ALKALOID AD SKOPJE
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
31 DECEMBER 2017

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

CONTENTS

INDEPENDENT AUDITORS' REPORT

TO THE MANAGEMENT BOARD AND THE SHAREHOLDERS OF ALKALOID AD SKOPJE

We have audited the accompanying consolidated financial statements (page 3 to 43) of Alkaloid AD Skopje and its subsidiaries (hereinafter referred to as the "the Group"), which comprise the statement of consolidated financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the accounting regulations prevailing in the Republic of Macedonia, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Law on Auditing and the applicable auditing standards in the Republic of Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alkaloid AD Skopje as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of Macedonia.

(Continues)

INDEPENDENT AUDITORS' REPORT

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

Report on other legal and regulatory requirements

Management is responsible for the preparation of the Company's consolidated annual report and the Company's consolidated annual accounts in accordance with the Company Law, which were adopted and approved by the management of the Company on February 9, 2018. Our responsibility is to express an opinion on the consistency of the consolidated annual report with the consolidated annual accounts and the consolidated financial statements of the Company. We have performed our audit procedures in accordance with the Audit Law of the Republic of Macedonia and International Standard on Auditing 720 – The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Consolidated Financial Statements. In our opinion, the historical financial information disclosed in the consolidated annual report is consistent with the consolidated annual accounts and the accompanying audited consolidated financial statements of the Company for the year ended December 31, 2017.

Lidija Nanus
Certified Auditor
Director

Jane Ivanov
Certified Auditor

February 28, 2018

Deloitte DOO Skopje

(In thousands of Denar)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	6	4,311,471	4,068,330
Intangible assets	7	1,455,417	1,339,186
Deferred tax assets	18	17,817	17,817
Available-for-sale financial assets	9	5,110	4,649
Other non-current assets	12	14,988	8,728
		5,804,803	**5,438,710**
Current assets			
Inventories	10	2,479,984	2,393,188
Trade receivables	11	2,411,428	2,224,712
Other current assets	12	406,931	256,998
Cash and cash equivalents	13	214,389	277,638
		5,512,732	**5,152,536**
TOTAL ASSETS		**11,317,535**	**10,591,246**
EQUITY			
Capital and reserves			
Share capital	14	2,197,095	2,197,095
Legal reserves		612,672	612,785
Other reserves	15	1,139,520	1,347,099
Retained earnings		4,926,034	4,285,645
Minority interests		749	781
		8,876,070	**8,443,405**
LIABILITIES			
Non-current liabilities			
Non-current borrowings	16	270,534	67,620
Retirement benefit obligations	17	29,427	26,885
Deferred tax liabilities	18	205	8
		300,166	**94,513**
Current liabilities			
Trade and other payables	19	1,739,318	1,592,425
Income tax		20,362	20,914
Current borrowings	16	381,619	439,989
		2,141,299	**2,053,328**
Total liabilities		**2,441,465**	**2,147,841**
TOTAL EQUITY AND LIABILITIES		**11,317,535**	**10,591,246**

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

These consolidated financial statements have been approved by the Managing Board on 9 February 2018.
Approved by:

Zhivko Mukaetov
General Manager

Viktor Stojcevski
Finance Manager

(In thousands of Denar)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	Year ended 31 December 2017	2016
Sales	5	9,094,716	8,292,770
Cost of sales	23	(5,036,402)	(4,548,509)
Gross profit		**4,058,314**	**3,744,261**
Research and development expenses	23	(76,421)	(71,498)
Selling and marketing expenses	23	(2,732,544)	(2,433,623)
Administrative expenses	23	(356,110)	(385,509)
Provision for other liabilities and charges	20	(2,542)	(1,091)
Other income	21	315,984	300,623
Other expenses	22	(294,436)	(298,708)
Operating profit		**912,245**	**854,455**
Finance expenses, net	26	(4,491)	(12,407)
Profit before tax		**907,754**	**842,048**
Income tax	27	(98,477)	(110,230)
Profit for the year		**809,277**	**731,818**
Attributable to the:			
Shareholders of the Parent Company		809,309	731,850
Minority interests		(32)	(32)
Profit for the year		**809,277**	**731,818**
Earnings per share (In Denar)			
- Basic	28	571.28	516.60

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

(In thousands of Denar)

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2017	2016
Profit for the year		**809,277**	**731,818**
Other comprehensive income:			
Fair value of investments	15	461	1,135
Revaluation of assets	15	-	-
Translation differences	15	(10,350)	26,101
Other comprehensive income, net of tax		**(9,889)**	**27,236**
Total comprehensive income for the year		**799,388**	**759,054**

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

(In thousands of Denar)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the Parent						
	Share capital	Share premiums	Legal reserves	Other reserves	Retained earnings	Minority interests	Total Equity
As at 1 January 2016	**2,197,095**	**-**	**611,914**	**1,319,863**	**3,890,742**	**813**	**8,020,427**
Fair value of investments (Note 9)	-	-	-	1,135	-	-	**1,135**
Transfer to reserves	-	-	806	-	(806)	-	-
Dividends and tax of paid dividend (Note 29)	-	-	-	-	(326,480)	-	**(326,480)**
Profit for the year	-	-	-	-	731,850	(32)	**731,818**
Translation differences	-	-	65	26,101	(9,661)	-	**16,505**
As at 31 December 2016	**2,197,095**	**-**	**612,785**	**1,347,099**	**4,285,645**	**781**	**8,443,405**
Fair value of investments (Note 9)	-	-	-	461	-	-	**461**
Transfer to reserves	-	-	1,009	(197,690)	196,681	-	-
Dividends and tax of paid dividend (Note 29)	-	-	-	-	(354,448)	-	**(354,448)**
Profit for the year	-	-	-	-	809,309	(32)	**809,277**
Translation differences	-	-	1.122	(10,350)	(11,153)	-	**(22,625)**
As at 31 December 2017	**2,197,095**	**-**	**612,672**	**1,139,520**	**4,926,034**	**749**	**8,876,070**

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

(In thousands of Denar)

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	8,848,268	8,095,109
Cash paid to suppliers and employees	(7,932,364)	(7,276,073)
Cash flows generated from operations	**915,904**	**819,036**
Interest received	910	5,928
Net cash flows generated from operating activities	**916,814**	**824,964**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(710,567)	(616,146)
Sales of property, plant and equipment	1,973	-
Dividends received	-	462
Other payments to employees	(61,884)	(61,678)
Net cash flows used in investing activities	**(770,478)**	**(677,362)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	2,374,351	1,827,093
Repayments of borrowings	(2,229,308)	(1,770,720)
Interest paid	(20,426)	(16,384)
Compensation to shareholders and tax of paid dividend and other allocation of profit	(324,234)	(299,010)
Net cash flows used in financing activities	**(199,617)**	**(259,021)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(53,281)**	**(111,419)**
Cash and cash equivalents at beginning of year	277,638	389,921
Translation differences	(9,968)	(864)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**214,389**	**277,638**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Alkaloid AD Skopje (the Parent Company) and its subsidiaries produce and sell a wide range of pharmaceutical, chemical and cosmetic products, as well as goods from herbal origin. The Parent Company (hereinafter referred to as "the Group") has eighteen subsidiaries and one Foundation in the Republic of Macedonia and other countries. For the list of the subsidiaries refer to Note 2.4.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the year presented.

2.1 Basis of preparation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

The consolidated financial statements were prepared at historical cost principle, unless otherwise stipulated in the accounting policies presented hereunder. In the preparation of the accompanying consolidated financial statements, the Company adhered to the accounting policies described in Note 2.

All amounts in the Company's consolidated financial statements are stated in thousands of Macedonian Denars (MKD). The Denar is the official reporting currency in the Republic of Macedonia.

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of Macedonia

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of Macedonia (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of Macedonia (Continued)

- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to various standards “Improvements to IFRSs (cycle 2009-2011)” resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013);
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements” – Investment Entities (effective for annual periods beginning on or after 1 January 2014);
- Amendments to IAS 32 “Financial instruments: Presentation” - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of Macedonia (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of Macedonia (Continued)

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

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

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

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

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

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

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018);

- IFRS 15 "Revenue from Contracts with Customers" and further amendments (effective for annual periods beginning on or after 1 January 2018);

- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019);

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021);

- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018);

- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);

- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019);

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- Amendments to IAS 40 “Investment Property” - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018);

- Amendments to IFRS 1 and IAS 28 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);

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

- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018);

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

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

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

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Subsidiaries

Subsidiaries are all legal entities over which the Parent Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another Company. The cost of acquisition is measured at fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. They are de-consolidated from the date that control ceases.

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

	2017 % of ownership	**2016 % of ownership**
Alkaloid DOO Zagreb, Croatia	100%	100%
Alkaloid DOO Beograd, Serbia	100%	100%
Alkaloid INT DOO Ljubljana, Slovenia	100%	100%
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	100%	100%
Alkaloidpharm SA Fribourg, Switzerland	100%	100%
Alkaloid EOOD Sofia, Bulgaria	100%	100%
ALK&KOS Shpk Prishtina, Kosovo	100%	100%
Alkaloid Bilna apteka DOOEL Skopje, Macedonia	100%	100%
Alkaloid Kons DOOEL Skopje, Macedonia	100%	100%
Alkaloid USA LLC Columbus, Ohio USA	49%	49%
Fund “Trajce Mukaetov” Skopje, Macedonia	100%	100%
Alkaloid DOO Podgorica, Montenegro	100%	100%
OOO Alkaloid RUS Moscow, Russia	100%	100%
Alkaloid FARM DOO Ljubljana, Slovenia	100%	100%
Alkaloid Veledrogerija DOO Beograd, Serbia	100%	100%
Alkaloid ILAC TLS Istanbul, Turkey	100%	100%
ALKA-LAB DOO Ljubljana, Slovenia	100%	100%
Alkaloid Shpk Tirana, Albania	100%	100%
Alkaloid Kiev CO. LTD., Ukraine	100%	100%

The investment in Alkaloid USA LLC Columbus, Ohio USA is the equity share of 49%, but the Parent Company exercises control. During 2016, Alkaloid AD Skopje established a new subsidiary in Albania, Alkaloid Shpk Tirana, and a new subsidiary in Ukraine, Alkaloid Kiev CO. LTD. In 2017 the company has increased its investment in Alkaloid Kiev CO. LTD., Ukraine by EUR 25 thousand.

Alkaloid’s representative offices in Russia, Bosnia and Herzegovina and Ukraine are included in the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting

Operating segments are reported in a manner with the internal reporting provided to the Managing Board. Managing Board is responsible for strategic decisions for each segment.

As at 31 December 2017, the Company is organized on a worldwide basis into four reportable segments:

- **Pharmaceuticals** - Production of medicines for human use;
- **Chemicals** - Production of chemicals products;
- **Cosmetics** - Production of cosmetics;
- **Botanicals** - Production of botanicals products.

The pharmaceutical overall production program of the products of Alkaloid Pharmaceuticals is consisted of the following pharmaceutical forms:

- Oral hard dosage forms: Tablets - conventional and modified release, film-tablets, coated tablets, sub-lingual tablets, capsules, dry powder for oral suspension.
- Liquid dosage forms for oral administration: Solutions for oral administration, syrups, suspensions.
- Topical preparations: Ointments, creams, solutions, gels, sprays, vaginal pessaries, suppositories.
- Sterile dosage forms: Parenteral small-volume, eye drops, ointments for eyes.

Besides the capacities for manufacturing finished pharmaceutical products, Alkaloid-Pharmaceuticals has also facilities for extraction of opioids which include production of morphine and its derivatives as pharmaceutical raw materials.

Alkaloid Chemical products today are developed program for the production of chemicals and organic and non-organic reagents, with pa, puriss, purum and with pharmacopeial qualities. They are suitable for laboratories within institutions, faculties, clinics, the pharmaceutical and cosmetic industry, as well as in the production processes of other industries.

Alkaloid’s Cosmetics Unit develops and produces skincare products, children's skincare, soaps, hair care products, dental care products, men’s perfume collection, women’s perfume collection, as well as household cleaners. The ingredients that are used in the products are purchased from suppliers that satisfy our high-quality standards and are in accordance with the requirements of the European directive for quality cosmetic products.

The activities in Botanical unit consists of processing blending and packing herbal materials like roots, leaves, fruits, seeds etc.

Segment revenue is revenue reported in the company’s income statement that is directly attributable to a segment and the relevant portion of the company income that can be allocated on a reasonable basis to a segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting (Continued)

Segment expense is an expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis.

Net operating assets consist primarily of property, plant and equipment, intangible assets, inventories and receivables less operating liabilities. Company assets and liabilities principally consist of net liquidity (cash, cash equivalents and other current financial assets less financial debts) and deferred and current taxes.

The accounting policies of the reportable segments are the same as the Company's accounting policies. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

2.6 Leasing

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

2.7 Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in thousands of Macedonian Denar (Denar or MKD), which is the Group's functional currency and the presentation currency for the consolidated financial statements.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange 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 recognized in the consolidated income statement. Translation differences of non-monetary assets denominated in foreign currency are recognized in equity.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting differences are recognized as a separate component of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to the consolidated income statement. The revaluation surplus is transferred to retained earnings upon ultimate disposal of revaluated asset.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	10 - 40	years
Machinery	10 - 20	years
Vehicles	4	years
Furniture, fittings and equipment	3 - 10	years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The carrying amount of disposed PP&E is eliminated from the consolidated statement of financial position together with the carrying amount of accumulated depreciation. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

2.9 Intangible assets

Trademarks, licenses and software
Intangible assets are consisted of trademarks, licenses and software. Intangible assets are carried at cost less accumulated amortization. The cost value includes the invoiced expense of purchased intangible assets increased by all expenditures that are directly attributable to the acquisition of the items.

Amortization is calculated using the straight-line method to allocate the cost of trademarks, licenses and software over their estimated useful lives, maximum of 10 years..

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Intangible assets (Continued)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives, maximum of 10 years. The estimated useful life and amortisation method are reviewed at the end of each reporting period.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

• the technical feasibility of completing the intangible asset so that it will be available for use or sale;
• the intention to complete the intangible asset and use or sell it;
• the ability to use or sell the intangible asset;
• how the intangible asset will generate probable future economic benefits;
• the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
• the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the consolidated statement of financial position (Note 2.13).

Available-for-sale financial assets

Available-for-sale financial assets are included in non-current assets unless management intends to dispose of the investment within 12 months of the consolidated statement of financial position date.

Regular purchases and sales of investments are recognized on trade date, the date on which the Group commits to purchase or sell the asset. The purchase value of investments includes transaction costs. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets are stated at cost. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the available-for-sale financial assets are presented in the equity and the consolidated statement of comprehensive income, except for impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss.

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

The fair values of quoted investments are based on last traded prices. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized at cost, less impairment.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss - is removed from equity and recognized in the consolidated income statement. Method for evaluation of impairment of trade receivables is explained in Note 2.13.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Inventories

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

2.13 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the consolidated income statement within "selling and marketing costs".

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in bank and in hand.

2.15 Share capital

Ordinary shares are classified as equity. Purchases of the Parent Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs are deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and are included in equity attributable to the Parent Company's equity holders.

2.16 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the consolidated statement of financial position date.

2.17 Income tax

Current income tax is calculated and paid in accordance with the Income tax Law. The estimated tax is paid in advance on a monthly basis. The final tax is payable in the Republic of Macedonia at the rate of 10% calculated based on the profit as determined in the Consolidated statement of comprehensive income, adjusted for certain items as defined by the local tax legislation. In respect of the Group's subsidiaries the current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries operate and generate taxable income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Income tax (Continued)

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if 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 realized or the deferred income tax liability is settled.

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

Deferred tax is provided on temporary differences arising on investments in subsidiaries excepts where timing of the reversal of temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits

Pension liabilities

The Group has both defined benefit and defined contribution plans.

- Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.
- A defined contribution plan is a pension plan under which the Group pays contributions into publicly and privately administered pension plans on a mandatory basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Employee benefits (Continued)

Termination benefits

Termination benefits are payable when employees are terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a decision of a Managing Board. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, estimated returns, discounts and rebates. Revenue is recognized as follows:

Sales of goods
Sales of goods are recognized when a group Company has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

Sales of services
Sales of services are recognized in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income
Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Revenue recognition (Continued)

Dividend income

Dividend income is recognized when the right to receive payment is established.

2.21 Dividends

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

Market risk

a) Foreign exchange risk

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

To manage the foreign exchange risk the Group provides 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 Group. The Group is not exposed to commodity price risk.

Credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

Liquidity risk

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

Interest risk

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

The Group’s interest rate risk arises from borrowings. The Group has no specific policy, but in direct negotiation with lenders attempts to reduce interest rate risk. Interest rates of long-term borrowings are lower than 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 assumptions that are based on public information for recent arm’s length transactions or reference to other instruments that are substantially the same.

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

3.3 Capital risk management

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimize the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

4. ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Fair value of property, plant and equipment

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

Fair value of financial assets

The available-for-sale financial assets that are not traded in an active market are stated at their cost. The Group estimation is that the difference between their fair value and cost is not material, and do not affect the result. This financial assets are insignificant both in the books in the Group and as a percentage of participation in the issuer capital.

Trade receivables

The Group assessed annually the fair value of trade receivables.

Estimates for accounting for employee benefits

IAS19, Employee Benefits, requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations. These mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover and discount rates. Substantial changes in the assumed development of any one of these variables may change the Company's retirement benefit obligation.

5. SEGMENT REPORTING

Reportable segments - Products

Segment information reported to the Management Board is based on products and category of customers. The segment information by product is more relevant to the Group.

Principal categories of goods are pharmaceutical and non-pharmaceutical products (chemicals cosmetics and botanicals). Customers for the goods of the Group are wholesalers.

Segments revenues and results for the year ended 31 December is as follows:

	Segment revenues		Segment operating profit	
	2017	**2016**	**2017**	**2016**
Pharmaceutical products	7,695,963	6,910,385	884,343	788,715
Chemical products	287,194	256,855	20,542	17,658
Cosmetic products	841,275	822,820	19,498	23,124
Botanical products	270,284	302,710	(12,138)	24,958
Total	**9,094,716**	**8,292,770**	**912,245**	**854,455**
Finance expenses			(4,491)	(12,407)
Profit before tax			**907,754**	**842,048**
Income tax			(98,477)	(110,230)
Profit for the year			**809,277**	**731,818**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

Revenue reported above represents revenue generated from external customers.

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

Segment assets

	2017	2016
Pharmaceutical products	9,193,381	8,599,836
Chemical products	188,213	218,763
Cosmetic products	1,342,252	1,194,428
Botanical products	596,689	578,219
Total assets	**11,317,535**	**10,591,246**

Segment liabilities

	2017	2016
Pharmaceutical products	2,035,345	1,783,357
Chemical products	104,043	87,202
Cosmetic products	214,362	178,448
Botanical products	87,715	98,834
Total liabilities	**2,441,465**	**2,147,841**

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

	Depreciation and amortization		Addition to non-current assets	
	2017	**2016**	**2017**	**2016**
Pharmaceutical products	447,230	394,294	804,842	598,174
Chemical products	9,815	9,713	17,708	12,990
Cosmetic products	21,330	21,014	27,671	19,217
Botanical products	22,685	16,916	11,199	81,902
Total liabilities	**501,060**	**441,937**	**861,420**	**712,283**

Geographical information

The Republic of Macedonia is the domicile country of the Group where part of the activities are performed.

	Revenue from external customers		Non-current assets	
	2017	**2016**	**2017**	**2016**
Macedonia	3,486,685	3,321,026	5,668,858	5,318,980
Serbia	1,587,385	1,490,964	27,941	30,111
Croatia	813,248	717,053	10,166	9,543
Bosnia and Herzegovina	778,615	752,467	2,256	2,527
Other countries	2,428,783	2,011,260	57,667	46,355
Total	**9,094,716**	**8,292,770**	**5,766,888**	**5,407,516**

Geographical information about sales revenue is based on the customers' origin.

Non-current assets are consisted of Property, plant and equipment and Intangible assets.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

Information about major customers

The sales of Pharmaceutical products are spread over many countries and customers. No major customer participates in the direct sales of Pharmaceutical products.

In the sales of Chemicals products, there is one major customer with participation of 26% (2016: 27.5%) in direct sales.

In the sales of Cosmetics products, there is one major customer with participation of 15.9% (2016: 14.3%) in direct sales.

In the sales of Botanicals products, there is one major customer with participation of 37.5% (2016: 46.8%) in direct sales.

Sales by category	**2017**	**2016**
Sales of goods	6,774,755	6,195,299
Sales of commodities	2,217,458	2,023,179
Other revenue	102,503	74,292
	9,094,716	**8,292,770**

6. PROPERTY, PLANT AND EQUIPMENT

	Land	**Buildings**	**Equipment**	**Construction in progress**	**Total**
Cost or valuation					
At 1 January 2016	**832,946**	**1,926,393**	**2,785,891**	**347,721**	**5,892,951**
Additions	-	706	31,932	376,181	408,819
Transfer from construction in progress	579	139,317	538,982	(678,878)	-
Disposals	-	(12)	(11,799)	-	(11,811)
Translation differences	-	(779)	356	-	(423)
As at 31 December 2016	**833,525**	**2,065,625**	**3,345,362**	**45,024**	**6,289,536**
Accumulated depreciation					
At 1 January 2016	**-**	**101,528**	**1,856,506**	**-**	**1,958,034**
Depreciation charge in 2016	-	57,796	216,946	-	274,742
Disposals	-	(5)	(11,671)	-	(11,676)
Translation differences	-	(281)	387	-	106
As at 31 December 2016	**-**	**159,038**	**2,062,168**	**-**	**2,221,206**
Net book value					
As at 31 December 2016	**833,525**	**1,906,587**	**1,283,194**	**45,024**	**4,068,330**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land	Buildings	Equipment	Construction in progress	Total
Cost or valuation					
At 1 January 2017	**833,525**	**2,065,625**	**3,345,362**	**45,024**	**6,289,536**
Additions	-	-	37,733	503,599	541,332
Transfer from construction in progress	-	112,918	318,392	(431,310)	-
Disposals	-	(34)	(35,180)	(203)	(35,417)
Translation differences	-	1,367	118	-	1,485
As at 31 December 2017	**833,525**	**2,179,876**	**3,666,425**	**117,110**	**6,796,936**
Accumulated depreciation					
At 1 January 2017	**-**	**159,038**	**2,062,168**	**-**	**2,221,206**
Depreciation charge in 2017	-	60,039	237,190	-	297,229
Disposals	-	(4)	(33,592)	-	(33,596)
Translation differences	-	704	(78)	-	626
As at 31 December 2017	**-**	**219,777**	**2,265,688**	**-**	**2,485,465**
Net book value					
As at 31 December 2017	**833,525**	**1,960,099**	**1,400,737**	**117,110**	**4,311,471**

Land and buildings were revaluated as at 31 December 2014 by independent appraiser. The revaluation surplus/deficit was credited to other reserves in shareholders' equity (Note 15).

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. INTANGIBLE ASSETS

	Trademarks and licenses	Software and Internally generated intangibles	Other assets	Construction in progress	Total
Cost or valuation					
At 1 January 2016	**384,145**	**1,316,125**	**69,873**	**79,914**	**1,850,057**
Additions	-	393	839	302,232	303,464
Transfer from construction in progress	4,003	284,560	2,919	(291,482)	-
Disposals	(18,166)	-	-	(9)	(18,175)
Translation differences	(495)	1,314	820	(2)	1,637
As at 31 December 2016	**369,487**	**1,602,392**	**74,451**	**90,653**	**2,136,983**
Accumulated amortization					
At 1 January 2016	**305,610**	**309,750**	**32,139**	**-**	**647,499**
Charge for the year	32,991	125,820	8,384	-	167,195
Disposals	(18,166)	-	-	-	(18,166)
Translation differences	2	1,032	235	-	1,269
As at 31 December 2016	**320,437**	**436,602**	**40,758**	**-**	**797,797**
Net book value as at 31 December 2016	**49,050**	**1,165,790**	**33,693**	**90,653**	**1,339,186**
Cost or valuation					
At 1 January 2017	**369,487**	**1,602,392**	**74,451**	**90,653**	**2,136,983**
Additions	-	5,828	797	313,463	320,088
Transfer from construction in progress	5,669	272,813	7,853	(286,335)	-
Disposals	(29,481)	-	-	-	(29,481)
Translation differences	(497)	(381)	531	(20)	(367)
As at 31 December 2017	**345,178**	**1,880,652**	**83,632**	**117,761**	**2,427,223**
Accumulated amortization					
At 1 January 2017	**320,437**	**436,602**	**40,758**	**-**	**797,797**
Charge for the year	20,372	175,202	8,257	-	203,831
Disposals	(29,481)	-	-	-	(29,481)
Translation differences	2	(339)	(4)	-	(341)
As at 31 December 2017	**311,330**	**611,465**	**49,011**	**-**	**971,806**
Net book value as at 31 December 2017	**33,848**	**1,269,187**	**34,621**	**117,761**	**1,455,417**

The net book value of software is Denar 46,829 thousand (2016: Denar 46,877 thousand), and the rest of the amount is internally generated intangibles.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS

Capital risk management

In order to be able to continue as going concern, the Group uses loans from banks and intends to maximize the return to the stakeholders through the optimization of the debt and equity balance.

The management of the Group reviews the capital structure on a regular basis.

	2017	2016
Debt	652,153	353,738
Cash and cash equivalents	(214,389)	(389,921)
Net debt	437,764	(36,183)
Equity	8,876,070	8,020,427
Net debt to equity ratio	4.93%	(0.45%)

Categories of financial instruments and risk management objectives

The Group's principal financial instruments are cash and cash equivalents and trade receivables, as well as, borrowings and trade payables. In the normal course of operations, the Group is exposed to the following risks:

Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency in respect of sales of goods and services, purchase of raw materials, services and equipment and obtaining borrowings. The Group does not use any special financial instruments to hedge against this risk since no such instruments are in common use in the Republic of Macedonia.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2017	2016	2017	2016
EUR	1,085,227	966,714	1,223,249	867,492
RUR	4,897	6,194	434,080	459,252
USD	91,295	175,960	10,443	5,886
CHF	14,029	25,640	5,796	8,594
Other currencies	112,311	90,028	589,808	634,985

The Group is mainly exposed to Euro and Russian Ruble currency.

The following table details the Group's sensitivity analysis to a 10% increase and decrease in the Macedonian Denar against the relevant foreign currency. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the date of the Consolidated Statement of financial position. A positive number below indicates an increase in profit in Consolidated Income Statement, and negative number below indicates a decrease.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk (Continued)

	Increase of 10%		Decrease of 10%	
	2017	**2016**	**2017**	**2016**
EUR	(13,802)	9,922	13,802	(9,922)
RUR	(42,918)	(45,306)	42,918	45,306
USD	8,085	17,007	(8,085)	(17,007)
CHF	823	1,705	(823)	(1,705)
Other currencies	(47,750)	(54,496)	47,750	54,496
Profit and loss and equity	**(95,562)**	**(71,168)**	**95,562**	**71,168**

The Group's sensitivity to foreign currency has increased during the current period mainly due to combine effect of increase of foreign trade receivables and foreign trade payables and increase of borrowings.

Interest rate risk

The Group is exposed to interest risk arising from variable interest rate on borrowings, which depends on the changes of the financial market.

The sensitivity analysis below has been determined based on the exposure to interest rates as a result of a 10% increase or decrease for foreign borrowings at the balance sheet date. A positive number below indicates a decrease in profit and equity, and negative number below indicates an increase.

	Increase of 10%		Decrease of 10%	
	2017	**2016**	**2017**	**2016**
Borrowings	1,510	1,120	(1,510)	(1,120)
Profit and loss and equity	**(1,510)**	**(1,120)**	**1,510**	**1,120**

If interest rates had been 10% higher the Group's profit for the year ended 31 December 2017 and retained earnings would decrease by Denar 1,510 thousands and opposite if interest rates had been 10% lower the Group's profit for the year ended 31 December 2017 and retained earnings would increase by Denar 1,510 thousands.

Liquidity risk

The management of the Group has responsibility for maintenance adequate liquidity. In certain cases the Group uses short and long-term funding for liquidity purposes. The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows. At any time, the Group can draw additional borrowings from banks with relatively low interest rates, which reduce further liquidity risk.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

The following tables detail the Group's remaining contractual maturity for its financial liabilities:

2017	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	789,432	464,353	203,346	7,202	**1,464,333**
Borrowings	-	31,368	350,251	270,534	**652,153**
	789,432	**495,721**	**553,597**	**277,736**	**2,116,486**

2016	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade payables	703,285	437,173	183,078	9,267	**1,333,161**
Borrowings	225	-	439,764	67,620	**507,609**
	703,510	**437,173**	**622,840**	**77,244**	**1,840,770**

The following tables detail the Group's remaining contractual maturity for its financial assets:

2017	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,223,235	961,278	226,915	-	**2,411,428**
Available-for-sale financial assets	-	-	-	5,110	**5,510**
Cash and cash equivalents	214,389	-	-	-	**214,389**
	1,437,624	**961,278**	**226,915**	**5,510**	**2,631,327**

2016	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	1,234,792	841,714	148,206	-	**2,224,712**
Available-for-sale financial assets	-	-	-	4,649	**4,649**
Cash and cash equivalents	277,638	-	-	-	**277,638**
	1,512,430	**841,714**	**148,206**	**4,649**	**2,506,999**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Taxation risks

Macedonian tax legislation is subject to varying interpretations and changes that occur frequently. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest, which can be significant. The period that remains opened for review by the tax and customs authorities with respect to tax liabilities is five years. During 2017 the company's accounting transactions were subject to examination by the tax authorities regarding VAT for the period January 1st to November 30th 2017, for which an tax control statement was issued without findings.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
At 1 January	**4,649**	**3,514**
Additions	606	1,313
Disposals	(145)	(178)
Fair value adjustment	-	-
As at 31 December	**5,110**	**4,649**

Available-for-sale financial assets consist of:

	2017	2016
Available-for-sale financial assets in non-quoted companies	1,930	1,855
Available-for-sale financial assets in quoted companies	3,180	2,794
Available-for-sale financial assets in non-related parties	**5,110**	**4,649**

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

Available-for-sale financial assets, of quoted shares and bonds are presented by market values of identical assets. The unlisted shares that are not traded in an active market are stated at cost. The Group considers that cost approximates their fair value.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. INVENTORIES

	2017	2016
Raw materials	929,727	871,534
Spare parts	573	602
Tools and consumable stores	1,701	1,678
Work in progress	377,362	276,809
Finished goods	752,409	861,135
Trading goods	418,212	381,430
	2,479,984	**2,393,188**

11. TRADE RECEIVABLES

	2017	2016
Trade receivables	2,675,896	2,491,337
Less: Provision for impairment of receivables	(264,468)	(266,625)
Trade receivables - net	**2,411,428**	**2,224,712**

Changes in the provision are as follows:

	2017	2016
At 1 January	**266,625**	**269,929**
Provision for the year	8,284	16,724
Direct write off	(18)	(550)
Collected bad and doubtful debts	(10,860)	(23,304)
Translation differences	437	3,826
As at 31 December	**264,468**	**266,625**

Ageing of impaired trade receivables are as follows:

	2017	2016
Up to 1 year	-	-
Over 1 year	264,468	266,625
As at 31 December	**264,468**	**266,625**

12. OTHER CURRENT ASSETS

	2017	2016
Prepayments	180,927	56,766
Receivables from employees	-	60
Prepaid VAT	123,890	133,324
Other receivables	117,102	75,576
Less: non-current portion	(14,988)	(8,728)
	406,931	**256,998**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. OTHER CURRENT ASSETS (Continued)

Non-current receivables relate to loans to employees and prepayments for property, plant and equipment that are due within 1 year.

The fair value of non-current other assets are as follows:

	2017	2016
Other assets	14,987	8,728

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

	2017	2016
	3.25%	3.75%

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

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

13. CASH AND CASH EQUIVALENTS

	2017	2016
Cash at banks	211,735	274,683
Cash in hands	971	1,123
Other	1,683	1,832
	214,389	**277,638**

14. SHARE CAPITAL

	Number of shares	Ordinary shares	Treasury shares	Total	Share premiums
At 1 January 2016	**1,416,612**	**2,220,127**	**(23,032)**	**2,197,095**	**-**
Purchase of treasury shares	-	-	-	-	-
As at 31 December 2016	**1,416,612**	**2,220,127**	**(23,032)**	**2,197,095**	**-**
Purchase of treasury shares	-	-	-	-	-
As at 31 December 2017	**1,416,612**	**2,220,127**	**(23,032)**	**2,197,095**	**-**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. SHARE CAPITAL (Continued)

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

The total number of treasury shares is 14,741. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares.

15. OTHER RESERVES

	Transfer of reserves	Property, plant and equipment	Available for-sale investments	Fund for shares	Total
At 1 January 2016	**(9,604)**	**1,101,488**	**(937)**	**228,916**	**1,319,863**
Increase	-	-	1,135	-	1,135
Translation differences	-	26,101	-	-	26,101
As at 31 December 2016	**(9,604)**	**1,127,589**	**198**	**228,916**	**1,347,009**
Increase	-	-	461	-	461
Reclassification	-	(197,690)	-	-	(197,690)
Translation differences	-	(10,350)	-	-	(10,350)
As at 31 December 2017	**(9,604)**	**919,549**	**659**	**228,916**	**1,139,520**

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

- Revaluation reserves for property, plant and equipment are created based on valuation of PP&E. These reserves are not distributable to shareholders.
- The reserves for available-for sales investments are created based on valuation of investments. These reserves are not distributable to shareholders.
- Funds for shares are created from retained earnings based on decision from Shareholders assembly and are distributable to shareholders if not utilized.

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. BORROWINGS

	2017	2016
Non-current borrowings	270,534	67,620
Current borrowings	381,619	439,989
	652,153	**507,609**

Bank borrowings in amount of Denar 25,363 thousands are secured by the Property plant and equipment in net book value of Denar 65,969 thousands.

The maturity of the borrowings is as follows:

	2017	2016
Up to 1 year	381,619	439,989
Between 1 to 3 years	270,534	67,620
	652,153	**507,609**

The borrowings are denominated in following currencies:

	2017	2016
EUR	296,614	287,701
USD	-	39,973
MKD	355,500	179,368
Other	39	567
	652,153	**507,609**

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

	31 December 2017			31 December 2016		
	EUR	**USD**	**MKD**	**EUR**	**USD**	**MKD**
Interest rates	3 - 6 month EURIBOR +0.85 – 4.5%	-	2.8– 3.1%	6 month EURIBOR +3.1 – 4.5%	3.1%	3.3– 6%

17. RETIREMENT BENEFIT OBLIGATIONS

	2017	2016
Retirement benefits	29,427	26,885

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

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The amounts recognized in the Income statement are as follows:

	2017	2016
Beginning of the year	**26,885**	**25,898**
Increase in calculation	2,542	1,091
Decrease in calculation	-	(104)
As at 31 December	**29,427**	**26,885**

The principal actuarial assumptions used were as follows:

	2017	2016
Discount rate	3.66%	4.01%

18. DEFERRED TAX

	2017	2016
Deferred tax assets	17,817	17,817
Deferred tax liabilities	(205)	(8)
	17,612	**17,809**

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

	2017	2016
At 1 January	**17,809**	**19,502**
Net deferred tax in income statement	(205)	(1,693)
Realized deferred tax liabilities	8	-
As at 31 December	**17,612**	**17,809**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. DEFERRED TAX (Continued)

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

	Accruals	Fair value	Total
At 1 January 2016	**19,502**	**-**	**19,502**
Charged to Income statement	(1,693)	-	(1,693)
Realized deferred tax liabilities	-	-	-
As at 31 December 2016	**17,809**	**-**	**17,809**
Charged to Income statement	(205)	-	(205)
Realized deferred tax liabilities	8	-	8
As at 31 December 2017	**17,612**	**-**	**17,612**

19. TRADE AND OTHER PAYABLES

	2017	2016
Trade payables	1,464,333	1,333,161
Advances	25,741	9,713
Payables to employees	102,716	94,000
Dividends	12,102	10,986
Other payables and accrued expenses	134,426	144,565
	1,739,318	**1,592,425**

20. PROVISION FOR OTHER LIABILITIES AND CHARGES

	2017	2016
Provision for retirement benefits	2,542	1,091
	2,542	**1,091**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. OTHER INCOME

	2017	2016
Collected written-off receivables	10,860	23,304
Interest income	10,066	4,357
Foreign exchange transaction gains	168,254	174,025
Other income	126,804	98,937
	315,984	**300,623**

22. OTHER EXPENSES

	2017	2016
Interest expenses	2,562	153
Foreign exchange transaction loss	143,129	105,602
Other expenses	148,745	192,953
	294,436	**298,708**

23. EXPENSES BY NATURE

	2017	2016
Raw materials	2,238,233	2,207,867
Employee benefit expense	1,912,897	1,691,568
Depreciation and amortization	501,060	441,937
Energy	160,632	137,579
Impairment of trade receivables	8,284	16,724
Transportation	217,744	190,230
Changes in the inventories	(98,758)	(165,764)
Cost of trading goods	1,593,272	1,486,422
Other expenses	1,668,113	1,432,576
	8,201,477	**7,439,139**

24. EMPLOYEE BENEFIT EXPENSE

	2017	2016
Gross salaries	1,661,508	1,462,425
Other employees benefits	251,389	229,143
	1,912,897	**1,691,568**
Number of employees as at 31 December	**1,856**	**1,725**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. OPERATING LEASING

Operating leasing relates to rent of premises and vehicles. The lease term is between 3-5 years. The Group do not has option to re-purchase premises and vehicles.

Minimum operating leasing	**2017**	**2016**
	60,505	53,004
	60,505	**53,004**

Future non-cancellable obligations	**2017**	**2016**
Up to 1 year	38,525	40,613
Between 2 to 5 years	66,833	65,029
	105,358	**105,642**

26. FINANCE EXPENSES

	2017	**2016**
Net foreign exchange transaction gains/(losses) on borrowings	(10,607)	(1,208)
Interest expense on borrowings	15,098	(11,199)
	4,491	**(12,407)**

27. INCOME TAX

	2017	**2016**
Current income tax	98,477	108,702
Net deferred income tax	-	1,528
	98,477	**110,230**

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. INCOME TAX (Continued)

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

	2017	2016
Profit before tax	**912,754**	**842,048**
Tax calculated at tax rate of 10%	91,275	84,205
Income not subject to tax	(3,293)	(72)
Expenses not deductible for tax purposes	63,838	61,087
Tax allowances	(53,343)	(34,990)
Income tax	**98,477**	**110,230**

28. EARNINGS PER SHARE

	2017	2016
Basic earnings per share		
Profit attributable to shareholders (In Denar)	809,277,171	731,818,674
Average number of shares	1,416,612	1,416,612
Basic earnings per share (in Denar)	**571.28**	**516.60**

29. DIVIDENDS

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

The gross dividends for 2016 approved by shareholders on 3 April 2017 amounted Denar 357,838 thousands. For the approved dividends and related taxes, retained earnings are appropriately decreased.

30. COMMITMENTS

Capital expenditures contracted for acquisition of property, plant and equipment at balance sheet date but not yet incurred are in amount of Denar 12,143 thousands (2016: Denar 6,779 thousands).

31. CONTINGENCIES

The Group has contingent liabilities with respect to issued guaranties to third parties in the amount of Denar 233,232 thousands (2016: Denar 150,426 thousands).

(In thousands of Denar)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS

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

Key management compensations

No compensations were paid to the Management Board members. In 2017, the amount of Denar 4,207 thousands was paid to the Supervision Board members (2016: Denar 4,207 thousands).

33. EXCHANGE RATES OF PRINCIPAL CURRENCIES

Closing rates:

	31.12.2017	31.12.2016
EUR	61.49	61.48
RUR	0.89	0.96
USD	51.27	58.33
CHF	52.55	57.25