**ALKALOID AD SKOPJE**
**STAND ALONE FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED**
**31 DECEMBER 2011 AND**
**INDEPENDENT AUDITORS' REPORT**

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

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**INDEPENDENT AUDITORS' REPORT**

**TO THE MANAGEMENT BOARD AND THE SHAREHOLDERS OF ALKALOID AD SKOPJE**

We have audited the accompanying financial statements (page 4 to 39) of Alkaloid AD Skopje (the "Company"), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and Audit Law of 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects the financial position of Alkaloid AD Skopje as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations of the Republic of Macedonia.

Lidija Nanus
Certified Auditor
Director

Aleksandar Arizanov
Certified Auditor

29 February 2012

Deloitte DOO Skopje

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

(In thousands of Denar)

## STATEMENT OF FINANCIAL POSITION

| | Note | As at 31 December 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment (PP&E) | 6 | 3,781,827 | 3,680,282 |
| Intangible assets | 7 | 497,821 | 346,613 |
| Deferred tax assets | 19 | 8,828 | 10,557 |
| Available-for-sale financial assets | 9 | 4,442 | 5,695 |
| Investments in subsidiaries | 10 | 72,519 | 72,488 |
| Other non-current assets | 13 | 35,323 | 37,660 |
| | | **4,400,760** | **4,153,295** |
| **Current assets** | | | |
| Inventories | 11 | 1,220,112 | 1,190,257 |
| Trade receivables | 12 | 2,230,732 | 2,242,649 |
| Other current assets | 13 | 300,220 | 203,218 |
| Cash and cash equivalents | 14 | 92,556 | 63,858 |
| | | **3,843,620** | **3,699,982** |
| **Total assets** | | **8,244,380** | **7,853,277** |
| **Equity** | | | |
| **Capital and reserves** | | | |
| Share capital | 15 | 2,206,391 | 2,206,548 |
| Share premiums | 15 | 493 | 734 |
| Legal reserves | | 596,146 | 596,146 |
| Other reserves | 16 | 1,304,934 | 1,278,359 |
| Retained earnings | | 2,670,470 | 2,337,168 |
| | | **6,778,434** | **6,418,955** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 17 | 29,541 | 223 |
| Retirement benefit obligations | 18 | 16,560 | 15,567 |
| Deferred tax liabilities | 19 | 7,868 | 27,521 |
| | | **53,969** | **43,311** |
| **Current liabilities** | | | |
| Trade and other payables | 20 | 974,059 | 999,113 |
| Income tax | | 2,495 | 7 |
| Borrowings | 17 | 435,423 | 391,891 |
| | | **1,411,977** | **1,391,011** |
| **Total liabilities** | | **1,465,946** | **1,434,322** |
| **Total equity and liabilities** | | **8,244,380** | **7,853,277** |

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

These financial statements have been approved for issue by the Managing Board on 22 February 2012.

Approved by:

Zhivko Mukaetov
General Manager

Cvetanka Simonovska
Finance Manager

(In thousands of Denar)

## INCOME STATEMENT

| | Notes | Year ended 31 December 2011 | 2010 |
|---|---|---|---|
| Sales | 5 | 5,570,571 | 5,142,517 |
| Cost of sales | | (2,822,943) | (2,537,517) |
| **Gross profit** | | **2,747,628** | **2,605,000** |
| Research and development expenses | | (45,543) | (76,484) |
| Selling and marketing expenses | | (1,793,936) | (1,574,837) |
| Administrative expenses | | (292,637) | (257,817) |
| Provision for other liabilities and charges | 21 | (993) | (2,693) |
| Other income | 22 | 153,044 | 151,829 |
| Other expense | 23 | (100,964) | (202,010) |
| **Operating profit** | | **666,599** | **642,988** |
| Finance expenses | 26 | (29,618) | (31,915) |
| **Profit before income tax** | | **636,981** | **611,073** |
| Income tax | 27 | (31,431) | (29,495) |
| **Profit for the year** | | **605,550** | **581,578** |
| **Earnings per share (in Denar)** | | | |
| - Basic | 28 | 425.66 | 408.79 |

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

(In thousands of Denar)

## STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Year ended 31 December 2011 | 2010 |
|---|---|---|---|
| **Profit for the year** | | **605,550** | **581,578** |
| **Other comprehensive income:** | | | |
| Fair value of investments | 16 | (946) | (85) |
| Deferred tax | 16 | - | (14,033) |
| **Other comprehensive income, net of tax** | | **(946)** | **(14,118)** |
| **Total comprehensive income for the year** | | **604,604** | **567,460** |

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

**(In thousands of Denar)**

## STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premiums | Legal reserves | Other reserves | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **As at 1 January 2010** | **2,206,548** | **734** | **596,146** | **1,369,508** | **1,924,380** | **6,097,316** |
| Fair value of investments (Note 9) | - | - | - | (85) | - | **(85)** |
| Deferred taxes (Note 19) | - | - | - | (14,033) | - | **(14,033)** |
| Dividends and tax of paid dividend and other allocation of profit (Note 29) | - | - | - | - | (251,398) | **(251,398)** |
| Revaluation transfer (Note 16) | - | - | - | (77,031) | 77,031 | **-** |
| Return of unpaid dividends | - | - | - | - | 5,577 | **5,577** |
| Profit for the year | - | - | - | - | 581,578 | **581,578** |
| **As at 31 December 2010** | **2,206,548** | **734** | **596,146** | **1,278,359** | **2,337,168** | **6,418,955** |
| Purchase of treasury shares | (157) | (241) | - | - | - | **(398)** |
| Fair value of investments (Note 9) | - | - | - | (946) | - | **(946)** |
| Deferred taxes (Note 19) | - | - | - | 27,521 | - | **27,521** |
| Dividends and tax of paid dividend and other allocation of profit (Note 29) | - | - | - | - | (275,071) | **(275,071)** |
| Return of unpaid dividends | - | - | - | - | 2,823 | **2,823** |
| Profit for the year | - | - | - | - | 605,550 | **605,550** |
| **As at 31 December 2011** | **2,206,391** | **493** | **596,146** | **1,304,934** | **2,670,470** | **6,778,434** |

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

(In thousands of Denar)

## CASH FLOW STATEMENT

| | Year ended 31 December | |
|---|---|---|
| | **2011** | **2010** |
| **Cash flow from operating activities** | | |
| Cash receipts from customers | 5,589,893 | 4,787,619 |
| Cash paid to suppliers and employees | (4,983,217) | (4,249,895) |
| **Cash generated from operations** | **606,676** | **537,724** |
| Interest received | 567 | 151 |
| **Net cash generated from operating activities** | **607,243** | **537,875** |
| **Cash flow from investing activities** | | |
| Purchases of property, plant and equipment | (336,866) | (289,172) |
| Purchases of subsidiaries (Note 10) | (31) | (41,055) |
| Dividends received | 40,040 | 34 |
| Other payments to of employees | (48,897) | (3,123) |
| Payments for bank deposits | (20) | - |
| Loans granted to subsidiary undertakings | (18,241) | 16,661 |
| **Net cash used in investing activities** | **(364,015)** | **(316,655)** |
| **Cash flow from financing activities** | | |
| Proceeds from borrowings | 1,254,558 | 1,075,410 |
| Repayments of borrowings | (1,181,311) | (1,096,450) |
| Interest paid | (32,366) | (30,194) |
| Interest from investments in bonds | 333 | 338 |
| Purchase of treasury shares | (398) | - |
| Compensation to shareholders and tax of paid dividend and other allocation of profit | (255,346) | (229,589) |
| **Net cash provided by financing activities** | **(214,530)** | **(280,485)** |
| **Net increase/(decrease) in cash and cash equivalents** | **28,698** | **(59,265)** |
| Cash and cash equivalents at beginning of year | 63,858 | 123,123 |
| **Cash and cash equivalents at the end of year** | **92,556** | **63,858** |

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

## NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Alkaloid AD Skopje (the Company) produces and sells wide range of pharmaceutical, chemical and cosmetic products, as well as goods from herbal origin. The Company has thirteen subsidiaries and one Foundation in the Republic of Macedonia and other countries. For the list of the subsidiaries refer to Note 10.

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

The shares of the 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 financial statements are set out below. These policies have been consistently applied to the year presented.

### 2.1 Basis of preparation of Financial Statements

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 and 24/11), legal entities in Macedonia are required to maintain their books of account and to prepare their financial statements in conformity with the International Financial Reporting Standards officially adopted in the Republic of 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 financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2009 had been translated. In addition, the accompanying financial statements are presented in the format prescribed under the “Guidelines on the Prescribed Form and Content of the Annual Financial Statements (Official Gazette of the Republic of Macedonia, no. 52/11 and 174/11). Such statements represent the complete set of financial statements as defined under the law, which differ from those defined under the provisions of IAS 1, “Presentation of Financial Statements,” and differ in some respects, from the presentation of certain amounts as required under the aforementioned standard. Standards and interpretations in issue but not yet officially translated and adopted and standards and interpretations in issue but not yet in effect are disclosed in Notes 2.2 and 2.3.

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

## NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.1 Basis of preparation of Financial Statements (Continued)

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

All amounts in the Company's financial statements and accompanying notes to the 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 Interpretation in Issue, but not yet Translated and Adopted

As of the financial statements issuance date, the following standards, amendments were issued by the International Accounting Standards Board and Interpretations issued by the International Financial Reporting Interpretations Committee but were not officially adopted and translated in the Republic of Macedonia for the annual accounting periods commencing on or after January 1, 2010:

- **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);

- **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 as from issuance date i.e., September 2010);

NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.2 Standards and Interpretation in Issue, but not yet Translated and Adopted (Continued)

- **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"** 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, (the standard amendments are to be applied for annual periods beginning on or after July 1, 2010 or January 1, 2011 depending on standards/interpretation);

- **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).

### 2.3 Standards and Interpretation in Issue not yet in Effect

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015),

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

- **IFRS 11 "Joint Arrangements"** (effective for annual periods beginning on or after 1 January 2013),

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Standards and Interpretation in Issue not yet in Effect (Continued)

- **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 1 July 2011),

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),

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

- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" –** Mandatory Effective Date and Transition Disclosures,

- **Amendments to IAS 1 "Presentation of financial statements" -**Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),

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

- **Amendments to IAS 19 "Employee Benefits" -** Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),

- **Amendments to IAS 32 "Financial instruments: presentation" -** Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),

- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"** (effective for annual periods beginning on or after 1 January 2013).

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 financial statements of compliance with IAS and IFRS, which have been applied in the periods presented in the accompanying financial statements.

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

### 2.4 Subsidiaries

Subsidiaries are all legal entities over which the 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 Company controls another entity. 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. The investments in subsidiaries are recorded at cost less any eventual impairment.

**NOTES TO THE FINANCIAL STATEMENTS**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Segment reporting

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

At 31 December 2011, 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 and suspensions.
- Topical preparations: Ointments, creams, solutions, gels, sprays, vaginal pessaries, suppositories.
- Sterile dosage forms: Parenteral small-volume, eye drops and ointments for eyes.

Besides the capacities for manufacturing finished pharmaceutical products, Alkaloid-Pharmaceuticals 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 programme 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.5 Segment reporting (Continued)

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 Foreign currency translation

**Functional and presentation currency**

The stand alone financial statements are presented in thousands of Macedonian Denar, which is the Company'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 recognized in the income statement. Translation differences of monetary securities denominated in foreign currency classified as available-for-sale are recognized in equity.

### 2.7 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 valuers, 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 Company 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 recognized in other comprehensive income, 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 |

NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.7 Property, plant and equipment (Continued)

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.

The carrying amount of disposed PP&E is eliminated from the 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 income statement.

### 2.8 Intangible assets

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

Amortization is calculated using the straight-line method to allocate the cost of trademarks, licenses and software over their estimated useful lives (5-10 years).

**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. 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.

NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.9 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.

### 2.10 Financial assets

The Company 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 Statement of financial position (Note 2.12).

**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 balance sheet date.

Regular purchases and sales of investments are recognized 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 derecognized 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. The Company 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, because the Company consider that cost approximates their fair value. 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 statement of comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement. Dividends on available-for-sale equity instruments are recognized in the income statement when the Company'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.

NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.10 Financial assets (Continued)

**Available-for-sale financial assets (Continued)**

The Company 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 income statement. Method for evaluation of impairment of trade receivables is explained in Note 2.12.

### 2.11 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 estimated cost of completion and applicable variable selling expenses.

### 2.12 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 Company 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 income statement within ‘Selling and marketing costs’.

### 2.13 Cash and cash equivalents

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

### 2.14 Share capital

Ordinary shares are classified as equity. Purchases of the Company’s equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs 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 are included in equity attributable to the Company’s equity holders.

### 2.15 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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.16 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 at the rate of 10% calculated on the expenses not deductible for tax purposes, adjusted for certain items as defined by the local tax legislation.

**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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.17 Employee benefits

**Pension liabilities**

The Company 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 Company pays contributions into publicly and privately administered pension plans on a mandatory, basis. The Company 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 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 Company pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Company 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 FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.17 Employee benefits (Continued)

**Termination benefits**

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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 Company 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 Company recognizes a liability and an expense for bonuses and profit-sharing, based on a decision of a Managing Board. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### 2.18 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.

### 2.19 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 Company'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 an entity 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 Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

**Dividend income**

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

## NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.20 Dividends

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

### 2.21 Comparative figures

In order to maintain consistency with the current year presentation, where appropriate certain items have been reclassified for comparative purposes. Such reclassifications, however, have not resulted in significant changes of the content and format of the financial information as presented in the accompanying consolidated financial statements.

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

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

**Market risk**

**a) Foreign exchange risk**

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

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

**b) Price risks**

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

**Credit risk**

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

**Liquidity risk**

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

## NOTES TO THE FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT (Continued)

### Interest risk

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

The Company's interest rate risk arises from borrowings. The Company has no specific policy, but in direct negotiation with lenders attempts to reduce interest rate risk. Interest rates of long-term borrowings are significantly lower than short term. Interest rates on short term borrowings are increased 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 Company is the last traded price.

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

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company 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 Company 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 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 Company 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 Company 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 Company 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 Company and as a percentage of participation in the issuer capital.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

## 4. ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

**Trade receivables**

The Company 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

Segment information reported to the Management Board is based on goods and category of customers.

Principal categories of goods are pharmaceutical and non pharmaceutical products (chemicals cosmetics and botanicals). Principal categories of customers for the goods of the Company are wholesalers.

**Segments revenues and results**

| | Segment revenue | | Segment operating profit | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Pharmaceutical product | 4,445,203 | 4,200,041 | 568,613 | 580,363 |
| Chemical products | 306,192 | 176,476 | 53,450 | 22,591 |
| Cosmetic products | 621,840 | 589,716 | 33,358 | 35,050 |
| Botanical products | 197,336 | 176,284 | 11,178 | 4,984 |
| **Total** | **5,570,571** | **5,142,517** | **666,599** | **642,988** |
| Finance costs | | | (29,618) | (31,915) |
| **Profit before tax** | | | **636,981** | **611,073** |
| Income tax expense | | | (31,431) | (29,495) |
| **Profit for the year** | | | **605,550** | **581,578** |

**Segment assets and liabilities**

**Segment assets**

| | 2011 | 2010 |
|---|---|---|
| Pharmaceutical product | 7,011,380 | 6,741,396 |
| Chemical products | 360,227 | 292,694 |
| Cosmetic products | 518,248 | 499,224 |
| Botanical products | 354,525 | 319,963 |
| **Total assets** | **8,244,380** | **7,853,277** |

**Segment liabilities**

| | 2011 | 2010 |
|---|---|---|
| Pharmaceutical product | 1,253,564 | 1,244,652 |
| Chemical products | 50,971 | 37,639 |
| Cosmetic products | 116,426 | 110,025 |
| Botanical products | 44,985 | 42,006 |
| **Total liabilities** | **1,465,946** | **1,434,322** |

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

## 5. SEGMENT REPORTING (Continued)

### Other segment information

| | Depreciation and amortization | | Addition to non-current assets | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Pharmaceutical product | 263,614 | 234,836 | 487,665 | 267,226 |
| Chemical products | 5,829 | 5,470 | 35,258 | 6,424 |
| Cosmetic products | 10,822 | 10,709 | 19,947 | 4,832 |
| Botanical products | 9,112 | 9,327 | 1,472 | 2,156 |
| **Total liabilities** | **289,377** | **260,342** | **544,342** | **280,638** |

### Geographical information

The Company operates in many countries. The Republic of Macedonia is the domicile country of the Company.

| | Sales revenue | | Non-current assets | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Macedonia | 2,136,659 | 1,972,723 | 4,279,648 | 4,026,895 |
| Serbia | 857,248 | 738,469 | - | - |
| Bosnia and Herzegovina | 603,364 | 612,695 | - | - |
| Croatia | 445,473 | 406,783 | - | - |
| Other countries | 1,527,827 | 1,411,847 | - | - |
| **Total** | **5,570,571** | **5,142,517** | **4,279,648** | **4,026,895** |

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

Non-current assets including PP&E and Intangible assets.

### 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 Chemical products, there is one major customer with participation of 58.5% (2010: 45.8%) in direct sales.

In the sales of Cosmetic products, there is one major customer with participation of 13.7% (2010: 13.5%) in direct sales.

In the sales of Botanical products, there is one major customer with participation of 28.1% (2010: 16.9%) in direct sales.

| **Sales by category** | **2011** | **2010** |
|---|---|---|
| Sales of goods | 5,099,247 | 4,741,236 |
| Sales of commodities | 412,881 | 348,234 |
| Revenue from services | 2,020 | 2,194 |
| Other revenue | 56,423 | 50,853 |
| | **5,570,571** | **5,142,517** |

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Equipment | Construction in progress | Total |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| **At 1 January 2010** | **917,920** | **1,955,604** | **1,813,636** | **29,932** | **4,717,092** |
| Additions | 455 | - | - | 126,198 | 126,653 |
| Transfer from construction in progress | - | 35,324 | 103,335 | (138,659) | - |
| Elimination of cost | (78,537) | - | (16,009) | - | (94,546) |
| **As at 31 December 2010** | **839,838** | **1,990,928** | **1,900,962** | **17,471** | **4,749,199** |
| **Accumulated depreciation** | | | | | |
| **At 1 January 2010** | **-** | **27,243** | **845,646** | **-** | **872,889** |
| Depreciation charge | - | 49,170 | 160,474 | - | 209,644 |
| Elimination of accumulated depreciation | - | - | (13,616) | - | (13,616) |
| **As at 31 December 2010** | **-** | **76,413** | **992,504** | **-** | **1,068,917** |
| **Net book value as at 31 December 2010** | **839,838** | **1,914,515** | **908,458** | **17,471** | **3,680,282** |
| **Cost or valuation** | | | | | |
| **At 1 January 2011** | **839,838** | **1,990,928** | **1,900,962** | **17,471** | **4,749,199** |
| Additions | 100,515 | - | 12,666 | 210,674 | 323,855 |
| Transfer from construction in progress | - | 22,193 | 191,667 | (213,860) | - |
| Elimination of cost | - | - | (8,933) | (46) | (8,979) |
| **As at 31 December 2011** | **940,353** | **2,013,121** | **2,096,362** | **14,239** | **5,064,075** |
| **Accumulated depreciation** | | | | | |
| **At 1 January 2011** | **-** | **76,413** | **992,504** | **-** | **1,068,917** |
| Depreciation charge | - | 50,127 | 171,974 | - | 222,101 |
| Elimination of accumulated depreciation | - | - | (8,770) | - | (8,770) |
| **As at 31 December 2011** | **-** | **126,540** | **1,155,708** | **-** | **1,282,248** |
| **Net book value as at 31 December 2011** | **940,353** | **1,886,581** | **940,654** | **14,239** | **3,781,827** |

The land with surface of 117,888m², in accordance with the latest title deeds issued by AKN is property of Alkaloid AD Skopje. The land with surface of 13,706m² is currently in procedure of transformation in accordance with the Law on Privatization and Lease of State-Owned Construction Land (Official Gazette of RM 4/2005, 13/2007, 165/2008, 146/2009).

According to Decisions U.no.26-198/1 and U.no.26-198/5, issued by the Ministry of Finance - Property and Legal Affairs Office, in accordance with the Law on Privatization and Lease of State-Owned Construction Land (Official Gazette of RM 4/2005, 13/2007, 165/2008 and 146/2009) the state-owned construction land with surface of 210,541m², KO Gjorce Petrov 4 - Vlae, noted in title deed No.9220 by AKN is now property of Alkaloid AD Skopje. The amount of Denar 100,515 thousand was fully paid.

Land and buildings were revaluated on 31 December 2009 by independent valuator. The revaluation surplus/deficit was credited to other reserves in shareholders' equity (Note 16). The revaluation methods used are: market value, cost method and discounted cash flow.

(In thousands of Denar)

## NOTES TO THE 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 2010** | **110,584** | **121,788** | **12,627** | **92,122** | **337,121** |
| Additions | - | 172 | - | 153,813 | 153,985 |
| Transfer from construction in progress | 55,559 | 9,091 | 13,083 | (77,733) | - |
| Elimination of cost | (11) | (11,624) | (10,236) | - | (21,871) |
| **As at 31 December 2010** | **166,132** | **119,427** | **15,474** | **168,202** | **469,235** |
| **Accumulated depreciation** | | | | | |
| **At 1 January 2010** | **25,016** | **58,164** | **10,609** | **-** | **93,789** |
| Depreciation charge | 26,363 | 23,036 | 1,299 | - | 50,698 |
| Elimination of depreciation | (6) | (11,623) | (10,236) | - | (21,865) |
| **As at 31 December 2010** | **51,373** | **69,577** | **1,672** | **-** | **122,622** |
| **Net book value as at 31 December 2010** | **114,759** | **49,850** | **13,802** | **168,202** | **346,613** |
| **Cost or valuation** | | | | | |
| **At 1 January 2011** | **166,132** | **119,427** | **15,474** | **168,202** | **469,235** |
| Additions | 139 | 51 | - | 220,297 | 220,487 |
| Transfer from construction in progress | 68,587 | 145,863 | 6,553 | (221,003) | - |
| Elimination of cost | - | (627) | (20) | (1,356) | (2,003) |
| **As at 31 December 2011** | **234,858** | **264,714** | **22,007** | **166,140** | **687,719** |
| **Accumulated depreciation** | | | | | |
| **At 1 January 2011** | **51,373** | **69,577** | **1,672** | **-** | **122,622** |
| Depreciation charge | 41,299 | 23,387 | 2,590 | - | 67,276 |
| Elimination of depreciation | - | - | - | - | - |
| **As at 31 December 2011** | **92,672** | **92,964** | **4,262** | **-** | **189,898** |
| **Net book value as at 31 December 2011** | **142,186** | **171,750** | **17,745** | **166,140** | **497,821** |

## 8. FINANCIAL INSTRUMENTS

### Capital risk management

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

| | 2011 | 2010 |
|---|---|---|
| Debt | 464,964 | 392,114 |
| Cash and cash equivalents | (92,556) | (63,858) |
| Net debt | 372,408 | 328,256 |
| Equity | 6,778,434 | 6,418,955 |
| Net debt to equity ratio | 5.50 % | 5.11 % |

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

## 8. FINANCIAL INSTRUMENTS (Continued)

**Categories of financial instruments and risk management objectives**

The Company'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 Company is exposed to the following risks:

**Foreign currency risk**

The Company 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 Company 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 Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| EUR | 437,397 | 406,342 | 1,970,299 | 1,897,342 |
| USD | 158,493 | 187,610 | 42,385 | 45,034 |
| CHF | 22,342 | 25,774 | 1,082 | 504 |
| Other currencies | 241 | 267 | 533 | 353 |

The Company is mainly exposed to Euro currency.

The following table details the Company'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 period end. A positive number below indicates an increase in profit and equity, and negative number below indicates a decrease.

| | Increase of 10% in MKD | | Decrease of 10% in MKD | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| EUR | (153,290) | (149,100) | 153,290 | 149,100 |
| USD | 11,611 | 14,258 | (11,611) | (14,258) |
| CHF | 2,126 | 2,527 | (2,126) | (2,527) |
| Other currencies | (29) | (9) | 29 | 9 |
| **Profit and loss and equity** | **(139,582)** | **(132,324)** | **139,582** | **132,324** |

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

**Interest rate risk**

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

The sensitivity analyses below have been determinate 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 an increase in profit and equity, and negative number below indicates a decrease.

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

## 8. FINANCIAL INSTRUMENTS (Continued)

**Foreign currency risk (Continued)**

| | Increase of 10% | | Decrease of 10% | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Borrowings | 2,969 | 3,191 | (2,969) | (3,191) |
| **Profit and loss and equity** | **(2,969)** | **(3,191)** | **2,969** | **3,191** |

If interest rates had been 10% higher the Company's profit for the year ended 31 December 2011 and retained earnings would decrease by Denar 2,969 thousands and opposite if interest rates had been 10% lower the Company's profit for the year ended 31 December 2011 and retained earnings would increase by Denar 2,969 thousands.

**Liquidity risk**

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

The following tables detail the Company's remaining contractual maturity for its financial liabilities.

| 2011 | Less than 1 month | 1 - 3 months | 3 - 12 months | 12 - 60 months | Total |
|---|---|---|---|---|---|
| Trade payables | 696,010 | 117,736 | 1,286 | 22 | 815,054 |
| Borrowings | 675 | 43,036 | 391,712 | 29,541 | 464,964 |
| | **696,685** | **160,772** | **392,998** | **29,563** | **1,280,018** |

| 2010 | Less than 1 month | 1 - 3 months | 3 - 12 months | 12 - 60 months | Total |
|---|---|---|---|---|---|
| Trade payables | 695,754 | 143,759 | 7,655 | - | 847,168 |
| Borrowings | 8,364 | 16,727 | 366,800 | 223 | 392,114 |
| | **704,118** | **160,486** | **374,455** | **223** | **1,239,282** |

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

| 2011 | Less than 1 month | 1 - 3 months | 3 - 12 months | 12 - 60 months | Total |
|---|---|---|---|---|---|
| Trade receivables | 1,320,075 | 698,139 | 212,518 | - | 2,230,732 |
| Available-for-sale financial assets | - | - | - | 4,442 | 4,442 |
| Cash and cash equivalents | 92,556 | - | - | - | 92,556 |
| | **1,412,631** | **698,139** | **212,518** | **4,442** | **2,327,730** |

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

## 8. FINANCIAL INSTRUMENTS (Continued)

### Liquidity risk (Continued)

| 2010 | Less than 1 month | 1 - 3 months | 3 - 12 months | 12 - 60 months | Total |
|---|---|---|---|---|---|
| Trade receivables | 1,290,202 | 762,249 | 190,198 | - | 2,242,649 |
| Available-for-sale financial assets | - | - | - | 5,695 | 5,695 |
| Cash and cash equivalents | 63,858 | - | - | - | 63,858 |
| | **1,354,060** | **762,249** | **190,198** | **5,695** | **2,312,202** |

### 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 Company may be assessed additional taxes, penalties and interest, which can be significant. The period that remains open for review by the tax and customs authorities with respect to tax liabilities is five years.

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2011 | 2010 |
|---|---|---|
| **At 1 January** | **5,695** | **6,394** |
| Additions | 217 | 753 |
| Disposals | (2,416) | (1,537) |
| Fair value adjustment | 946 | 85 |
| **At 31 December** | **4,442** | **5,695** |

**Available-for-sale financial assets consist of:**

| | 2011 | 2010 |
|---|---|---|
| Available-for-sale financial assets in non quoted companies | 2,128 | 2,690 |
| Available-for-sale financial assets in quoted companies | 1,391 | 1,775 |
| Available-for-sale financial assets in bonds | 923 | 1,230 |
| | **4,442** | **5,695** |

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

Investments in bonds relates to state bonds for denationalization - third emission with 2% interest rate p.a. and maturity in 2014.

Available-for-sale financial assets of quoted shares are presented by market value. The unlisted shares that are not traded in an active market are stated at cost, because the Company consider that cost approximates their fair value.

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 10. INVESTMENTS IN SUBSIDIARIES

| | 2011 | 2010 |
|---|---|---|
| Alkaloid DOO Zagreb, Croatia | 14,822 | 14,822 |
| Alkaloid DOO Beograd, Serbia | 43,131 | 43,131 |
| Alkaloid INT DOO Ljubljana, Slovenia | 557 | 557 |
| Alkaloid DOO Sarajevo, Bosnia and Herzegovina | 39 | 39 |
| Alkaloidpharm SA Fribourg, Switzerland | 4,285 | 4,285 |
| Alkaloid EOOD Sofia, Bulgaria | 2,748 | 2,748 |
| ALK&KOS Shpk Prishtina, Kosovo | 307 | 307 |
| Alkaloid Kons DOOEL Skopje, Macedonia | 154 | 154 |
| Alkaloid USA LLC Columbus, Ohio USA | 2,365 | 2,365 |
| Fund “Trajce Mukaetov” Skopje, Macedonia | 3,000 | 3,000 |
| Alkaloid DOO Podgorica, Montenegro | - | - |
| OOO Alkaloid RUS, Moscow, Russia | 619 | 619 |
| Alkaloid FARM DOO Ljubljana, Slovenia | 461 | 461 |
| Alkaloid Veledrogerija DOO Beograd, Serbia | 31 | - |
| | **72,519** | **72,488** |

All subsidiaries are 100% owned by the Company, except investment in Alkaloid USA with the equity share of 49%. During 2010 Alkaloid AD Skopje established a new subsidiary in Slovenia, Alkaloid Farm DOO Ljubljana. The existing subsidiary in Slovenia is rebranded into Alkaloid INT DOO Ljubljana. During 2011 Alkaloid AD Skopje established a new subsidiary in Serbia, Alkaloid Veledrogerija DOO Beograd.

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

### 11. INVENTORIES

| | 2011 | 2010 |
|---|---|---|
| Raw materials | 575,245 | 583,742 |
| Spare parts | 505 | 1,747 |
| Tools and consumable stores | 2,088 | 2,599 |
| Work in progress | 122,694 | 141,069 |
| Finished goods | 447,281 | 405,152 |
| Commodities | 72,299 | 55,948 |
| | **1,220,112** | **1,190,257** |

### 12. TRADE RECEIVABLES

| | 2011 | 2010 |
|---|---|---|
| Trade receivables | 2,347,624 | 2,371,306 |
| Less: provision for impairment of receivables | (116,892) | (128,657) |
| **Trade receivables - net** | **2,230,732** | **2,242,649** |

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 12. TRADE RECEIVABLES (Continued)

Changes in the provision are as follows:

| | 2011 | 2010 |
|---|---|---|
| **At 1 January** | **128,657** | **130,981** |
| Provision for the year | 23,580 | 25,216 |
| Collected bad and doubtful debts | (35,345) | (27,540) |
| **As at 31 December** | **116,892** | **128,657** |

Ageing of impaired trade receivables are as follows:

| | 2011 | 2010 |
|---|---|---|
| Up to 1 year | 35,816 | 45,883 |
| Over 1 year | 81,076 | 82,774 |
| **As at 31 December** | **116,892** | **128,657** |

### 13. OTHER CURRENT ASSETS

| | 2011 | 2010 |
|---|---|---|
| Prepayments | 44,172 | 41,329 |
| Receivables from employees | 15,027 | 15,027 |
| Prepaid VAT | 109,368 | 57,547 |
| Other receivables | 166,976 | 126,975 |
| Less: non-current portion | (35,323) | (37,660) |
| | **300,220** | **203,218** |

Non-current receivables relate to loans to employees and prepayments for property, plant and equipment that are due within 3 years.

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

| | 2011 | 2010 |
|---|---|---|
| Trade receivables | 35,323 | 37,660 |

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

| | 2011 | 2010 |
|---|---|---|
| The effective interest rate | 5.35% | 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.

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 14. CASH AND CASH EQUIVALENTS

| | 2011 | 2010 |
|---|---|---|
| Cash at banks | 90,136 | 60,846 |
| Cash in hands | 2,420 | 3,012 |
| | **92,556** | **63,858** |

### 15. SHARE CAPITAL

| | Number of shares | Ordinary shares | Treasury shares | Total | Share premiums |
|---|---|---|---|---|---|
| **At 1 January 2010** | **1,422,696** | **2,220,127** | **(13,579)** | **2,206,548** | **734** |
| Treasury shares purchased | - | - | - | - | **-** |
| Sale of treasury shares | - | - | - | - | **-** |
| **As at 31 December 2010** | **1,422,696** | **2,220,127** | **(13,579)** | **2,206,548** | **734** |
| Treasury shares purchased | (100) | - | (157) | (157) | **(241)** |
| Sale of treasury shares | - | - | - | - | **-** |
| **As at 31 December 2011** | **1,422,596** | **2,220,127** | **(13,736)** | **2,206,391** | **493** |

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.

During 2011 the Entity acquired 100 of its own shares through Macedonian stock exchange and held as treasury shares. The total number of treasury shares is 8,757. The number of 3,287 shares is reserved for former proprietors of which 3,228 are priority shares and 59 are ordinary shares.

### 16. OTHER RESERVES

| | Property, plant and equipment | Available-for-sale investments | Fund for shares | Total |
|---|---|---|---|---|
| **At 1 January 2010** | **1,124,917** | **(1,047)** | **245,638** | **1,369,508** |
| Revaluation transfer | (77,031) | - | - | **(77,031)** |
| Decrease | - | (85) | - | **(85)** |
| Deferred tax | (14,033) | - | - | **(14,033)** |
| **As at 31 December 2010** | **1,033,853** | **(1,132)** | **245,638** | **1,278,359** |
| Decrease | - | (946) | - | **(946)** |
| Deferred tax | 27,521 | - | - | **27,521** |
| **As at 31 December 2011** | **1,061,374** | **(2,078)** | **245,638** | **1,304,934** |

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

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

## 16. OTHER RESERVES (Continued)

- Revaluation reserves for Property, plant and equipment are created based on valuation of PP&E. These reserves are not distributable to shareholders.
- The Reserve for Available-for-sale investments is 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 Shareholder assembly and are distributable to shareholders if not utilized.

## 17. BORROWINGS

| | 2011 | 2010 |
|---|---|---|
| Non-current borrowings | 29,541 | 223 |
| Current borrowings | 435,423 | 391,891 |
| | **464,964** | **392,114** |

Bank borrowings in amount of Denar 338,557 thousands are secured by the equipment in amount of Denar 205,863 thousands.

The maturity of the borrowings is as follows:

| | 2011 | 2010 |
|---|---|---|
| Up to 1 year | 435,423 | 391,891 |
| Between 1 to 3 years | 29,541 | 223 |
| | **464,964** | **392,114** |

The borrowings are denominated in following currencies:

| | 2011 | 2010 |
|---|---|---|
| EUR | 123,406 | 41,574 |
| MKD | 341,558 | 350,540 |
| | **464,964** | **392,114** |

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

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | EUR | MKD | EUR | MKD |
| Interest rates | 6 month EURIBOR +3.75% | 6.5 - 7% | 7% | 7 – 8.5% |

## 18. RETIREMENT BENEFIT OBLIGATIONS

| | 2011 | 2010 |
|---|---|---|
| Retirement benefits | **16,560** | **15,567** |

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

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 18. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The amounts recognized in the Income statement are as follows:

| | 2011 | 2010 |
|---|---|---|
| Beginning of the year | 15,567 | 12,875 |
| Increase in calculation | 1,121 | 2,887 |
| Retirement benefits | (128) | (195) |
| **As at 31 December** | **16,560** | **15,567** |

The principal actuarial assumptions used were as follows:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | 5.41% | 6.31% |

### 19. DEFERRED TAX

| | 2011 | 2010 |
|---|---|---|
| Deferred tax assets | (8,828) | (10,557) |
| Deferred tax liabilities | 7,868 | 27,521 |
| | **(960)** | **16,964** |

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

| | 2011 | 2010 |
|---|---|---|
| **At 1 January** | **16,964** | **2,200** |
| Deferred tax in Income statement | 9,597 | 731 |
| Deferred tax in Equity | (27,521) | 14,033 |
| **As at 31 December** | **(960)** | **16,964** |

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

| | Accruals | Fair value | Total |
|---|---|---|---|
| **At 1 January 2010** | **(11,288)** | **13,488** | **2,200** |
| Charged to Income statement | 731 | - | 731 |
| Charged to Equity | - | 14,033 | 14,033 |
| **As at 31 December 2010** | **(10,557)** | **27,521** | **16,964** |
| Charged to Income statement | 9,597 | - | 9,597 |
| Charged to Equity | - | (27,521) | (27,521) |
| **As at 31 December 2011** | **(960)** | **-** | **(960)** |

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 19. DEFERRED TAX (Continued)

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

| | 2011 | 2010 |
|---|---|---|
| Retirement benefits | 1,729 | 269 |
| Accrued expenses | 7,868 | 462 |
| | **9,597** | **731** |

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

| | 2011 | 2010 |
|---|---|---|
| Land and buildings | (27,521) | 14,033 |
| | **(27,521)** | **14,033** |

### 20. TRADE AND OTHER PAYABLES

| | 2011 | 2010 |
|---|---|---|
| Trade payables | 815,054 | 847,168 |
| Customer's prepayments | 1,520 | 6,349 |
| Payables to employees | 35,402 | 46,707 |
| Dividends | 4,305 | 3,756 |
| Other payables | 117,778 | 95,133 |
| | **974,059** | **999,113** |

### 21. PROVISION FOR OTHER LIABILITIES AND CHARGES

| | 2011 | 2010 |
|---|---|---|
| Provision for retirement benefits | 993 | 2,693 |
| | **993** | **2,693** |

### 22. OTHER INCOME

| | 2011 | 2010 |
|---|---|---|
| Collected written-off receivables | 2,919 | 12,789 |
| Dividends income | 40,040 | 34 |
| Interest income | 924 | 251 |
| Foreign exchange transaction gains | 49,559 | 68,025 |
| Other income | 59,602 | 70,730 |
| | **153,044** | **151,829** |

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 23. OTHER EXPENSE

| | 2011 | 2010 |
|---|---|---|
| Interest expenses | 1,164 | 797 |
| Foreign exchange transaction loss | 58,028 | 80,393 |
| Other expenses | 41,772 | 120,820 |
| | **100,964** | **202,010** |

### 24. EXPENSES BY NATURE

| | 2011 | 2010 |
|---|---|---|
| Raw materials | 1,627,731 | 1,436,595 |
| Employee benefit expense | 836,428 | 867,145 |
| Depreciation and amortization | 289,377 | 260,342 |
| Utilities | 169,154 | 137,697 |
| Impairment of trade receivables | 23,580 | 25,216 |
| Transportation | 102,322 | 86,024 |
| Changes in the inventories | (60,232) | (55,321) |
| Other expenses | 1,966,699 | 1,688,957 |
| | **4,955,059** | **4,446,655** |

### 25. EMPLOYEE BENEFIT EXPENSE

| | 2011 | 2010 |
|---|---|---|
| Gross salaries | 671,610 | 718,898 |
| Other employees benefits | 164,818 | 148,247 |
| | **836,428** | **867,145** |
| **Number of employees at 31 December** | **1,070** | **1,035** |

### 26. FINANCE EXPENSES

| | 2011 | 2010 |
|---|---|---|
| Net foreign exchange transaction gains/(losses) on borrowings | 67 | (7) |
| Interest expense on borrowings | (29,685) | (31,908) |
| | **(29,618)** | **(31,915)** |

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 27. INCOME TAX

| | 2011 | 2010 |
|---|---|---|
| Current income tax | 21,834 | 28,764 |
| Deferred income tax (Note 19) | 9,597 | 731 |
| | **31,431** | **29,495** |

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

| | 2011 | 2010 |
|---|---|---|
| **Profit before tax** | **636,981** | **611,073** |
| Tax on expenses not deductible for tax purposes | 31,126 | 40,988 |
| Tax allowances | (9,292) | (12,224) |
| Deferred tax in income statement | 9,597 | 731 |
| | **31,431** | **29,495** |

As a result of the anti-crisis measures, Income tax law was amended in 2009, whereas the profit for the year ended 2009 is not taxable and the rate of 10% is applied only on the expenses not deductible for tax purposes.

### 28. EARNINGS PER SHARE

| | 2011 | 2010 |
|---|---|---|
| **Basic earnings per share** | | |
| Profit attributable to shareholders (in Denar) | 605,550,300 | 581,577,640 |
| Average number of shares | 1,422,596 | 1,422,696 |
| **Basic earnings per share (in Denar)** | **425.66** | **408.79** |

### 29. DIVIDENDS

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

The dividends approved by shareholders on 18 April 2011 were Denar 238,564 thousands. Tax of paid dividend and other allocation of profit was amounting Denar 36,507 thousands. Approved dividends in 2011 in respect of 2010 are paid and 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 7,406 thousands; (2010: Denar 104,536 thousands).

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

## 31. CONTINGENCIES

The Company has contingent liabilities with respect to issued guaranties to third parties in the amount of Denar 27,188 thousands (2010: Denar 32,332 thousands).

## 32. RELATED PARTY TRANSACTIONS

The Company has no ultimate parent. The shares are widely held. Alkaloid AD Skopje has investments in subsidiaries stated in Note 10 above. Sales and purchases of goods and services between related parties are based on regular market terms and prices. The transactions with the related parties are stated below:

**Sale of goods and services**

| | 2011 | 2010 |
|---|---|---|
| Alkaloid DOO Zagreb, Croatia | 356,593 | 300,355 |
| Alkaloid DOO Belgrade, Serbia | 141,715 | 99,117 |
| Alkaloid EOOD Sofia, Bulgaria | 762 | 207 |
| Alkaloid DOO Ljubljana, Slovenia | 201,842 | 207,684 |
| ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo | 246,832 | 196,152 |
| Alkaloid Kons DOOEL Skopje, Macedonia | 18,220 | 24,155 |
| OOO Alkaloid RUS, Moscow, Russia | 366,050 | 240,038 |
| Alkaloidpharm SA Fribourg, Switzerland | 411 | - |
| Alkaloid DOO Sarajevo, Bosnia and Herzegovina | 209 | 652 |
| | **1,332,634** | **1,068,360** |

**Purchase of goods and services**

| | 2011 | 2010 |
|---|---|---|
| Alkaloidpharm SA Fribourg, Switzerland | 95,202 | 208,299 |
| Alkaloid DOO Zagreb, Croatia | 2,198 | 3,538 |
| Alkaloid DOO Belgrade, Serbia | 157,604 | 147,289 |
| Alkaloid DOO Sarajevo, Bosnia and Herzegovina | 72,345 | 72,694 |
| Alkaloid EOOD Sofia, Bulgaria | 45,632 | 54,868 |
| Alkaloid DOO Ljubljana INT, Slovenia | 20,950 | 14,976 |
| ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo | 40,026 | 38,392 |
| Fund “Trajce Mukaetov” Skopje, Macedonia | 8,555 | 7,511 |
| Alkaloid Kons DOOEL Skopje, Macedonia | 58 | - |
| Alkaloid DOO Podgorica, Montenegro | 34,225 | 31,141 |
| OOO Alkaloid RUS, Moscow, Russia | 320,586 | 150,189 |
| Alkaloid DOO Ljubljana FARM, Slovenia | 19,689 | - |
| | **817,070** | **728,897** |

(In thousands of Denar)

NOTES TO THE FINANCIAL STATEMENTS

## 32. RELATED PARTY TRANSACTIONS (Continued)

Balances and transactions between the Company and its subsidiaries arising from the sales and purchases of goods and services, advances and other transactions are presented below:

**Accounts receivables**

| | 2011 | 2010 |
|---|---|---|
| Alkaloidpharm SA Fribourg, Switzerland | - | - |
| Alkaloid DOO Zagreb, Croatia | 122,693 | 67,675 |
| Alkaloid DOO Belgrade, Serbia | 78,402 | 71,657 |
| Alkaloid DOO Sarajevo, Bosnia and Herzegovina | - | 805 |
| Alkaloid EOOD Sofia, Bulgaria | 562 | 309 |
| Alkaloid DOO Ljubljana, Slovenia | 40,195 | 59,886 |
| ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo | 85,314 | 62,756 |
| Alkaloid Kons DOOEL Skopje, Macedonia | 2,168 | 60,117 |
| OOO Alkaloid RUS, Moscow, Russia | 607,644 | 602,601 |
| | **936,978** | **925,806** |

**Accounts payables**

| | 2011 | 2010 |
|---|---|---|
| Alkaloidpharm SA Fribourg, Switzerland | 181,068 | 213,471 |
| Alkaloid DOO Zagreb, Croatia | 253 | 4,114 |
| ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo | 4,429 | 7,280 |
| Alkaloid DOO Belgrade, Serbia | 23,323 | 20,055 |
| Alkaloid DOO Sarajevo, Bosnia and Herzegovina | 3,598 | 4,566 |
| Alkaloid EOOD Sofia, Bulgaria | 6,765 | 4,772 |
| Alkaloid DOO Ljubljana, Slovenia | 10,377 | 36,684 |
| OOO Alkaloid RUS, Moscow, Russia | 31,307 | 63,657 |
| Alkaloid Kons DOOEL Skopje, Macedonia | - | 739 |
| Alkaloid DOO Podgorica, Montenegro | 2,932 | 2,797 |
| | **264,052** | **358,135** |

| **Short-term loans** | **2011** | **2010** |
|---|---|---|
| Alkaloid Kons DOOEL Skopje, Macedonia | 36,439 | 17,409 |
| Alkaloid DOO Belgrade, Serbia | 13,615 | 12,982 |
| OOO Alkaloid RUS, Moscow, Russia | 47,435 | 45,195 |
| | **97,489** | **75,586** |

(In thousands of Denar)

## NOTES TO THE FINANCIAL STATEMENTS

### 32. RELATED PARTY TRANSACTIONS (Continued)

**Key management compensations**

No compensations were paid to the Management Board members. In 2011, the amount of Denar 4,032 thousands was paid to the Supervision Board members (2010: Denar 3,584 thousands).

### 33. EXCHANGE RATES OF PRINCIPAL CURRENCIES

Closing rates:

| | **31.12.2011** | **31.12.2010** |
|---|---|---|
| EUR | 61.50 | 61.50 |
| USD | 47.53 | 46.31 |
| CHF | 50.60 | 49.30 |