ALKALOID AD SKOPJE
SEPARATE FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2019

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

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

INDEPENDENT AUDITORS’ REPORT

TO THE SHAREHOLDERS AND THE MANAGEMENT BOARD OF ALKALOID AD SKOPJE

We have audited the accompanying separate financial statements (page 3 to 42) of ALKALOID AD Skopje (the “Company”), which comprise the separate statement of financial position as at December 31, 2019, and the separate statement of comprehensive income, separate statement of changes in equity and separate 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 separate financial statements in accordance with the accounting regulations prevailing in the Republic of North Macedonia, and for such internal control as management determines is necessary to enable the preparation of separate 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 separate financial statements based on our audit. We conducted our audit in accordance with the Law on Auditing and the applicable auditing standards in the Republic of North Macedonia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements present fairly, in all material respects, the financial position of Alkaloid AD Skopje as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with the accounting regulations prevailing in the Republic of North Macedonia.

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Report on other legal and regulatory requirements

Management is responsible for the preparation of the Company's separate annual report (Appendix 1 to the financial statements) and the Company's separate annual account (Appendix 2 to the financial statements) in accordance with the Company Law, which were adopted and approved by the management as of February 7, 2020 and for which the Company is obliged to submit to the Central Register of the Republic of North Macedonia. Our responsibility is to express an opinion on the consistency of the separate annual report with the separate annual account and the separate financial statements of the Company. We have performed our audit procedures in accordance with the Audit Law and International Standard on Auditing 720 – The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements, as applicable in the Republic of North Macedonia. In our opinion, the historical financial information disclosed in the separate annual report is consistent with the separate annual account and the accompanying audited separate financial statements of the Company for the year ended December 31, 2019.

Lidija Nanus
Certified Auditor
Director

Jane Ivanov
Certified Auditor

March 5, 2020

Deloitte DOO Skopje

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

(In thousands of Denar)

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2019	As at 31 December 2018 (restated)
Assets			
Non-current assets			
Property, plant and equipment	6	5,196,692	4,189,647
Intangible assets	7	1,729,210	1,598,027
Deferred tax assets	19	-	17,817
Available-for-sale financial assets	9	7,411	6,819
Investments in subsidiaries	10	509,977	374,691
Other non-current assets	13	114,566	13,056
		7,557,856	**6,200,057**
Current assets			
Inventories	11	2,369,208	2,110,233
Trade receivables	12	2,435,007	2,033,479
Other receivables	13	172,762	201,845
Cash and cash equivalents	14	139,182	189,540
		5,116,159	**4,535,097**
Total assets		**12,674,015**	**10,735,154**
Equity			
Capital and reserves			
Share capital	15	2,186,382	2,197,095
Share premiums		(65,060)	-
Legal reserves		596,146	596,146
Other reserves	16	1,686,780	879,136
Retained earnings		5,686,873	5,115,593
		10,091,121	**8,787,970**
Non-current liabilities			
Non-current borrowings	17	288,057	218,935
Retirement benefit obligations	18	39,523	29,460
		327,580	**248,395**
Current liabilities			
Trade and other payables	20	1,949,435	1,554,327
Income tax		47,392	13,506
Current borrowings	17	258,487	130,956
		2,255,314	**1,698,789**
Total liabilities		**2,582,894**	**1,947,184**
Total equity and liabilities		**12,674,015**	**10,735,154**

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

These separate financial statements were approved by the Company's Managing Board on 7 February 2020.

Approved and signed on behalf of Alkaloid AD Skopje by:

Zhivko Mukaetov
General Manager

Viktor Stojcevski
Finance Manager

(In thousands of Denar)

SEPARATE STATEMENT OF PROFIT OR LOSS

	Notes	Year ended 31 December 2019	2018
Sales	5	8,428,009	7,506,114
Cost of sales	24	(5,078,027)	(4,604,215)
Gross profit		**3,349,982**	**2,901,899**
Research and development expenses	24	(109,931)	(86,125)
Selling and marketing expenses	24	(1,723,781)	(1,638,232)
Administrative expenses	24	(420,697)	(371,897)
Provision for other liabilities and charges	21	(10,063)	(292)
Other income	22	246,610	378,642
Other expense	23	(191,815)	(255,981)
Operating profit		**1,140,305**	**928,014**
Finance expenses (net)	26	(11,517)	(11,174)
Profit before income tax		**1,128,788**	**916,840**
Income tax	27	(120,977)	(68,641)
Profit for the year		**1,007,811**	**848,199**
Earnings per share (in Denar)			
- Basic	28	712.16	598.75

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

(In thousands of Denar)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Notes	**2019**	**2018**
Profit for the year		**1.007.811**	**848,199**
Other comprehensive income:			
Fair value gain on investments	16	592	1,709
Effects from revaluation of land	6	823.836	-
Other comprehensive income, net of tax		**824.428**	**1,709**
Total comprehensive income for the year		**1.832.239**	**849,908**

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

(In thousands of Denar)

SEPARATE STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Legal reserves	Other reserves	Retained earnings	Total
As at January 1, 2018	**2,197,095**	**-**	**596,146**	**1,122,110**	**4,776,836**	**8,692,187**
Dividend payment and tax on dividend paid out	-	-	-	-	(382,485)	**(382,485)**
Correction from previous years	-	-	-	-	3,685	**3,685**
Profit for the year	-	-	-	-	848,199	**848,199**
Statement of comprehensive income						
Fair value gain on investments (Note 9)	-	-	-	1,709	-	**1,709**
	-	-	-	1,709	-	**1,709**
As at December 31, 2018	**2,197,095**	**-**	**596,146**	**1,123,819**	**5,246,235**	**9,163,295**
Effects from changes in accounting policy (Note 2.1, 2.7, 6 and 16)	-	-	-	(244,683)	(130,642)	(375,325)
As at 31 December 2018 (restated)	**2,197,095**	**-**	**596,146**	**879,136**	**5,115,593**	**8,787,970**
Purchase of treasury shares	(10,713)	-	-	-	-	(75,773)
Dividend payment and tax on dividend paid out	-	(65,060)	-	-	(453,315)	(453,315)
Other reconciliation	-	-	-	(16,784)	16,784	-
Profit for the year	-	-	-	-	1,007,811	1,007,811
		-				
Statement of comprehensive income						
Fair value gain on investments (Note 9)	-		-	592	-	592
Revaluation of land (Note 2.7, 6 and 16)		-		823,836		823,836
	-	-	-	824,428	-	824,428
		-				
As at December 31, 2019	**2,186,382**		**596,146**	**1,686,780**	**5,686,873**	**10,091,121**

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

(In thousands of Denar)

SEPARATE STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2019	2018
Cash flows from operating activities		
Cash receipts from customers	8,090,095	7,413,130
Cash paid to suppliers and employees	(6,883,778)	(6,067,817)
Cash generated from operations	**1,206,317**	**1,345,313**
Cash flows from investing activities		
Purchases of property, plant and equipment	(862,848)	(851,685)
Sales of property, plant and equipment	-	-
Investments in subsidiaries (Note 10)	(135,286)	-
Dividends received	69,464	162,256
Subsidies received	85,831	35,293
Other payments to employees	(65,162)	(63,980)
Net cash used in investing activities	**(908,001)**	**(718,116)**
Cash flows from financing activities		
Proceeds from borrowings	1,553,535	1,235,510
Repayments of borrowings	(1,363,716)	(1,359,396)
Interest paid	(9,405)	(12,096)
Purchase of treasury shares	(75,773)	
Dividends paid to shareholders, tax on dividends paid out and other profit allocations	(453,315)	(378,895)
Net cash used in financing activities	**(348,674)**	**(514,877)**
Net (decrease)/increase in cash and cash equivalents	**(50,358)**	**112,320**
Cash and cash equivalents at beginning of year	189,540	77,220
Cash and cash equivalents at the end of year	**139,182**	**189,540**

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation and Presentation of Financial Statements

Pursuant to the provisions of the Company Law (Official Gazette of the Republic of North Macedonia no. 28/04, 84/05, 71/06, 25/07, 87/08, 17/09, 23/09, 42/10, 48/10, 8/11, 21/11, 24/11, 166/12, 70/13, 119/13, 120/13, 187/13, 38/14, 41/14, 138/14, 88/15, 192/15, 6/16, 30/16, 61/16, 64/18 , 120/18, 195/2018, 225/2018 and 239/2018) 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 North Macedonia.

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation and Presentation 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 are stated in thousands of Macedonian Denars (MKD). The Denar is the official reporting currency in the Republic of North Macedonia.

Voluntary change in accounting policy

According to the previous accounting policy, buildings and a portion of equipment were subsequently measured at fair value, based on the appraisal performed by external independent appraisers, less accumulated depreciation and any accumulated impairment losses. The new accounting policy for subsequent measurement of the buildings at cost, less any accumulated depreciation and any accumulated impairment losses, was adopted on 30 September 2019 and has been applied retrospectively. The Company reversed the effects of the appraisals of the buildings from previous years. Due to the extensive expansion of new investments in property, plant and equipment which is followed by complete renewal of the business premises and plants, the management judgement is that the change in accounting policy will result in more relevant and more reliable financial information because it deals more accurately with the components of property, plant and equipment and is based on up-to-date values. Refer to Note 2.8 for the full detail of the new accounting policy.

The Company restated the separate statement of financial position and changes were made as a corrections in the financial statements for the previous year. Property, plant and equipment as of 31 December 2018 had decreased by Denar 375,325 thousand. Other reserves have decreased by Denar 244,683 thousand and retained earnings decreased by Denar 130,642 thousand.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation and Presentation of Financial Statements (Continued)

The effects on the separate statement of financial position as of 31 December 2018 is as follows:

	31.12.2018 (before change in accounting policy)	Net effect of adjustments	31.12.2018 (restated)
Assets			
Non-current assets			
Property, plant and equipment	4,564,972	(375,325)	4,189,647
Intangible assets	1,598,027	-	1,598,027
Deferred tax assets	17,817	-	17,817
Investments in available-for –sale securities	6,819	-	6,819
Investments in subsidiaries	374,691	-	374,691
Other non-current assets	13,056	-	13,056
	6,575,382	**(375,325)**	**6,200,057**
Current assets			
Inventories	2,110,233	-	2,110,233
Trade receivables	2,033,479	-	2,033,479
Other current assets	201,845	-	201,845
Cash and cash equivalents	189,540	-	189,540
	4,535,097	**-**	**4,535,097**
Total assets	**11,110,479**	**(375,325)**	**10,735,154**
Equity			
Capital and reserves			
Share capital	2,197,095	-	2,197,095
Legal reserves	596,146	-	596,146
Other reserves (Note 17)	1,123,819	(244,683)	879,136
Retained earnings	5,246,235	(130,642)	5,115,593
	9,163,295	**(375,325)**	**8,787,970**
Liabilities			
Non-current liabilities			
Non-current borrowings	218,935	-	218,935
Retirement benefit obligations	29,460	-	29,460
	248,395	**-**	**248,395**
Current liabilities			
Trade and other payables	1,554,327	-	1,554,327
Income tax	13,506	-	13,506
Current borrowings	130,956	-	130,956
	1,698,789	**-**	**1,698,789**
Total liabilities	**1,947,184**	**-**	**1,947,184**
Total equity and liabilities	**11,110,479**	**(375,325)**	**10,735,154**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of Preparation and Presentation of Financial Statements (Continued)

Statement of Separate Comprehensive Income

The policy has not been applied retrospectively in the separate statement of comprehensive income for 2018, since current depreciation in the amount of Denar 19,562 thousand would not have a material effect on consolidated financial statements for 2018. Accordingly, the adoption of the new policy has no material effects on prior years' consolidated statement of comprehensive income.

Statement of Separate Cash Flows

The restatement of property, plant and equipment had not driven change in the total cash flows from operating activities, total cash flows from investing activities or total cash flows from financing activities for the year ended December 31, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 3.

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

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

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009;
- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 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 SEPARATE FINANCIAL STATEMENTS

2. BASIS FOR PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Standards and Interpretations Issued, but not yet Translated and Adopted in the Republic of North 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);
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. BASIS FOR PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)" resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013);
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 "Separate Financial Statements" – Investment Entities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 32 "Financial instruments: Presentation" - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014);
- IFRIC 21 "Levies" (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after July 1, 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 July1, 2014);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. BASIS FOR PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

- 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 July 1, 2014);
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016);
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealized Losses (effective for annual periods beginning on or after January 1, 2017);
- Amendments to IFRS 12 due to “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after January 1, 2017);
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2018);
- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 2 “Share-based Payment” - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 4 “Insurance Contracts” - Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 “Financial Instruments” is applied first time);

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. BASIS FOR PRESENTATION OF FINANCIAL STATEMENTS (Continued)

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

- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after January 1, 2018);
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018);
- IFRS 16 "Leases" (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019);
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after January 1, 2019).

2.3 Standards and Interpretation Issued but not yet Effective in the Current Period

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. BASIS FOR PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Standards and Interpretation Issued but not yet Effective in the Current Period (Continued)

- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” - Interest Rate Benchmark Reform (effective for annual periods beginning on or after January 1, 2020);
- Amendments to IAS 1 “Presentation of Financial Statements” - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after January 1, 2022).

The presentation of the separate 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 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 Company. The cost of acquisition is measured at fair value of the assets given. The investments in subsidiaries are recorded at cost less any eventual impairment.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Managing Board. The Managing Board is responsible for strategic decisions for each segment. At December 31, 2019, the Company was organized on a worldwide basis into four reportable segments:

- **Pharmaceuticals** - Production and sales of medicines for human use, medicines for veterinary use and pharmaceutical raw materials;
- **Chemicals** - Production and sales of chemicals products;
- **Cosmetics** - Production and sales of cosmetics;
- **Botanicals** - Production and sales of botanicals products.

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

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Segment reporting (Continued)

Alkaloid Chemical products today are developed program for the production of chemicals and organic and non-organic reagents, with pa, puriss, purum and with pharmacopeias 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 the 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's net financial assets 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 managing board for decision making purposes in the field of resource allocation and assessment of segment performance.

2.6 Foreign currency translation

Functional and presentation currency

The separate 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 differences resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Property, plant and equipment

Following the accounting policy alteration (Note 2.1) the property plant and equipment, except the land, are initially recorded at cost. Land, buildings and a portion of equipment are subsequently stated at fair value, based on the appraisal performed by external independent appraisers, less accumulated depreciation. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition.

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

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

The carrying amount of disposed property, plant and equipment items is eliminated from the separate statement of financial position together with the carrying amount of accumulated depreciation. Gains and/or losses on disposals are determined as the difference between the proceeds on disposal and the carrying amount of the assets and included in the separate income statement.

2.8 Intangible assets

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 SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Intangible assets (Continued)

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives, i.e. up to10 years. The estimated useful life and amortization method are reviewed at the end of each reporting period.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development is recognized if, and only if, all of the following have been demonstrated:

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

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

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

Patents

Patents are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

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.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, except for the impairment losses of the financial assets, calculated interests using the effective interest method and foreign exchange differences which are recognized in the profit and loss statement.

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.

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. The method for evaluation of impairment of trade receivables is explained in Note 2.12.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The 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 balances held on bank accounts and cash 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 reporting sheet date.

2.16 Trade and other payables

All financial liabilities are measured subsequently at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Income tax

Current income tax is calculated and paid in accordance with the Income tax Law. The estimated tax liability is paid in advance on a monthly basis. The final tax is payable at the rate of 10% applicable to the taxable income, which is the profit as determined in the Statement of comprehensive income adjusted for certain tax deductible 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 reported in the separate financial statements. However, the deferred income tax is not accounted for, if arising from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax is provided on temporary differences arising on investments in subsidiaries excepts where timing of the reversal of temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 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 separate 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 SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

2.19 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.

2.20 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 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 a 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 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 SEPARATE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Dividends

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

2.22 Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the separate statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss in the period in which they become receivable.

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 sufficient cash in foreign currencies held on bank accounts in order to maintain its future commercial transactions.

b) Price risks

The Company is exposed to equity securities price risk because of Investments in equity instruments 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 a large number of balances. The Company has policies that limit the amount of credit exposure.

NOTES TO THE SEPARATE 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 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 lower than short term. Interest rates on short term borrowings are decreased in respect of previous year.

3.2 Fair value assessment

The fair value of 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 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 assumptions of the Company are based on past experience and other factors, including the expectation of future events that are probable at the reporting date.

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:

Depreciation and amortization rates

The calculation of depreciation and amortization rates are based on the economic useful life of property, plant and equipment. Based on the current estimates, the Company assesses the economic useful life of property, plant and equipment on annual basis.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

4. ACCOUNTING ESTIMATES AND JUDGMENTS

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 on the Macedonian Stock Exchange 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 taking in consideration that this financial assets are insignificant both in the books in the Company and as a percentage of participation in the issuer capital.

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 are 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 product types and customer categories.

Principal product types are pharmaceutical and non-pharmaceutical products (chemicals, cosmetics and botanicals). The principal customer's category for the Company's products are wholesalers.

Segments revenues and results as of 31 December are as follows:

	Segment revenue		Segment operating profit	
	2019	**2018**	**2019**	**2018**
Pharmaceutical product	6,880,030	6,081,354	1,054,874	905,987
Chemical products	257,655	234,075	6,467	14,946
Cosmetic products	878,853	899,451	1,874	4,561
Botanical products	411,471	291,234	77,090	2,520
Total	**8,428,009**	**7,506,114**	**1,140,305**	**928,014**
Finance costs			(11,517)	(11,174)
Profit before tax			**1,128,788**	**916,840**
Income tax expense			(120,977)	(68,641)
Profit for the year			**1,007,811**	**848,199**

Revenue reported above represents revenue generated from external customers.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

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

Segment assets

	2019	2018
Pharmaceutical product	11,577,178	9,942,137
Chemical products	506,549	343,978
Cosmetic products	323,020	274,467
Botanical products	267,268	174,572
Total assets	**12,674,015**	**10,735,154**

Segment liabilities

	2019	2018
Pharmaceutical product	2,195,842	1,600,552
Chemical products	127,221	106,996
Cosmetic products	200,126	200,131
Botanical products	59,705	39,505
Total liabilities	**2,582,894**	**1,947,184**

Other segment information for the year ended December 31 are as follows

	Depreciation and amortization		Addition to non-current assets	
	2019	2018	2019	2018
Pharmaceutical product	566,551	492,832	873,341	1,009,876
Chemical products	14,853	11,104	34,870	13,608
Cosmetic products	27,498	24,127	15,556	11,287
Botanical products	25,285	22,813	26,162	14,189
Total liabilities	**634,187**	**550,876**	**949,929**	**1,048,960**

Geographical information

The Republic of North Macedonia is the domicile country of the Company.

	Sales revenue		Non-current assets	
	2019	2018	2019	2018
Republic of North Macedonia	2,778,870	2,756,152	6,925,902	5,787,674
Serbia	1,480,071	1,503,110	-	-
Bosnia and Herzegovina	807,740	794,301	-	-
Croatia	491,903	467,735	-	-
Other countries	2,869,425	1,984,816	-	-
Total	**8,428,009**	**7,506,114**	**6,925,902**	**5,787,674**

Geographical information about sales revenue is based on the customers' origin.
Non-current assets include property, plant and equipment and Intangible assets.

Information about major customers

The sales of Pharmaceutical products are spread over many countries and customers. There are no major customer shares in the direct sales of Pharmaceutical products.
In the sales of Chemical products, there is one major customer with a share of 27.6% (2018: 20.5%) in direct sales.
In the sales of Cosmetic products, there is one major customer with a share of 16.2% (2018: 16%) in direct sales.
In the sales of Botanical products, there is one major customer with a share of 65% (2018: 42.7%) in direct sales.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

5. SEGMENT REPORTING (Continued)

Sales by category	2018	2018
Sales of goods	6,764,412	6,000,708
Sales of commodities	1,524,582	1,389,210
Revenue from services	139,015	116,196
	8,428,009	**7,506,114**

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Equipment	Construction in progress	Total
Cost or valuation					
At January 1, 2018	**833,525**	**2,125,125**	**3,499,603**	**117,109**	**6,575,362**
Additions	-	-	13,143	662,300	675,443
Transfer from construction in progress	1,978	42,588	561,414	(605,980)	-
Elimination of cost	-	-	(20,505)	-	(20,505)
As at December 31, 2018	**835,503**	**2,167,713**	**4,053,655**	**173,429**	**7,230,300**
Accumulated depreciation					
At January 1, 2018	**-**	**193,011**	**2,169,802**	**-**	**2,362,813**
Depreciation charge	-	60,553	262,144	-	322,697
Elimination of accumulated depreciation	-	-	(20,182)	-	(20,182)
As at December 31, 2018	**-**	**253,564**	**2,411,764**	**-**	**2,665,328**
Net book value as at December 31, 2018	**835,503**	**1,914,149**	**1,641,891**	**173,429**	**4,564,972**
Effects from changes in accounting policy (Note 2.1, 2.23 and 16)	-	1,125,504	-	-	1,125,504
As at 31 December 2018 (restated)	**835,503**	**3,293,217**	**4,053,655**	**173,429**	**8,355,804**
Additions	-	36	24.587	525.993	550.616
Transfer from construction in progress	357	82.786	370.583	(453.726)	-
Revaluation	823.836	-	-	-	823.836
Elimination of cost	-	(707)	(76.976)	(5)	(77.688)
As at December 31, 2019	**1.659.696**	**3.375.332**	**4.371.849**	**245.691**	**9.652.568**
Accumulated depreciation					
At December 31, 2018	**-**	**253,564**	**2,411,764**	**-**	**2,665,328**
Effects from changes in accounting policy (Note 2.1, 2.23 and 16)	-	1.500.829	-	-	1.500.829
As at 31 December 2018 (restated)	**-**	**1.754.393**	**2.411.764**	**-**	**4.166.157**
Depreciation charge	-	81.429	284.628	-	366.057
Elimination of accumulated depreciation	-	(110)	(76.228)	-	(76.338)
As at December 31, 2019	**-**	**1.835.712**	**2.620.164**	**-**	**4.455.876**
Net book value as at December 31, 2019	**1.659.696**	**1.539.620**	**1.751.685**	**245.691**	**5.196.692**

Land was revalued as at 31 December 2019 by an independent appraiser. The revaluation surplus/deficit was credited to other reserves within shareholders' equity (Note 16).

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

7. INTANGIBLE ASSETS

	Trademarks and licenses	Software and Internally generated intangibles	Other assets	Construction in progress	Total
Cost or valuation					
At January 1, 2018	**339,624**	**1,857,603**	**78,025**	**117,761**	**2,393,013**
Additions	-	9,154	-	364,363	373,517
Transfer from construction in progress	19,010	385,306	8,747	(413,063)	-
As at December 31, 2018	**358,634**	**2,252,063**	**86,772**	**69,061**	**2,766,530**
Accumulated depreciation					
At January 1, 2018	**310,776**	**589,387**	**40,161**	**-**	**940,324**
Depreciation charge	15,221	205,335	7,623	-	228,179
As at December 31, 2018	**325,997**	**794,722**	**47,784**	**-**	**1,168,503**
Net book value as at December 31, 2018	**32,637**	**1,457,341**	**38,988**	**69,061**	**1,598,027**
Cost or valuation					
At 1 January 2019	**358,634**	**2,252,063**	**86,772**	**69,061**	**2,766,530**
Additions	-	63,692	-	335,621	399,313
Transfer from construction in progress	6,653	320,949	4,932	(332,534)	-
As at 31 December 2019	**365,287**	**2,636,704**	**91,704**	**72,148**	**3,165,843**
Accumulated depreciation					
At 1 January 2019	**325,997**	**794,722**	**47,784**	**-**	**1,168,503**
Depreciation charge	13,337	246,695	8,098	-	268,130
As at 31 December 2019	**339,334**	**1,041,417**	**55,882**	**-**	**1,436,633**
Net book value as at 31 December 2019	**25,953**	**1,595,287**	**35,822**	**72,148**	**1,729,210**

The net book value of software is Denar 110,053 thousand (2018: Denar 83,109 thousand), and the rest of the amount is internally generated intangibles.

8. FINANCIAL INSTRUMENTS

Capital risk management

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

	2019	2018
Debt	546,544	349,891
Cash and cash equivalents	(139,182)	(189,540)
Net debt	407,362	160,351
Equity	10,091,121	9,163,295
Net debt to equity ratio	4.04%	1.75%

(In thousands of Denar)

NOTES TO THE SEPARATE 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 North Macedonia.

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

	Liabilities		Assets	
	2019	2018	2019	2018
EUR	810,919	709,459	1,814,806	1,601,019
RUR	-	-	648,671	322,572
USD	233,077	166,382	75,000	64,239
CHF	15,155	4,597	337	6,963
Other currencies	910	1,061	942	1,016

The Company is mainly exposed to Euro and Russian Ruble currencies.
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 amount below indicates an increase in profit and equity, while a negative amount indicates a decrease.

	Increase of 10% in MKD		Decrease of 10% in MKD	
	2019	2018	2019	2018
EUR	(100,389)	(89,156)	100,389	89,156
RUR	(64,867)	(32,257)	64,867	32,257
USD	15,808	10,214	(15,808)	(10,214)
CHF	1,482	(237)	(1,482)	237
Other currencies	(3)	5	3	(5)
Impact on the profit or loss and equity	**(147,969)**	**(111,431)**	**147,969**	**111,431**

The Company's sensitivity to foreign currency rates has increased during the current period mainly due to the increase in foreign trade receivables.

Interest rate risk

The Company is exposed to interest risk arising from variable interest rate on borrowings, which depend on the financial market trends.

The sensitivity analyses below have been determined based on the interest rate exposure as a result of a 10% increase or decrease in rates on foreign borrowings at the reporting date. A positive amount below indicates an increase in the profit and equity, while a negative amount indicates a decrease.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk (Continued)

	Increase of 10%		Decrease of 10%	
	2019	2018	2019	2018
Borrowings	1,152	1,114	(1,152)	(1,114)
Profit and loss and equity	**(1,152)**	**(1,114)**	**1,152**	**1,114**

Had the interest rates been 10% higher the Company's profit for the year ended December 31, 2019 and retained earnings would have decreased by Denar 1,152 thousand and vice versa, had the interest rates been 10% lower, the Company's profit for the year ended December 31, 2019 and retained earnings would have increased by Denar 1,152 thousand.

Liquidity risk

The management of the Company has responsibility for maintaining 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 maturities of its financial liabilities.

2019	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**12 - 60 months**	**Total**
Trade payables	946,963	571,976	112,396	7,723	**1,639,058**
Borrowings	7,038	14,092	237,357	288,057	**546,544**
	954,001	**586,068**	**349,753**	**295,780**	**2,185,602**

2018	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**12 - 60 months**	**Total**
Trade payables	723,714	516,157	106,172	**-**	**1,346,043**
Borrowings	-	5,000	125,956	218,935	**349,891**
	723,714	**521,157**	**232,128**	**218,935**	**1,695,934**

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

2019	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**12 - 60 months**	**Total**
Trade receivables	402.807	859.991	1.172.209	**-**	**2.435.007**
Cash and cash equivalents	139.182	**-**	**-**	**-**	**139.182**
	541.989	**859.991**	**1.172.209**	**-**	**2.574.189**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

8. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (Continued)

2018	Less than 1 month	1 - 3 months	3 - 12 months	12 - 60 months	Total
Trade receivables	283,924	778,332	971,223	-	**2,033,479**
Cash and cash equivalents	189,540	-	-	-	**189,540**
	473,464	**778,332**	**971,223**	**-**	**2.223.019**

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. During 2018 the Company's accounting transactions were subject to an inspection by the tax authorities regarding VAT for the period October 1 to October 31, 2018, for which a tax inspection protocol was issued without any findings identified. During 2019 the Company was not subject to inspection by the tax authorities.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2019	2018
At January 1	**6,819**	**5,110**
Additions	592	5,039
Disposals	-	(3,330)
At 31 December	**7,411**	**6,819**

Available-for-sale financial assets consist of:

	2019	2018
Available-for-sale financial assets in non-quoted companies	2,531	2,272
Available-for-sale financial assets in quoted companies	4,880	4,547
	7,411	**6,819**

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 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 SEPARATE FINANCIAL STATEMENTS

10. INVESTMENTS IN SUBSIDIARIES

	2019	2018
Alkaloid DOO Beograd, Serbia	173,256	62,566
Alkaloid DOO Zagreb, Croatia	15,439	15,439
Alkaloid INT DOO Ljubljana, Slovenia	866	866
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	39	39
Alkaloid EOOD Sofia, Bulgaria	2,748	2,748
ALK&KOS Shpk Prishtina, Kosovo	307	307
Alkaloidpharm SA Fribourg, Switzerland	4,285	4,285
Alkaloid USA LLC Columbus, Ohio USA	3,873	3,873
Alkaloid Kons DOOEL Skopje, N. Macedonia	130,154	130,154
Fund “Trajce Mukaetov” Skopje, N. Macedonia	-	3,000
Alkaloid DOO Podgorica, Montenegro	3,000	-
OOO Alkaloid RUS, Moscow, Russia	119,359	119,359
Alkaloid FARM DOO Ljubljana, Slovenia	461	461
Alkaloid Veledrogerija DOO Beograd, Serbia	7,720	7,720
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	2,616	308
Alkaloid ILAC TLS Istanbul, Turkey	308	2,616
ALKA-LAB DOO Ljubljana, Slovenia	43,081	18,485
Alkaloid Shpk Tirana, Albania	308	308
Alkaloid Kiev CO. LTD., Ukraine	2,157	2,157
	509,977	**374,691**

All subsidiaries are solely (100%) owned by the Company, except for the investment in Alkaloid USA which is an equity share of 49%. Although the investment of Alkaloid AD Skopje in Alkaloid USA LLC Columbus, Ohio USA is 49%, the Company exercises control over this entity.

In 2019 the company has increased its investment in two of its subsidiaries, in ALKA-LAB DOO Ljubljana, Slovenia by Denar 24,596 thousand equivalent to EUR 0.4 million and in Alkaloid DOO Beograd, Serbia by Denar 110,690 thousand equivalent to EUR 1.8 million. The both subsidiaries are 100% owned by the Company.

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

11. INVENTORIES

	2019	2018
Raw materials	967,497	950,943
Spare parts	365	400
Tools and consumable supplies	1,675	2,788
Work in progress	357,181	325,423
Finished goods	797,166	604,420
Commodities	245,324	226,259
	2,369,208	**2,110,233**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

12. TRADE RECEIVABLES

	2019	2018
Trade receivables	2,612,053	2,210,306
Less: provision for impairment of receivables	(177,046)	(176,827)
Trade receivables – net	**2,435,007**	**2,033,479**

Changes in the provision are as follows:

	2019	2018
At January 1	**176,827**	**178,849**
Charge for the year	219	321
Write off	-	(1,596)
Collected bad and doubtful debts	-	(747)
As at December 31	**177,046**	**176,827**

Ageing of impaired trade receivables are as follows:

	2018	2018
Up to 1 year	-	-
Over 1 year	177,046	176,827
As at December 31	**177,046**	**176,827**

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

13. OTHER RECEIVABLES

	2019	2018
Prepayments	46,212	40,800
Prepaid taxes	90,329	99,602
Other receivables	36,221	61,443
	172,762	**201,845**

Non-current receivables relates to prepayments for property, plant and equipment that are due in more than 1 year.

The fair values of non-current receivables are as follows:

	2019	2018
Prepayments for property, plant and equipment	114,566	13,056

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

	2019	2018
The effective interest rate	2.75%	3.00%

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

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

14. CASH AND CASH EQUIVALENTS

	2019	2018
Cash balances held with banks	138,550	188,916
Cash in hand	580	624
Other	52	-
	139,182	**189,540**

15. SHARE CAPITAL

	Number of shares	Ordinary shares	Treasury shares	Total	Share premium
At 1 January 2018	**1,416,612**	**2,220,127**	**(23,032)**	**2,197,095**	**-**
Purchase of treasury shares	-	-	-	-	-
As at 31 December 2018	**1,416,612**	**2,220,127**	**(23,032)**	**2,197,095**	**-**
Purchase of treasury shares	(7,016)	-	(10,713)	(10,713)	(65,060)
As at 31 December 2019	**1,409,596**	**2,220,127**	**(33,745)**	**2,186,382**	**(65,060)**

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 2019, the Company acquired 7,016 of its own shares through Macedonian stock exchange and held as treasury shares. The total number of treasury shares is 21,757. The number of 3,287 treasury shares is reserved for former proprietors out 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 January 1, 2018	**892,535**	**659**	**228,916**	**1,122,110**
Increase	-	1,709	-	**1,709**
As at December 31, 2018	**892,535**	**2,368**	**228,916**	**1,123,819**
Effects from changes in accounting policy (Note 2.1, 2.7 and 6)	(244,683)	-	-	**(244,683)**
As at December 31, 2018 (restated)	**647.852**	**2.368**	**228.916**	**879.136**
Increase	-	592	-	**592**
Decrease	(16.784)	-	-	**(16.784)**
Revaluation of land (Note 6)	823.836	-	-	**823.836**
As at December 31, 2019	**1.454.904**	**2.960**	**228.916**	**1.686.780**

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 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 the relevant decisions of the Shareholder assembly and are distributable to shareholders if not utilized.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

17. BORROWINGS

	2019	2018
Non-current borrowings	288,057	218,935
Current borrowings	258,487	130,956
	546,544	**349,891**

The maturity of the borrowings is as follows:

	2019	2018
Up to 1 year	258,487	130,956
Between 1 and 3 years	288,057	218,935
	546,544	**349,891**

The borrowings are denominated in following currencies:

	2019	2018
EUR	131,632	186,725
MKD	414,912	163,166
	546,544	**349,891**

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

	December 31, 2019			**December 31, 2018**		
	EUR	**USD**	**MKD**	**EUR**	**USD**	**MKD**
Interest rates	6 month EURIBOR +2.4 – 2.5%	-	1.9– 2.8%	6 month EURIBOR +2.4 – 2.5%	-	2.2– 2.8%

18. RETIREMENT BENEFIT OBLIGATIONS

	2019	2018
Retirement benefits	39,523	29,460

The retirement benefits are calculated based on the Company’s legal obligation to pay two monthly net salaries to a vesting employee on the retirement date according to the actuarial calculation.

The amounts recognized in the Income statement are as follows:

	2019	2018
As at January 1	**29,460**	**29,168**
Increase in calculation	10,063	292
Decrease in calculation	-	-
As at December 31	**39,523**	**29,460**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

18. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The principal actuarial assumptions used were as follows:

	2019	2018
Discount rate	2.62%	3.98%

19. DEFERRED TAX

	2019	2018
Deferred tax assets	-	17,817
	-	**17,817**

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

	2019	2018
At January 1	**17,817**	**17,817**
Deferred tax included in income statement	(17,817)	-
As at December 31	**-**	**17,817**

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

	Accruals	Fair value	Total
At January 1, 2018	**17,817**	**-**	**17,817**
Charged to the income statement	-	-	-
Realized deferred tax liabilities	-	-	-
As at December 31, 2018	**17,817**	**-**	**17,817**
Charged to the income statement	(17,817)	-	(17,817)
Realized deferred tax liabilities	-	-	-
As at December 31, 2019	**-**	**-**	**-**

20. TRADE AND OTHER PAYABLES

	2019	2018
Trade payables	1.639.058	1,346,043
Customer’s prepayments	2.045	11,973
Payables to employees	71.645	64,136
Dividends	9.304	9,304
Other payables	227.383	122,871
	1.949.435	**1,554,327**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

21. PROVISION FOR OTHER LIABILITIES AND CHARGES

	2019	2018
Provision for retirement benefits	10,063	292
	10,063	**292**

22. OTHER INCOME

	2019	2018
Collected written-off receivables	-	747
Dividends income	69,464	162,256
Interest income	525	211
Foreign exchange transaction gains	115,367	115,624
Other income	61,254	99,804
	246,610	**378,642**

23. OTHER EXPENSES

	2019	2018
Interest expenses	-	3
Foreign exchange transaction losses	77,527	177,658
Write-off of non-current assets	494	-
Write-off of inventories	80,706	55,821
Other expenses	33,088	22,499
	191,815	**255,981**

24. EXPENSES BY NATURE

	2019	2018
Raw materials	2,666,318	2,351,807
Employee benefit expenses	1,559,534	1,377,581
Depreciation and amortization	634,187	550,876
Utilities	163,828	148,304
Impairment of trade receivables	219	321
Transportation	165,529	153,127
Changes in the inventories	(290,645)	(124,834)
Marketing and sponsorship	828,440	791,471
Other expenses	1,605,026	1,451,816
	7,332,436	**6,700,469**

25. EMPLOYEE BENEFIT EXPENSES

	2019	2018
Gross salaries	1,286,885	1,150,069
Other employees benefits	272,649	227,512
	1,559,534	**1,377,581**
Number of employees at December 31	**1,653**	**1,540**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

26. FINANCE EXPENSES

	2019	2018
Net foreign exchange transaction gains/(losses) on borrowings	7	(38)
Interest expense on borrowings	(11,524)	(11,136)
	(11,517)	**(11,174)**

27. INCOME TAX

	2019	2018
Current income tax	103,160	68,641
Deferred income tax (Note 19)	17,817	-
	120,977	**68,641**

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

	2019	2018
Profit before tax	**1,128,788**	**916,840**
Tax calculated at tax rate of 10%	112,879	91,684
Income not subject to tax	-	(2,048)
Tax on expenses not deductible for tax purposes	42,745	29,991
Tax allowances	(52,464)	(50,986)
Deferred income tax	17,817	-
	120,977	**68,641**

28. EARNINGS PER SHARE

	2019	2018
Basic earnings per share		
Profit attributable to the shareholders (in Denar)	1,007,811,167	848,199,255
Number of shares	1,415,132	1,416,612
Basic earnings per share (in Denar)	**712.16**	**598.75**

29. DIVIDENDS

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

The dividends approved by shareholders on April 8, 2019 amounted to Denar 458,033 thousands for the year ended December 31, 2018. The approved dividends were paid and retained earnings appropriately decreased. The dividend and the tax related to the dividend are disclosed as decrease of retained earnings.

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

30. COMMITMENTS

Capital expenditures contracted for acquisition of property, plant and equipment at the reporting date but not yet incurred amount to Denar 264,322 thousand; (2018: Denar 58,920 thousand).

31. CONTINGENT LIABILITIES

The Company has contingent liabilities with respect to the guaranties issued to third parties in the amount of Denar 129,968 thousand (2018: Denar 33,090 thousand).

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

	2019	**2018**
Alkaloid DOO Belgrade, Serbia	165,347	292,177
Alkaloid INT DOO Ljubljana, Slovenia	1,204,657	1,237,262
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	212,673	211,462
Alkaloidpharm SA Fribourg, Switzerland	20	28
Alkaloid Kons DOOEL Skopje, N. Macedonia	193,369	185,497
OOO Alkaloid RUS, Moscow, Russia	633,362	223,872
Alkaloid Veledrogerija DOO Beograd, Serbia	916,901	798,177
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	6,100	6,735
	3,332,429	**2,955,210**

Purchase of goods and services

	2019	**2018**
Alkaloid DOO Belgrade, Serbia	16,692	14,346
Alkaloid DOO Zagreb, Croatia	11,918	12,466
Alkaloid DOO Ljubljana INT, Slovenia	36,151	26,305
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	116,811	106,601
Alkaloid EOOD Sofia, Bulgaria	1,933	1,106
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	5,808	19,849
Alkaloidpharm SA Fribourg, Switzerland	216,382	472,588
Alkaloid Kons DOOEL Skopje, N. Macedonia	2,941	2,070
Alkaloid DOO Podgorica, Montenegro	48,056	42,410
Fund “Trajce Mukaetov” Skopje, N. Macedonia	9,423	8,802
OOO Alkaloid RUS, Moscow, Russia	94,828	92,267
Alkaloid Veledrogerija DOO Beograd, Serbia	5,259	4,084
Alkaloid ILAC TLS Istanbul, Turkey	9,203	9,887
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	2,880	2,680
ALKA-LAB DOO Ljubljana, Slovenia	236	-
Alkaloid Shpk Tirana, Albania	4,498	3,681
Alkaloid Kiev CO. LTD., Ukraine	158,120	107,528
	741,139	**926,670**

(In thousands of Denar)

NOTES TO THE SEPARATE 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 receivable	**2019**	**2018**
Alkaloid DOO Belgrade, Serbia	24,776	188,393
Alkaloid DOO Ljubljana INT, Slovenia	298,213	322,087
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	47,676	74,364
Alkaloid Kons DOOEL Skopje, N. Macedonia	62,535	46,824
OOO Alkaloid RUS, Moscow, Russia	539,439	219,445
Alkaloid Veledrogerija DOO Beograd, Serbia	536,674	360,486
Alkaloid ILAC TLS Istanbul, Turkey	2,519	4,393
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	2,490	2,493
	1,514,322	**1,218,485**

Accounts payable	**2019**	**2018**
Alkaloid DOO Belgrade, Serbia	1,155	2,874
Alkaloid DOO Zagreb, Croatia	3,239	1,682
Alkaloid DOO Ljubljana INT, Slovenia	57,125	25,292
Alkaloid DOO Sarajevo, Bosnia and Herzegovina	16,247	11,575
Alkaloid EOOD Sofia, Bulgaria	126	126
ALK&KOS Pharmaceuticals Shpk Pristine, Kosovo	1,671	3,971
Alkaloidpharm SA Fribourg, Switzerland	156,457	128,770
Alkaloid Kons DOOEL Skopje, N. Macedonia	1,006	398
Alkaloid DOO Podgorica, Montenegro	7,941	6,860
Alkaloid Veledrogerija DOO Beograd, Serbia	1,133	801
Alkaloid ILAC TLS Istanbul, Turkey	-	1,370
Alkaloid Bilna apteka DOOEL Skopje, N. Macedonia	979	838
ALKA-LAB DOO Ljubljana, Slovenia	236	-
Alkaloid Shpk Tirana, Albania	301	615
Alkaloid Kiev CO. LTD., Ukraine	9,498	1,163
	257,114	**186,335**

Short-term loans	**2019**	**2018**
Alkaloid DOO Belgrade, Serbia	1,929	1,929
	1,929	**1,929**

Interest from loans	**2019**	**2018**
Alkaloidpharm SA Fribourg, Switzerland	2,325	-
	2,325	**-**

(In thousands of Denar)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

32. RELATED PARTY TRANSACTIONS (Continued)

Key management compensations

No compensations were paid to the Managing Board members in 2019 for the purpose of participation in the Managing board. In 2019, the amount of Denar 4,402 thousand was paid to the Supervisory Board members (2018: Denar 4,209 thousand).

33. EXCHANGE RATES OF PRINCIPAL CURRENCIES

Closing rates:

	31-Dec-2019	31-Dec-2018
EUR	61.49	61.50
RUR	0.89	0.77
USD	54.95	53.69
CHF	56.56	54.77

34. EVENTS AFTER THE REPORTING PERIOD

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