botanicals	253	262	286
Coatings	92	102	115
Finances	32	60	68
TOTAL	1,069	1,145	1,231
SUBSIDIARIES	99	79	73

QUALIFICATION STRUCTURE	2005	2004	2003
	Nº OF EMPLOYEES		
Master of Arts	5	5	5
University Degree	275	281	298
Junior College Degree	25	30	36
High School Degree	487	511	526
Qualified Workers	227	254	294
Non-qualified Workers	50	64	72
TOTAL	1,069	1,145	1,231

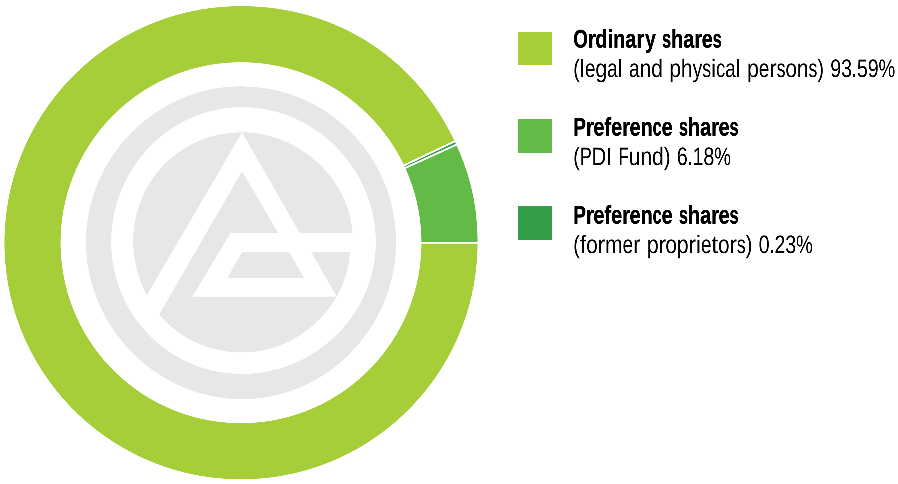
SHAREHOLDING

The nominal capital of the Company amounts to 1,431,353 shares with par value of EUR 25.56 per share or total sum of EUR 36,585,382.68.

The shares are freely transferable. All individuals included in the Shareholders Registry, which in compliance with the existing regulations is kept with the Central Depositary for Securities, shall be deemed as shareholders. The shareholders shall enjoy equal status and shall retain the voting right at the Company's Assembly i.e. one vote for every ordinary share, as well as the right to a dividend.

As of 31st December 2005, ALKALOID AD Skopje has totally 2,820 shareholders holding regular shares. 93.59% (1,339,673) of the shares are ordinary shares; 6.18% (88,452) are preference shares held by Pension and Disability Insurance Fund of the Republic of Macedonia and 0.23% (3,228) are preference shares reserved for former proprietors and proprietors who need to prove their ownership right of inheritance for estate now belonging to ALKALOID AD Skopje.

SHAREHOLDERS	Type of shares	Number of shares
Legal and Physical persons	Ordinary	1,339,673
Pension and Disability Insurance Fund of the Republic of Macedonia	Preference	88,452
Former proprietors	Preference	3,228
TOTAL		**1,431,353**



According to the evidence of the Macedonian Stock Exchange, the shares of ALKALOID AD Skopje in the course of 2005 stood again as one of the most traded and most liquid shares. 3,297 transactions were made (which is 120.5% over last year), 242,900 shares were traded (being 16.97% of the overall share capital of ALKALOID AD Skopje), with total amount of EUR 13,402,075.60.

ALKALOID AD Skopje, as one of the leading company on the Macedonian Stock Exchange, in the regular stock exchange operations participated with 18.01% of the total trade effectuated on the first official market of the Macedonian Stock Exchange.

The price of Alkaloid's shares ranged from MKD 1,952 to MKD 5,998 with average of MKD 3,819.39. The capital gain on Alkaloid's average shares price in December 2005 compared to January 2005 was 82.19% while the capital gain on the average price of Alkaloid's shares in 2005 compared with 2004 was 101.6%.

Commencing from 1995, the year when the company was restructured, ALKALOID AD Skopje is regularly effectuating the dividends on annual basis.

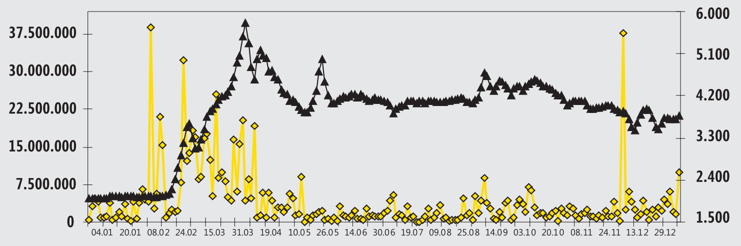
Net dividend per share from 2005 amounted MKD 70.50 and the fixed date for performing the right to a dividend is 12th May 2005.

The amount of the dividend per share in the past three years ranged as follows:

In MK Denars	2005	2004	2003
Net dividend per share	70.50	70.50	70.50

PRICE MOVEMENT OF SELECTED LISTED SECURITIES JANUARY-DECEMBER 2005

ALK | Alkaloid AD Skopje | ordinary shares



Turnover	819.910.841	Max price	5.998
Volume	242.900	Min price	1.952
Number of transactions	3.297	Average price	3.819,39

Source: Annual Report 2005 of the Macedonian Stock Exchange

ENVIRONMENTAL PROTECTION

Permanent care for the environment is one of the basic principles in determining the objectives and the directions for fulfilment of the business strategy and long-term policy of Alkaloid AD, defined in our Environmental Policy.

Pursuant to the Environmental Action Plan, the legislative and the requirements of EMS ISO 14001, Alkaloid AD Skopje regularly monitors the following: waste waters, exhaust gas emission, microclimate conditions, noise and respiratory dust in the production areas as well as waste management.

In addition to the other protection equipment for the employees in certain production plants, antiphons have been purchased for the purpose of reducing the level of noise caused by the machines.

This year, besides the already adopted medical waste management, microbiological analysis waste and waste paper management, we could note improvement in other waste management:

- a contract was signed with an authorised company which will take over and further process the already selected waste of glass, plastic, iron, wood and paper;
- a contract was signed with the Faculty of Science, - Institute of Chemistry, Skopje for taking over and further use of expired chemicals form the quality control laboratories;
- a contract was signed with the Faculty of Science - Institute of Chemistry, Skopje, Department of Organic Chemistry and Biochemistry, for recycling and further processing of used organic solvents form the Quality control laboratories

In the course of 2005, Alkaloid's representatives participated in several seminars and workshops in the area of environmental protection and environmental management, those being:

- Support of the Macedonian Legal System with the International EIA Procedures;
- Preparation of regulations for determining the projects and criteria on which to establish the necessity for implementation of a procedure for assessment of impact on the environment.
- Preparation of procedure guidelines for acquiring A-integrated ecological licence, B-integrated ecological licence and a procedure for issuing a licence for compliance with an operational plan.

In 2005, representatives of Alkaloid AD Skopje participated in the realization of the following projects:

- Preparation of a rulebook for format and contents of the record book for waste management, the format and contents of the forms for identification and transport of waste, the format and contents of the form for annual report for waste management for legal and physical persons and the format and contents of the form for waste management of the city council.
- Manual for medical waste management.
- Participation in the national workshop: "Establishment of Institutional Structure for Implementation of Kyoto Protocol in Macedonia".
- Attendance of one-day training for development of CDM (Clean Development mechanism) projects and project documentation

ОРГАНСКО ПРОИЗВОДСТВО

QUALITÄTSMANAGEMENTSYSTEM ZERTIFIZIERTES ÖQS ISO 9001 ISO 14001 CERTIFIED

THE UNITED NATIONS GLOBAL COMPACT
Alkaloid AD-Skopje is part of the global network

The Global Compact is an international initiative intended to bring companies together with UN agencies, labor and civil society to support the ten universal principles in the areas of human rights, labor, environment and anti-corruption.

Through the power of collective action, the GC seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. In this way, the private sector-in partnership with other social actors-can help realize the Secretary General's vision: a more sustainable and inclusive global economy.

The Global Compact is a voluntary corporate citizenship initiative with two complementary objectives:

- Making the GC and its principles part of business strategy and operations
- Facilitating cooperation among key stakeholders and promoting partnerships in support of UN goals.

The GC is not a regulatory instrument-it does not "police", enforce or measure the behavior or actions of companies. Rather, the GC relies on public accountability, transparency and the enlightened self-interest of companies, labor and civil society to initiate and share substantive action in pursuing the principles upon which the Global Compact is based.

THE TEN PRINCIPLES

Human Rights

Principle 1
Businesses are asked to support and respect the protection of international human rights within their sphere of influence; and
Principle 2
Make sure their own corporations are not complicit in human rights abuses.

Labor

Principle 3
Businesses are asked to uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4
The elimination of all forms of forced and compulsory labor;
Principle 5
The effective abolition of child labor; and
Principle 6
The elimination of discrimination in respect of employment and occupation.

Environment

Principle 7
Businesses are asked to support precautionary approach to environmental challenges;
Principle 8
Undertake initiatives to promote greater environmental responsibility; and
Principle 9
Encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption

Principle 10
Businesses should work against all forms of corruption, including extortion and bribery.

As this is the first time that Alkaloid AD-Skopje is communicating its progress regarding the activities undertaken on the above mentioned topics, we would like to explain in a more descriptive manner the practices that are already implemented, as well as the new initiatives and ideas in the Company.

As indicated in the Address of the President of the Managing Board, Mr. Trajce Mukaetov, the decision for joining the Global Compact network was easily made by the Management team of Alkaloid AD-Skopje, due to the fact that in the Company many activities inline with the ten principles of the GC are already implemented.

Thus, regarding the human rights, there is a strong commitment of all the members of the management team of the Company towards supporting the Universal Declaration of Human Rights.

Furthermore, this year, we have started an initiative for creation and adoption of a Code of Business Conduct of Alkaloid AD-Skopje, with the idea that it will serve as the basic guideline document for all Alkaloid employees and stakeholders. This document defines the way all the stakeholders should act in different situations, having in mind the basic values of the Company as human rights, ethics, product quality management, communication with colleagues, collaborators and customers, transparency and shareholders, environment and anti-corruption.

This year we have worked on defining a new Collective Agreement with the Union of Alkaloid employees which resulted in signing the Agreement, with pleasure from both sides.

In regards to the elimination of discrimination, we are very pleased to conclude that during this year Alkaloid AD-Skopje was led by a management team in which 50% of the members were female. Furthermore, the Management Board, consisted of five members in total, had three women and two men.

And, last but not least, a contract was signed between Alkaloid AD-Skopje and the Chemical Institute at the Faculty for Natural Sciences and Mathematics, for taking over the expired chemicals from Alkaloid's laboratories and their further use in their own work, as well as, taking over, recycling and further utilization of used organic solvents.

At the end, we would like to reiterate our strong commitment towards supporting and promoting the ten principles of the Global Compact.

PRICEWATERHOUSECOOPERS

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Report of the auditors

To the Shareholders and Managing Board of Alkaloid Group

We have audited the accompanying consolidated balance sheet of Alkaloid A.D. - Skopje (the Company) and its subsidiaries (together, the Group) as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 4 to 34 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material aspects, the financial position of the Group as of 31 December 2005, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Pricewaterhouse Coopers dooel

PricewaterhouseCoopers dooel
Skopje

12 April 2006

CONSOLIDATED BALANCE SHEET

(In thousands of Denars)	Notes	Year ended 31 December 2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,526,198	3,325,830
Intangible assets	7	18,031	2,993
Deferred income tax assets	16	28,737	6,820
Available-for-sale financial assets	8	12,280	17,113
Trade and other receivables	9	79,637	16,544
Total non-current assets		**3,664,883**	**3,369,300**
Current assets			
Inventories	10	1,066,031	977,547
Trade and other receivables	9	1,280,380	1,050,584
Cash and cash equivalents	11	173,603	281,679
Total current assets		**2,520,014**	**2,309,810**
TOTAL ASSETS		**6,184,897**	**5,679,110**
EQUITY			
Capital and reserves			
Share capital	12	2,220,127	1,986,734
Share premiums	12	(13,708)	(12,010)
Legal reserves		599,762	524,260
Other reserves	13	1,514,232	1,639,165
Retained earnings		637,860	670,995
Total capital and reserves		**4,958,273**	**4,809,144**
Minority interest		**-**	**834**
TOTAL EQUITY		**4,958,273**	**4,809,978**
LIABILITIES			
Non-current liabilities			
Borrowings	15	149,021	2,100
Retirement benefit obligations	17	17,733	-
Total Non-current liabilities		**166,754**	**2,100**
Current liabilities			
Trade and other payables	14	661,515	473,078
Income tax		4,569	11,247
Borrowings	15	347,095	382,707
Accruals	18	46,691	-
Total current liabilities		**1,059,870**	**867,032**
TOTAL LIABILITIES		**1,226,624**	**869,132**
TOTAL EQUITY AND LIABILITIES		**6,184,897**	**5,679,110**

The notes on pages 67 to 85 are integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENT

(In thousands of Denars)		Year ended 31 December	
	Notes	2005	2004
Sales	5	3,249,699	3,167,112
Cost of goods sold		(1,960,221)	(1,920,199)
Gross profit		**1,289,478**	**1,246,913**
Research and development expenses		(39,014)	(10,833)
Selling and marketing costs		(830,033)	(739,616)
Administrative expenses		(278,697)	(208,465)
Other income	19	233,442	102,140
Other expenses	20	(4,048)	(61,856)
Operating profit		**371,128**	**328,283**
Net foreign exchange transaction gains/(losses)	23	301	(21)
Finance expenses	23	(36,017)	(32,309)
Profit before income tax		**335,412**	**295,953**
Income tax expense	24	(12,870)	(35,743)
Profit for the year		**322,542**	**260,210**
EARNINGS PER SHARE			
- basic (In Denars)	25	237.72	201.56
- diluted (In Denars)	25	237.72	201.56

The notes on pages 67 to 85 are integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(In thousands of Denars)

	Year ended 31 December					
	Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total equity
As at 1 January 2004	**2,016,057**	**(2,583)**	**234,298**	**1,416,604**	**877,496**	**4,541,872**
Changes in accounting policies						
and reclassifications	(2,582)	2,582	232,635	(12,180)	(220,455)	**-**
	2,013,475	**(1)**	**466,933**	**1,404,424**	**657,041**	**4,541,872**
Revaluation surplus of land and buildings	-	-	-	274,244	-	**274,244**
Revaluation deficit of land and buildings	-	-	-	(98,644)	-	**(98,644)**
Purchase of treasury shares	(70,248)	(12,555)	-	-	-	**(82,803)**
Sales of treasury shares	43,507	546	-	-	-	**44,053**
Allocation of profit	-	-	58,636	61,293	(119,929)	**-**
Dividends	-	-	-	-	(98,531)	**(98,531)**
Other compensations to shareholders	-	-	-	-	(68,904)	**(68,904)**
Profit for the year	-	-	-	-	260,210	**260,210**
Decrease of solidarity funds	-	-	-	(575)	-	**(575)**
Fair value of available-for-sale						
investments	-	-	-	6,151	-	**6,151**
Deferred tax assets	-	-	-	4,286	-	**4,286**
Translation differences	-	-	(1,309)	(12,014)	41,108	**27,785**
As at 31 December 2004	**1,986,734**	**(12,010)**	**524,260**	**1,639,165**	**670,995**	**4,809,144**
Issue of new shares	204,070	-	-	(204,070)	-	**-**
Purchase of treasury shares	(31,747)	(31,489)	-	-	-	**(63,236)**
Sales of treasury shares	61,070	29,791	-	-	-	**90,861**
Allocation of profit	-	-	76,211	61,500	(137,711)	**-**
Fair value of available-for-sale						
investments	-	-	-	54,492	-	**54,492**
Derecognition of sold						
available-for-sale investments	-	-	-	(44,613)	-	**(44,613)**
Revaluation of land and buildings	-	-	-	6,937	-	**6,937**
Increase of solidarity funds	-	-	-	1,843	-	**1,843**
Increase of other reserves	-	-	-	16,620	-	**16,620**
Dividends (Note 26)	-	-	-	-	(98,675)	**(98,675)**
Other compensations to shareholders	-	-	-	-	(142,360)	**(142,360)**
Profit for the year	-	-	-	-	322,542	**322,542**
Deferred tax assets	-	-	-	113	-	**113**
Translation differences	-	-	(709)	(17,755)	23,069	**4,605**
As at 31 December 2005	**2,220,127**	**(13,708)**	**599,762**	**1,514,232**	**637,860**	**4,958,273**

The notes on pages 67 to 85 are integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

(In thousands of Denars)	Year ended 31 December	
	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES		
Cash receipts from customers	2,810,301	2,605,004
Cash paid to suppliers and employees	(2,503,280)	(2,087,373)
Cash generated from operations	**307,021**	**517,631**
Interest received	3,079	12,621
Income tax paid	(38,706)	(35,870)
Net cash generated from operations	**271,394**	**494,382**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(283,346)	(195,885)
Proceeds from sale of PPE	3,023	3,348
Proceeds from sale of available-for-sale financial assets	84,296	-
Dividends received	2,143	1,059
Loans to employees	(73,015)	(54,677)
Net cash used in investing activities	**(266,899)**	**(246,155)**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds of borrowings	753,941	291,749
Repayments of borrowings	(686,051)	(290,619)
Interest paid	(35,585)	(36,492)
Purchase of treasury shares	(47,640)	(82,803)
Sale of treasury shares	90,861	9,076
Compensation to shareholders	(188,904)	(112,758)
Net cash used in investing activities	**(113,378)**	**(221,847)**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**108,883**	**26,380**
Cash and cash equivalents at beginning of the year	281,679	254,493
Translation differences	807	806
CASH AND CASH EQUIVALENTS AT THE YEAR END	**173,603**	**281,679**

The notes on pages 67 to 85 are integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Alkaloid AD - Skopje (The Company) and its subsidiaries (together "the Group") produces and sells wide range of pharmacy, chemistry and cosmetics products, as well as paints and polishes for the construction and wood processing industry. The Group, consist of nine subsidiaries, in different countries, all established by the Company. For the list of the subsidiaries refer to Note 24.

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

Aleksandar Makedonski 12,
1000 Skopje, Republic of Macedonia

The shares of the Alkaloid AD - Skopje are listed on the Macedonian Stock Exchange, from 2002.

These consolidated financial statements have been approved for issue by the Managing Board on 16 March 2006.

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, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Alkaloid AD Skopje have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Interpretations and amendments to published standards effective in 2005
Certain new IFRS's became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations, which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

IAS 1 (revised 2003) Presentation of Financial Statements
IAS 2 (revised 2003) Inventories
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events after the Balance Sheet Date
IAS 16 (revised 2003) Property, Plant and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003) Related Party Disclosures
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 28 (revised 2003) Investments in Associates
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003) Earnings per Share
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
IAS 40 (revised 2003) Investment Property
IFRS 2 (issued 2004) Share-based Payments
IFRS 3 (issued 2004) Business Combinations
IFRS 4 (issued 2004) Insurance Contracts
IFRS 5 (issued 2004) Non-current Assets Held for Sale and Discontinued Operations
IFRIC 1 (issued 2004) Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2 (issued 2004) Members' Shares in Co-operative Entities and Similar Instruments

The adoption of the above new or revised standards and interpretations had no material effect on the Group's policies or was not relevant to the Group's operations, except as follows:

- IAS 1 (revised 2003) has affected through the change of presentation of minority interest, legal reserves, share premium and other reserves disclosed in the Consolidated statement of changes in equity.
- IAS 21 (revised 2003) had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their measurement currency.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.
- IAS 39 (revised 2003) has affected disclosure of available-for-sale investments.

The following reclassification were made under IAS 1 mentioned in previous paragraph:

- Legal reserves: reclassification of MKD'000 220,455 previously presented under "Retained earnings". The reclassification is made for better presentation of legal reserves allocated on basis of shareholders decisions.

- Share premium: reclassification of MKD'000 2,582 previously presented under "Treasury shares" is made in order to be presented separately.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application.

During 2005 the accounting policy for available-for-sale investments has been changed. Under the previous treatment the changes in the fair value has been recognised in profit in loss, while under the new treatment in the reserves. Managements judge that the new policy is preferable because it's result in better disclosure of finance costs and more fair profit. The change in accounting policy has been accounted retrospectively. The effects of change is presented below:

In 2004 the Company recognised finance income as a result of changes in fair value in amount of MKD'000 6,151 and consolidated profit before tax of MKD'000 266,211. The restated figures shown increase in other income for the effect of change. The restated net profit for 2004 is MKD'000 260,210.

Also, the restatement is made for the cumulative effect of previous fair value adjustments of available-for-sale investments in amount of MKD'000 12,180, which is presented in the Consolidated statement of changes in equity.

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not early adopted:

- **IAS 39 (Amendment) - The Fair Value Option (effective from 1 January 2006).** IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognized in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group's policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss.

- **IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)**. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

- **IAS 39 (Amendment) - Financial Guarantee Contracts (effective from 1 January 2006).** Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognized at their fair value, and subsequently measured at the higher of (i) the unamortized balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

- **IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).** The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

- **IAS 19 (Amendment) - Employee Benefits (effective from 1 January 2006).** The amendment to IAS 19 introduces an additional option to recognize actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

- **IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).** IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.

- **IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).** IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

- **IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).** Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

- **IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006).** The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognized because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

- **IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007).** The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

- **IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007).** The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

- **IAS 21 (Amendment) - Net Investment in a Foreign Operation (effective from 1 January 2006).** This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognized in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies.

- **IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).** This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

- **IFRIC 9 - Re-assessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006).** IFRIC 9 clarifies certain aspects of the treatment of embedded derivatives under IAS 39, 'Financial instruments: Recognition and measurement'.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group's financial statements.

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more then one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or a service within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

Functional and presentation currency

Items included in financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in thousands of Macedonian Denars (MKD'000), which is the Group's functional and presentation currency.

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 gains and losses 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 recognised in the income statement. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the 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 for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement 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 exchange differences are recognized as a separate component of equity.

2.5 Property, plant and equipment

Land and buildings are shown at fair value, based on periodic valuations by external independent valuators, less subsequent depreciation for buildings. 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 is stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

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 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 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	20 - 40 years
Machinery	10 - 20 years
Vehicles	4 years
Furniture, fittings and equipment	4 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 (Note 2.7)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Intangibles

Intellectual property

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

Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (5 years).

Research and development

Research expenditure is recognized as an expense as incurred. Internal development costs are recognized as intangible assets when it is probable that future economic benefits will flow to the Group and costs can be measured reliably. The Group considers that regulatory and other uncertainties inherent in the development of new products mean that such criteria are not met until the commercial launch of the product and therefore, pre-launch internal development costs are expensed as incurred. No significant direct development costs are incurred post commercial launch.

Where the recognition criteria are met, internal development costs are capitalized and amortized on a straight-line basis over their useful economic lives from product launch. Development costs previously recognized as an expense are not recognized as an asset in subsequent periods.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 recognised 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 then goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 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 balance sheet (Note 2.10)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date - the date on which the Company commits to purchase or sell the asset. The purchase value of investments includes transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised 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.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on last traded prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by use of recent arm's length transactions, reference to other instruments that are substantially the same.

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 recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.10.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable 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. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised 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 reorganisation, 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 recognised in the income statement within 'selling and marketing costs'.

2.11 Cash and cash equivalents

Cash and cash equivalents include cash in bank and hand and other short-term highly liquid investments with original maturities of three months or less.

2.12 Share capital

Ordinary shares are classified as equity. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the 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 the related income tax effects, is included in equity attributable to the Company's equity holders.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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 balance sheet date.

2.14 Deferred tax

The computation and payment of the income tax is accordance with the Income tax Law. The payment of the monthly tax is in advance. The final tax with the rate of 15 % is calculated on the profit from the income statement, corrected for certain positions in accordance with the legislation.

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 in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or 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 balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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.

2.15 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 in accordance with the legal requirements.
- 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 recognised in the balance sheet 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10 % of the value of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised 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 employment is 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 and is expected that will be paid not more than 12 months.

2.16 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Company 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.

2.17 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, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Sales of services

Sales of services are recognised 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.

Interest income

Interest income is recognised 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 recognised when the right to receive payment is established.

2.18 Dividend distribution

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

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 programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The financial risk management is performed by the Group financial department, based on Decisions from Managing board.

Market risk

a) Foreign exchange risk

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

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

b) Price risks

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

Credit risk

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

Liquidity risk

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

Interest risk

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

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

3.2 Fair value estimation

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

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

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

4 ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions based on experience and other factors, including expectations for future events that management believes that might occur.

4.1 Accounting estimates

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 the fair value assessed by independent valuators as at 1 January 2004. 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. As a result of the difference arising between the tax base and fair value, the Group has calculated deferred tax assets.

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. As a result of the difference arising between the tax base and fair value, the Group has calculated deferred tax liabilities.

Profit-sharing

The Group has recognised provision for profit-sharing of the employees based on the probability that shareholders will accept on their annual assembly. As a result of the difference arising between the tax base and fair value, the Group has calculated deferred tax assets.

4.2 Judgments in applying the accounting policies

Profit-sharing

The Group has recognised provision amounting to MKD'000 46,691 for profit-sharing of the employees based on the probability that shareholders will accept on their annual assembly.

5 SEGMENT REPORTING

Primary reporting format - business segments

At 31 December 2005, the Group is organised on a worldwide basis into three main business segments:

- Pharmaceuticals - Production of medicines for human use, medicines for veterinary use and pharmaceutical raw materials;
- Chemicals Cosmetics Botanicals - production of chemicals, diazo, X-rays;
  cosmetics and soaps; teas, food products, medicines and herbal raw materials;
- Coatings - production of coatings and synthetic resins.

The segment results for the year ended 31 December 2004 are as follows:

	Pharmacy	Chemicals Cosmetics Botanicals	Coatings	TOTAL
SALES	**2,062,748**	**780,266**	**324,098**	**3,167,112**
Operating profit / Segment result	394,936	15,882	694	411,512
Impairment of PPE			(83,229)	(83,229)
Finance costs				(32,330)
Profit before income tax				**295,953**
Income tax expense				(35,743)
Profit for the year				**260,210**

The segment results for the year ended 31 December 2005 are as follows:

	Pharmacy	Chemicals Cosmetics Botanicals	Coatings	TOTAL
SALES	**2,276,946**	**671,570**	**301,183**	**3,249,699**
Operating profit / Segment result	321,344	30,067	19,717	**371,128**
Finance costs				(35,716)
Profit before income tax				**335,412**
Income tax expense				(12,870)
Profit for the year				**322,542**

Other segments item included in the income statement for the year ended 31 December 2004 are as follows:

	Pharmacy	Chemicals Cosmetics Botanicals	Coatings	TOTAL
Depreciation (Note 6)	123,042	34,204	9,771	**167,017**
Amortisation (Note 7)	3,048	-	-	**3,048**
Impairment of trade receivables (Note 9)	68,762	29,894	43,271	**141,927**

Other segments item included in the income statement for the year ended 31 December 2005 are as follows:

	Pharmacy	Chemicals Cosmetics Botanicals	Coatings	TOTAL
Depreciation (Note 6)	120,259	31,011	8,763	**160,033**
Amortisation (Note 7)	4,078	-	-	**4,078**
Impairment of trade receivables (Note 9)	73,347	4,990	2,847	**81,184**

The segment assets and liabilities as at 31 December 2004 and capital expenditures for the year then ended are ase follows:

	Pharmacy	Chemicals Cosmetics Botanicals	Coatings	Unallocated	TOTAL
Assets	3,864,020	1,347,122	444,035	23,933	**5,679,110**
Liabilities	294,379	119,501	59,198	396,054	**869,132**
Capital expenditures	168,354	2,999	4,601	-	**175,954**

Unallocated assets include Deferred income tax assets and Available for sale investments. Unallocated liabilities include Borrowings and Income tax.

The segment assets and liabilities as at 31 December 2005 and capital expenditures for the year then ended are as follows:

	Pharmacy	Chemicals Cosmetics Botanicals	Coatings	Unallocated	TOTAL
Assets	4,346,965	1,344,668	452,247	41,017	**6,184,897**
Liabilities	511,708	155,737	58,494	500,685	**1,226,624**
Capital expenditures	367,030	9,802	3,815	-	**380,647**

Capital expenditures comprise additions to property, plant and equipment (Note 6) and intangibles (Note 7).

Unallocated assets include Deferred income tax assets and Available for sale investments. Unallocated liabilities include Borrowings and Income tax.

Secondary reporting format - Geographical segments

The Republic of Macedonia is the home country of the parent company, which is also the main operating company.

The sales by the main geographical areas are as follows:

	2005	2004
SALES		
South East Europe	2,985,389	3,013,844
Russia and CIS	172,516	106,993
Western Europe (EU and EFTA)	69,669	43,486
Other countries	22,125	2,789
	3,249,669	**3,167,112**

Sales are based on the country in which the customer is located.

	2005	2004
TOTAL ASSETS		
South East Europe	6,147,576	5,641,771
Western Europe (EU and EFTA)	37,321	37,339
	6,184,897	**5,679,110**

	2005	2004
CAPITAL EXPENDITURES		
South East Europe	380,369	175,559
Western Europe (EU and EFTA)	278	395
	380,647	**175,954**

	2005	2004
SALES BY CATEGORY		
Sales of goods	3,167,248	3,078,231
Sales of commodities	72,199	83,441
Revenue from services	1,666	3,138
Other revenue	8,586	2,302
	3,249,699	**3,167,112**

6 PROPERTY, PLANT AND EQUIPMENT

(In thousand of Denars)	Land	Buildings	Equipment	Construction in progress	TOTAL
COST OR VALUATION					
At 1 January 2004	**875,252**	**2,322,688**	**1,200,917**	**300,897**	**4,699,754**
Valuation surplus	-	809,319	-	-	809,319
Valuation deficit	(23,002)	-	-	(74,376)	(97,378)
Impairment	-	-	-	(83,229)	(83,229)
Additions	3,849	-	6,507	163,581	173,937
Transfer from construction in progress	-	50,333	53,188	(103,521)	-
Disposals	-	(1,480)	(6,144)	-	(7,624)
Translation differences	-	1,190	278	(5)	1,463
At 31 December 2004	**856,099**	**3,182,050**	**1,254,746**	**203,347**	**5,496,242**

(In thousand of Denars)	Land	Buildings	Equipment	Construction in progress	TOTAL
ACCUMULATED DEPRECIATION					
At 1 January 2004	**-**	**751,494**	**723,999**	**-**	**1,475,493**
Valuation	-	535,075	-	-	535,075
Depreciation charge	-	107,456	59,561	-	167,017
Disposals	-	(1,140)	(6,456)	-	(7,596)
Translation differences	-	91	332	-	423
At 31 December 2004	**-**	**1,392,976**	**777,436**	**-**	**2,170,412**
COST OR VALUATION					
At 1 January 2005	**856,099**	**3,182,050**	**1,254,746**	**203,347**	**5,496,242**
Additions	-	10	10,765	350,757	361,532
Transfer from construction in progress	-	210,417	126,043	(336,460)	-
Disposals	-	-	(34,604)	-	(34,604)
Translation differences	-	60	(355)	-	(295)
At 31 December 2005	**856,099**	**3,392,537**	**1,356,595**	**217,644**	**5,822,875**
ACCUMULATED DEPRECIATION					
At 1 January 2005	**-**	**1,392,976**	**777,436**	**-**	**2,170,412**
Depreciation charge	-	77,111	82,922	-	160,033
Disposals	-	-	(33,770)	-	(33,770)
Translation differences	-	65	(63)	-	2
At 31 December 2005	**-**	**1,470,152**	**826,525**	**-**	**2,296,677**
NET BOOK AMOUNT					
At 31 December 2005	**856,099**	**1,922,385**	**530,070**	**217,644**	**3,526,198**
At 31 December 2004	**856,099**	**1,789,074**	**477,310**	**203,347**	**3,325,830**

Land and buildings were revaluated on 1 January 2004 by independent valuators. Valuations were made on the basis of market value. The effect of the revaluation was credited to other reserves in shareholder's equity. The impairment loss amounting of MKD'000 83,229 are posted in income statement for 2004.

The historical cost of land and buildings and construction in progress relates to building are as follows:

	2005	2004
Cost	5,393,839	5,073,827
Accumulated depreciation	(1,818,728)	(1,705,873)
NET BOOK AMOUNT	**3,575,111**	**3,367,954**

Bank borrowings are secured on buildings for the value of MKD'000 678,301.

7 INTANGIBLES

	2005	2004
COST		
At 1 January 2005	**12,524**	**10,509**
Additions	19,115	2,017
Translation differences	(386)	(2)
At 31 December 2005	**31,253**	**12,524**
ACCUMULATED DEPRECIATION		
At 1 January 2005	**9,531**	**6,483**
Amortisation charge	4,078	3,048
Translation differences	(387)	-
At 31 December 2005	**13,222**	**9,531**
NET BOOK AMOUNT AS AT 31 DECEMBER	**18,031**	**2,993**

Intangibles consist of trademarks and licences.

8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2005	2004
At 1 January	**17,113**	**10,474**
Surplus in equity	54,492	6,151
Decrease in equity	(44,613)	-
Additions	-	488
Disposals	(14,712)	-
At 31 December	**12,280**	**17,113**

AVAILABLE-FOR-SALE FINANCIAL ASSETS CONSIST OF:	**2005**	**2004**
Available-for-sale financial assets in banks and companies	**12,280**	**17,113**

9 TRADE AND OTHER RECEIVABLES

	2005	2004
Trade receivables	1,436,908	1,258,968
Less: provision for impairment of receivables	(270,001)	(341,741)
Trade receivables - net	**1,166,907**	**917,227**
Prepayments	75,297	24,810
Loans to employees	77,190	54,677
Prepayed VAT	28,102	8,850
Other receivables	12,521	61,564
	1,360,017	**1,067,128**
Less: non-current portion	(79,637)	(16,544)
	1,280,380	**1,050,584**

Non-current receivables relates to loans to employees and prepayments for property, plant and equipment and due within 5 years.

The fair value of non-current trade and other receivables are as follows:

	2005	2004
Trade and other receivables	75,257	13,840

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

	2005	2004
Loans to employees	5.35 %	-

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

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

10 INVENTORIES

	2005	2004
Raw materials	452,320	375,265
Spare parts	20,866	22,022
Tools and consumable stores	4,411	3,993
Work in progress	41,807	58,104
Finished goods	535,768	486,215
Commodities	10,859	31,948
	1,066,031	**977,547**

The write-off of tools and consumable stores recognised in income statement amounted to MKD'000 5,683 (2004: MKD'000 5,635).

11 CASH AND BANK BALANCES

	2005	2004
Cash at banks	164,974	277,663
Cash in hands	5,245	2,483
Other cash and cash equivalents	3,384	1,533
	173,603	**281,679**

12 SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	TOTAL
At 1 January 2004	**1,299,565**	**2,016,057**	**(1)**	**(2,582)**	**2,013,474**
Treasury share purchased	(45,292)	-	(12,555)	(70,248)	(82,803)
Sale of treasury share	28,051	-	546	43,507	44,053
At 31 December 2004	**1,282,324**	**2,016,057**	**(12,010)**	**(29,323)**	**1,974,724**
Shares issued	130,123	204,070			204,070
Treasury share purchased	(20,469)	-	(31,489)	(31,747)	(63,236)
Sale of treasury share	39,375	-	29,791	61,070	90,861
At 31 December 2005	**1,431,353**	**2,220,127**	**(13,708)**	**-**	**2,206,419**

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

The Company issued new 130,123 shares in July 2005 from reserves.

During the year, the Company acquired 20,469 its own shares through Macedonian stock exchange and held as treasury shares. All treasury shares were sold in 2005 for total amount of MKD'000 90,861.

13 OTHER RESERVES

	Property, plant and equipment	Available for sale investments	Solidarity fund	Fund for shares	TOTAL
At 1 January 2004	**1,086,558**	**-**	**3,131**	**326,915**	**1,416,604**
Reclassification	-	(12,180)	-	-	(12,180)
Revaluation	175,600	6,151	-	-	181,751
Allocation of profit	-	-	-	61,293	61,293
Decrease	-	-	(575)	-	(575)
Deferred tax income	4,286	-	-	-	4,286
Translation differences	(12,014)	-	-	-	(12,014)
At 31 December 2004	**1,254,430**	**(6,029)**	**2,556**	**388,208**	**1,639,165**
Issue of shares	-	-	-	(204,070)	(204,070)
Allocation of profit	-	-	-	61,500	61,500
Revaluation	6,937	54,492	-	-	61,429
Derecognition	-	(44,613)	-	-	(44,613)
Increase	16,620	-	1,843	-	18,463
Deferred tax	517	(404)	-	-	113
Translation differences	(17,755)	-	-	-	(17,755)
At 31 December 2005	**1,260,749**	**3,446**	**4,399**	**245,638**	**1,514,232**

14 TRADE AND OTHER PAYABLES

	2005	2004
Trade payables	551,006	365,234
Customer's prepayments	18,272	13,022
Payables to employees	34,326	33,981
Dividends	6,829	6,710
Interest	3,081	3,008
Other payables and accrued expenses	48,001	51,123
	661,515	**473,078**

15 BORROWINGS

	2005	2004
Non-current borrowings	149,021	2,100
Current borrowings	347,095	382,707
	496,116	**384,807**

Bank borrowings are secured on buildings for the value of MKD'000 678,301 (Note 6).

The maturity of the borrowings is as follows

	2005	2004
Up to 1 year	347,095	382,707
Between 1- 3 years	149,021	2,100
	496,116	**384,807**

The borrowings are denominated in following currencies

	2005	2004
EUR	253,616	70,001
MKD	242,500	314,806
	496,116	**384,807**

The interest rates of borrowings are: floating rates of 9 %, 3 months EURIBIR + 3% and 6 months LIBOR + 3 %.

The effective interest rates at the balance sheet date were as follows:

	2005		2004	
	EUR	MKD	EUR	MKD
Bank borrowings	2.85 %	9 %	5.32 %	9 - 12 %

The carrying amounts and fair value of the non-current borrowings are as follows:

	Carrying amounts		Fair value	
	2005	2004	2005	2004
Bank borrowings	149,021	2,100	149,021	2,100

16 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relates to the same fiscal authority. The offset amounts are as follows:

	2005	2004
Deferred income tax assets	(29,141)	(6,820)
Deferred income tax liabilities	404	-
	(28,737)	(6,820)

Deferred income tax is determined using tax rates of 15 %. Macedonian tax rules do not allowed existence of deferred tax liabilities.

	2005	2004
At 1 January	(6,820)	(409)
Income tax in income statement	(21,804)	(2,125)
Income tax in equity	(113)	(4,286)
At 31 December	(28,737)	(6,820)

The movement in deferred tax assets and liabilities is as follows:

	Fair value	TOTAL
At 1 January 2004	-	-
Charged to Income statement	-	-
Charged to equity	-	-
At 31 December 2004	-	-
Charged to Income statement	-	-
Charged to equity	404	404
At 31 December 2005	404	404

	Provisions	Accruals	Fair value	TOTAL
At 1 January 2004	-	-	(409)	(409)
Charged to Income statement	-	-	(2,125)	(2,125)
Charged to equity	-	-	(4,286)	(4,286)
At 31 December 2004	-	-	(6,820)	(6,820)
Charged to Income statement	(12,141)	(9,663)	-	(21,804)
Charged to equity	-	-	(517)	(517)
At 31 December 2005	(12,141)	(9,663)	(7,337)	(29,141)

The deferred income tax charged to income statement during the year is as follows:

	2005	2004
Trade receivables	12,141	2,125
Accruals	7,003	-
Retirement benefits	2,660	-
	21,804	2,125

The deferred income tax credited to equity during the year is as follows:

	2005	2004
Land and buildings (Note 6)	517	4,286
Available-for-sale investments (Note 8)	(404)	-
	113	4,286

17 RETIREMENT BENEFITS

	2005	2004
Retirement benefits	17,733	-

The retirement benefits are calculated based on legal obligation for payment of three net monthly salaries on the retirement date.

The amounts recognised in the Income statement is as follows:

	2005	2004
Beginning of the year	-	-
Expense charged in Income statement	17,733	-
End of the year	17,733	-

The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate	9.0%	-
Future salary increase	3.0%	-

18 ACCRUALS

	2005	2004
Profit-sharing	46,691	-

The Group makes accrual for profit-sharing of the employees based on management estimation. The accrual for profit-sharing is payable after adopting of audited financial statements by the shareholders.

19 OTHER INCOME

	2005	2004
Collected written off receivables	152,924	86,549
Gain of available-for-sale investments	44,124	-
Income from liabilities	279	2,257
Foreign exchange transaction gains	25,604	-
Surplus of inventories	3,345	1,217
Dividends income	2,143	1,059
Income from insurance companies	1,267	1,248
Interest income	3,617	6,080
Capital gain from sale of PPE	139	3,730
	233,442	102,140

20 OTHER EXPENSES

	2005	2004
Shortage of inventory	3,781	36,243
Foreign exchange transaction loss	-	25,231
NBV of equipment sold	267	382
	4,048	61,856

21 EXPENSES BY NATURE

	2005	2004
Row materials	1,055,007	1,076,469
Employees benefit expense	846,321	754,973
Advertising	232,977	217,443
Depreciation and amortization	164,111	170,065
Utilities	117,167	102,007
Provision for impaired trade receivables	81,184	141,927
Cost of commodities sold	65,323	81,962
Transportation	66,953	64,259
Intelectual services	58,587	57,446
Cost for business trips	42,610	37,781
Spare parts	27,357	18,272
Property tax	23,604	12,394
Maintenance	23,862	25,435
Insurance premiums	16,652	17,493
Changes in the inventories	9,681	(22,180)
Bank charges and participations	12,028	12,106
Tools and consumable stores	5,683	5,635
Impairment	-	83,229
Other expenses	258,858	22,397
Total cost of goods sold, marketing and distribution and administrative expenses	**3,107,965**	**2,879,113**

22 EMPLOYEE BENEFIT EXPENSE

	2005	2004
Gross salaries	661,047	628,315
Transportation	19,869	25,550
Food allowances	35,263	32,629
Holliday allowances	16,173	14,527
Termination benefits	43,934	48,742
Profit-sharing	46,691	-
Retirement benefits	17,733	-
Other expenses	5,611	5,210
	846,321	**754,973**

The amounts paid for defined contribution plans are as follows:

	2005	2004
Expense for pension contributions	132,250	124,263
Average number of employees	1,200	1,264

23 FINANCE COSTS

	2005	2004
Net foreign exchange transaction gains/(losses)	301	(21)
Interest expense	(36,017)	(32,309)
Finance expenses	**(35,716)**	**(32,330)**

24 INCOME TAX

	2005	2004
Current tax	34,674	37,868
Deferred tax (Note 16)	(21,804)	(2,125)
	12,870	35,743

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

	2005	2004
Profit before tax	335,412	295,953
Tax calculated at tax rate of 15%	50,312	44,393
Income not subject to tax	(6,265)	(172)
Expenses not deductible for tax purposes	28,341	11,186
Tax allowances	(58,109)	(18,994)
Utilisation of previous tax credit	(1,409)	(670)
Income tax	12,870	35,743
Average tax rate	3.83 %	12.08 %

25 EARNING PER SHARE

Basic earnings per share (in MKD)	2005	2004
Profit attributable to shareholders	322,542	260,210
Average number of shares	1,356,838	1,290,944
	237.72	201.56

26 DIVIDENDS PER SHARE

The Company do not recognise the dividend payable before it is approved on the Annual General Meeting.

The dividends approved by shareholders in 2005 were MKD'000 98,675. The amount of net dividends is MKD'000 91,737 (MKD 70.50 net per share). Approved dividends in 2005 in respect of 2004 are decreased by the equity.

27 SUBSIDIARIES

The Group is consist of following subsidiaries:

- Alkaloid doo - Ljubljana, Slovenia
- Alkaloid doo - Zagreb, Croatia
- Alkaloid doo - Sarajevo, Bosnia and Herzegovina
- Alkaloid doo - Beograd, Serbia and Montenegro
- ALK&KOS Sh.p.k - Prishtina, Kosovo (S&M)
- Alkaloid eood - Sofia, Bulgaria
- Alkaloid Sh.p.k. - Tirana, Albania
- Alkaloidfarm SA - Fribourg, Switzerland
- Alkaloid Kons dooel - Skopje, Macedonia

All subsidiaries are 100 % owned by the Company.

In July 2005, the Company established a new company in Prishtina, Kosovo (S&M). The new company is 100 % ownership of the Company. Alkaloid's representative office in Moscow, Russia is included in the financial statements of the Company.

28 COMMITMENTS

Capital expenditures contracted for acquisition of property, plant and equipment at balance sheet date but not yet incurred are in amount of MKD'000 50,697.

29 CONTINGENCIES

Guarantees

The Company has contingent liabilities in respect of issued guaranties to third parties in amount of MKD'000 3,250. The guaranties expired on 16 March 2006.

Tax risk

Macedonian tax legislation is subject to varying interpretations and changes occur frequently. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years.

30 POST BALANCE SHEETS EVENTS

Changes in the corporate taxation

Withholding tax on income paid to foreign legal entities was introduced on 1 January 2006. According to this, the Company will be obliged to withhold and pay tax on income paid to foreign legal entities in Macedonia or abroad. Withholding tax is applied to following forms of income: dividends; interest; royalties; income from management, consulting, finance, technical, administrative and other services; income from the rent of real estate; income from insurance premiums etc. Withholding tax at the rate of 15% is applied to gross income, except for income from interest and from the rent of real estate, for which the tax rate is 10%. If a double tax treaty is in place, the withholding tax rate will be reduced to the treaty rate.

31 RELATED PARTY TRANSACTIONS

The Group has no ultimate parent company. The shares are widely held. The following transactions were carried out with related parties:

Loans to directors and key management	2005	2004
Loan	36,125	20,468

Loans to directors and key management are repayable up to 1 year without interest.

Key management compensations

In 2005, the amount of MKD 201,746 (2004: MKD 1,812,873) was paid to the Management Board members.

In 2005, the amount of MKD 2,851,913 (2004: MKD 1,299,985) was paid to the Supervision Board members.

SUBSIDARIES

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